28 March 2017

CloudCall Group plc
("CloudCall" or the "Company")

Final Results for the Year Ended 31 December 2016

<u>Strong revenue growth underpinned by US sales traction</u>

CloudCall (AIM: CALL), a leading cloud-based software business that integrates voice communications into Customer Relationship Management (CRM) platforms, is pleased to announce its audited full year results for the year ended 31 December 2016.

Key financial highlights

- Group revenues up 47% to £4.9m, 85% of which is recurring
  - Recurring revenues up 63% compared to 2015
  - US revenues grew 160% to £1.3m (2015: £0.5m) underpinned by Bullhorn relationship
- Gross profit up 50% to £3.8m (2015: £2.5m)
- Operating loss before non-recurring items decreased to (£3.7m) (2015: (£4.5m))
- Net cash (outflow) from operating activities narrowed to (£2.6m) (2015: (£3.8m))
- £3.8m of new equity raised during the year from new and existing shareholders
- Cash and cash equivalents of £3.2m (2015: £1.5m)
- Transition to profit clearly visible

Key operational highlights

- Company's three core CRM partners - Salesforce, Bullhorn and Microsoft Dynamics - underpinning sales significant momentum
- Strategy to leverage larger mid-market customer relationships continues to drive up customer metrics
  - Number of end users up 37% to 16,217 (11,836) from 750 customers
  - Average new users per month up 65% to 568 (2015: 344)
  - Average users per customer up 40% to 21.7 (2015: 15.5)
- Ongoing focus on key industry vertical of recruitment strengthened by the appointment of Gary Browning, formerly CEO of Penna plc, as a non-executive director
- Focus on providing quality customer service and support to increase customer satisfaction levels, referenceabilty and brand reputation whilst also reducing churn
- Strong start to 2017 with current trading in line with market expectations

Simon Cleaver, Chief Executive Officer of CloudCall, commented:

"I am pleased to report that 2016's accelerating sales trend has continued since the year-end, with February delivering record sales from both new and existing customers. The encouraging revenue growth since the year-end combined with the strong January and February sales provides a solid base for the year and gives me considerable confidence in our ability to deliver in 2017. I am also increasingly confident that the Group's plans for the coming year will enable it to continue towards its objective of reaching break-even."

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Investor presentation webcast

An investor webcast is being held at 10.00 am on 31 March 2017 to present the Company's final results (link below). The webcast will provide an opportunity for investors to ask questions directly to the team.
https://attendee.gotowebinar.com/register/7355849719405913090

Annual Report

The Annual Report for the year ended 31 December 2016 will be published today on the Company's website at www.cloudcall.com. Hard copies of the Annual Report will be posted to shareholders in due course and the Company will notify its shareholders once this has occurred.

Annual General Meeting

The Annual General Meeting of the Group will take place on Monday 22 May 2017 at 11.00 am at the offices of Cloudcall Group plc, 1 Colton Square, Leicester LE1 1QH.

Chairman's statement

I am pleased to present the Company's annual report for the year ended 31 December 2016.

Business performance

2016 was a year of excellent progress for the business. As we reported at the interim stage, the strategy for 2016 was to focus on key CRM partners and their customers within a clearly defined sweet spot. In particular, the Group has focused on its relationship with Bullhorn, a key channel partner and leading recruitment CRM provider. This focused strategy has led to excellent progress in our key performance metrics:

- Overall revenues up from £3.3m to £4.9m
- 2016 recurring revenues up by 63% compared to 2015
- Cash burn from operations reduced from £3.8m to £2.4m
- User numbers up from 11,800 to 16,200

Our strategic focus has also enabled the business to define clear priorities for product development, client on-boarding and customer service and, as a result, there have been significant improvements in productivity and customer satisfaction across these areas. The increase in referenceable clients, who also have capacity to add additional users and additional business units, will be an important driver of growth moving forward.

A further round of equity fund raising (£3.8m) took place in August 2016 and I am delighted that we attracted several new institutional investors to the shareholder register. The Board believes the business is sufficiently funded to deliver on the current growth plans leading to EBITDA break even.

Board and management changes

Mark Seemann resigned from the Board in October to pursue his interests in early stage start-up businesses and Graham Ward retired as non-executive director at the end of the year following four years on the Board. I would like to thank both Mark and Graham for the contributions they have made to the early development of the business.

I was delighted to welcome Gary Browning to the Board in October. Gary had recently held the position of CEO at Penna Consulting Plc and brings a wealth of experience in the recruitment space, one of CloudCall's key vertical specialisms.

October also saw the appointment of Nate Bishop as US Sales Director. Nate was previously Bullhorn's US Head of Strategic Alliances and in joining CloudCall is expected to further strengthen our relationship with Bullhorn globally.

At the end of last year, we restructured the roles of the CEO and founder to achieve greater clarity of responsibilities and enable the whole business to have clear direction. This has resulted in clearer prioritisation for all teams across the business and leaves us well placed for further growth.

In the relatively short time I have been involved with the business I have been impressed by the passion, commitment and hard work demonstrated by the executive directors, the senior leadership team and all the staff, and on behalf of the Board I would like to extend my thanks to everyone for what has been achieved in 2016.

Outlook

As we move into 2017 I am pleased to report that the sharper strategic focus and operational improvements taken during 2016 are now delivering higher sales, improved efficiencies and greater customer satisfaction and retention. Based on this upturn in the second half of 2016, and the current levels of sales pipeline, the Board views the prospects for 2017 with increased confidence both in terms of growth in monthly recurring revenues and enhanced brand reputation. The pathway to EBITDA breakeven is now clearly within our sights as we continue to win new customers underpinned by an ever-increasing foundation of recurring revenue.

Peter Simmonds
Non-executive Chairman
CloudCall Group plc

Chief Executive's review

Introduction and financial highlights

2016 has been a successful year for CloudCall as the combined experience of the new Board and the adoption of a more focused strategy has provided greater clarity of direction and an increase in quality and predictability of revenues.

Revenues grew by 47% to £4.9m, and a 63% uplift in recurring revenues for 2016 is evidence of the significant progress being made in delivering a quality service to larger mid-market customers through deeper relationships with our key CRM partners.

The 63% growth in recurring revenues achieved in 2016, whilst an admirable total number, only tells part of the story. Q1 was relatively poor for new sales as we implemented the more focused strategy, but as our sales pipeline developed and we became more adept at signing and on-boarding larger customers, growth accelerated over the year. The second half of the year was much improved with monthly recurring revenues growing by over £80k across the period.

As with all business-to-business recurring revenue model companies, there is a lag between sales and revenue as customers are on-boarded. Sales to both new and existing customers have followed a similar pattern, with Q4 being the most successful quarter to date. Consequently, 2017 is already starting to show healthy recurring revenue growth.

Additional investment into our US sales team, key partner network and new product development, resulted in an increase in operating expenses (excluding share based payments and non-recurring items), but only by 8%. Underlying operating losses were down by 17% to £3.7m compared to the 2015 pre-non-recurring figure.

Focus on larger customers

The decision to target sales and marketing activity towards larger mid-sized businesses has been particularly successful. Retention rates from these larger customers are higher, which has contributed to a reduction in the rate of churn - now at record low levels. Furthermore, we are already witnessing their capacity to add additional users and additional business units as mentioned above in the Chairman's statement.

Focus on key CRM partners

In addition to our improved capability in servicing mid-market companies, much of the acceleration in growth is due to the focus on Bullhorn. Our relationship with this important strategic partner continues to expand and there can be little doubt that the new integration launched in July 2016 provides a significant competitive advantage over competing products and is being very well received by Bullhorn's customers. We are particularly pleased that Bullhorn has chosen to purchase CloudCall for their own internal use, which should further improve their sales teams' knowledge of our product thus helping us further penetrate their sizeable customer base.

Focus on customer service and quality

During the year, much work has been done on refining the quality and usability of CloudCall across our key CRM integrations and generally improving the overall customer experience through enhanced delivery services and customer support. It is extremely encouraging to see that this work is delivering results. The increasing levels of customer satisfaction can be evidenced by the reduction in churn rate, the excellent reviews customers are leaving on the Salesforce.com app exchange - which is driving lead flow from Salesforce.com - and the growing number of customers adding additional users and services.

Our culture

During 2016, we started to focus on improving our corporate culture and working environments for all our teams. We are improving our staff mentoring, training, review and support mechanisms, and are now also actively working on various community initiatives. I want CloudCall to be a responsible employer, and a caring neighbour wherever it is represented around the world, and I firmly believe that following this path generates many benefits that extend well beyond the obvious.

Future developments

Whilst work will continue to improve the quality and usability of all CloudCall products and services, we continue to seek new ways to take CloudCall from being "functional and effective" to "indispensable and irreplaceable." I am very excited to see our development and engineering teams working on several exciting new features and products, including:

> **CloudCall Go - mobile application**
>
> In recent months, we have been approached by a growing number of customers asking for a "mobile solution" as they consider ways to extend the reach of their CRM driven integrated communications towards mobile staff. In response to this demand, CloudCall has been working on the development of the exciting new CloudCall Go app. This customer demand for these integrated mobile services gives me confidence that CloudCall Go will further enhance the desirability of the CloudCall suite of products. We expect CloudCall Go to launch in the next few months.
>
> **Instant Messaging and SMS**
>
> Part of the funding round that took place in 2016 was to raise new capital to invest in the development and launch of new CloudCall SMS and IM services for customers that wish to supplement their existing integrated voice communications with additional messaging services. I am pleased to say that work on these new services is ongoing and progressing well and I look forward to making further announcements in due course.
>
> **Microsoft Dynamics CRM**
>
> Through our strategy of focusing on a limited number of CRMs, we have very deep and feature rich integrations. We are however conscious of the need to avoid becoming overly dependent on any single partner and as such we will be launching a new Microsoft Dynamics CRM integration in a few months' time. Work on this integration has been ongoing for the past nine months and I'm confident it will be the most comprehensive and feature rich telephony integration on Microsoft Dynamics CRM.

Outlook

I am pleased to report that 2016's accelerating sales trend has continued since the year-end, with February achieving a new high-water mark in total sales to new and existing customers.

In recurring revenue businesses, since monthly revenue compounds over the year, early year growth has a far greater impact on the year's total revenue number than growth in the latter part of a year. The encouraging revenue growth since the year-end combined with the strong January and February sales activity provides a solid base for the year and gives me considerable confidence in our ability to deliver further progress in 2017. I am also increasingly confident that the Group's plans for the coming year will enable it to continue towards its current objective of reaching break-even.

The growth and success we achieved in 2016 is as a direct result of the hard work and enthusiasm from the whole team at CloudCall, many of whom regularly go 'above and beyond'. On behalf of the entire Board, I would like to extend our gratitude and appreciation for this dedication and passion.

Simon Cleaver
Chief Executive Officer
Cloudcall Group plc

Financial review

Revenue

Revenues grew by 47% from £3.3m to £4.9m in 2016

The Group derives all its revenues from the provision of integrated communications software and services.

In 2016, revenue of £1.3m was generated by the US operation, up from £0.5m in 2015, with the rest coming from the UK and Europe. With 85% of revenues that are either recurring or repeating in nature, recurring revenue from software subscription services grew strongly by 63% in 2016 compared to the prior year. This recurring revenue growth is a direct consequence of significantly improved sales activity, which is adding an increasing number of new, larger customers each month, which in turn are being more effectively on-boarded. Revenue growth is also being driven in part by an increasing propensity to expand CloudCall usage from existing customers. This is a trend that we believe will continue as our mid-market customers' confidence in CloudCall grows.

Gross margin

Gross margin improved from 76.9% in 2015 to 78.5%

A more direct focus on delivering more value-adding network discovery, training and implementation services to our new larger customers, together with better procurement of upstream telecoms capacity has seen us consolidate gross margin at just under 80% in 2016.

Operating expense

Operating expenditure before share based payments grew from £6.8m (before non-recurring items) to £7.4m in 2016

Growth in operating expenditure of 8% year-on-year should be seen in the context of a 47% growth in revenues for the same period, demonstrating clearly the SaaS (Software as a Service) model whereby revenue growth begins to accelerate whilst operating expenditure growth can be held at a much lower level as the revenue generating assets are substantively in place and the business begins to scale. The Group incurred one-off costs of £0.2m in 2016 in respect to the exit of Mark Seemann and the closure of a small telesales operation in Belarus.

Operating losses were £3.7m, down by 17% from £4.5m (before non-recurring items) in 2015.

Research and development costs

Development costs capitalised £0.15m (2015: £0.0m)

Investment in the development of new and improved products and applications and the protection of the intellectual property of such development work is considered key to the further improvement of CloudCall's competitive position.

Commencing in Q3 2016, because of its improved internal systems and software development methodologies, the Group is now able to begin capitalising software development costs as an intangible asset in accordance with the requirements of IAS 38. The proportion of research and development costs that can now be identified for capitalisation as a software asset will increase going forward bringing the Group into line with its peers.

Further details can be found in note 8 on intangibles.

Debt and financing expenses

The Company has outstanding debt of £0.9m (2015: £nil) and a net financing expense of £71k (2015: net income of £17k)

On 17 February 2016, the Company announced that it had agreed a loan facility with Barclays Bank whereby Barclays has made available a sterling term loan facility in an amount of £900,000 (the "Loan").

As per the terms of the Loan, £500,000 was drawn down in March 2016, and the remaining £400,000 in June 2016. Interest is set at 8.7% above base rate and is payable quarterly. Repayment is by a single repayment of the principal in full on the final repayment date in 2018.

As a result of the debt drawn in 2016, the Group's net financing expense increased to £71k compared to a small net financing income of £17k in 2015.

The Company is currently in negotiations with Barclays to extend its current borrowing facilities beyond the initial two-year term.

Cash and working capital

The Group had £3.2m cash at the end of the year (2016: £1.5m). Net cash is £2.3m after deducting the £0.9m debt position with Barclays

SaaS companies tend to see new customer acquisitions increase cash burn in the short-term as most customer acquisition costs are incurred before a new customer is implemented. Once implemented and billing, a customer will generate cash monthly, usually recovering the initial outflow in a 6-9-month period.

The Group's balance sheet includes an R&D tax credit receivable of £0.6m. As has been the case in recent years, this is expected to be received in cash in June or July 2017.

Net cash absorbed by operating activities was £2.4m, down from £3.8m in 2015. This figure is expected to continue falling as the Group's revenues grow faster than its operating expenses as it moves towards break-even.

During 2016, the Group incurred £96k of capital expenditure other than intangibles, up slightly from £81k in 2015. Going forward. capital expenditure should continue at relatively low levels as the Group continues to utilise a greater proportion of web based services to host its core technology platforms. This will allow the Group to scale its services geographically and for capacity in a more cost-effective and secure way, and without the need for considerable investment in new hardware.

Share capital

Total issued share capital at the year-end comprised 20,060,348 ordinary shares of 20 pence each.

In August 2016, the Company successfully raised new capital amounting to £3.8m (before fees and expenses) to fund the continuing expansion of its US sales operations, further product development and additional working capital. This was fulfilled by the issue of 6,555,481 new ordinary shares in the Company, at a price of 57.5 pence per share. The shares were issued in two tranches (August and October) to allow for a delay in processing the necessary EIS / VCT pre-assurance approval by HMRC.

Earnings per share and dividends

Loss per share for the year was 20 pence (2015: 25 pence).

The business continues to be in a pre-profit, high-growth phase, the Board therefore, does not recommend the payment of a dividend (2015: nil).

Going concern

The Directors confirm that, as disclosed in note 1, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Financial Statements

Consolidated Income Statement and Statement of Comprehensive Income
For year ended 31 December 2016

	Notes	Group 2016 £000	Group 2015 £000
Revenue	4	**4,855**	3,299
Cost of sales		**(1,044)**	(763)
Gross Profit		**3,811**	2,536
Sales and Marketing expenses		**(1,564)**	(1,589)
Administrative expenses	5	**(4,542)**	(3,936)
Share based payments		**(116)**	(166)
Non-recurring items	5	**-**	748
Total administrative expenses		**(4,658)**	(3,354)
Research & development expenses		**(1,283)**	(1,319)
Operating loss before non-recurring items		**(3,694)**	(3,726)
Net financing income/(expense)		**(71)**	17
Loss before tax		**(3,765)**	(3,709)
Taxation	7	**754**	833
Loss for the year attributable to owners of the parent		**(3,011)**	(2,876)
Other comprehensive income			
Foreign exchange translation differences		**(75)**	5
Other comprehensive income		**(75)**	5
Total comprehensive income for the year		**(3,086)**	(2,871)
Earnings/(Loss) per share (£)			
Basic & fully diluted loss per share	15	**(0.20)**	(0.25)

Consolidated Statement of Financial Position
At 31 December

	Notes	Group 2016 £000	Group 2015 £000
Non-current assets			
Property, plant and equipment		**343**	510
Goodwill	8	**339**	339
Other intangible assets	8	**365**	507
		1,047	1,356
Current assets			
Inventories		**28**	44
Trade and other receivables	10	**897**	620
Research & development tax credit receivable		**589**	400
Cash and cash equivalents	11	**3,169**	1,524
		4,683	2,588
Total assets		**5,730**	3,944

	Note	2016	2015
Current liabilities			
Trade and other payables	12	**(973)**	(535)
Deferred income		**(12)**	(9)
		985	(544)
Non-current liabilities			
Deferred tax liabilities		**-**	(112)
Bank loan > 12 months	13	**(900)**	-
Total liabilities		**(1,885)**	(656)
Net assets		**3,845**	3,288
Equity attributable to shareholders			
Share capital	14	**4,012**	2,701
Share premium		**61,788**	59,607
Translation reserve		**(47)**	(7)
Warrant reserve		**29**	29
Retained earnings		**(61,937)**	(59,042)
Total equity attributable to shareholders		**3,845**	3,288

Consolidated and Statement of Changes in Equity

For year ended 31 December 2016

Group	**Share capital**	**Share premium**	**Translation reserve**	**Warrant reserve**	**Retained earnings**	**Total equity attributable to shareholders**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 January 2015	1,686	56,761	-	29	(56,208)	2,268
Loss For the period	-	-	-	-	(2,871)	(2,871)
Other comprehensive income						
Foreign exchange differences on translation of foreign operations	-	-	(7)	-	-	(7)
Total comprehensive income for the period			(7)		(2,871)	(2,878)
Transactions with owners recognised in equity						
Equity settled share based payments	-	-	-		37	37
Issue of equity shares	1,015	3,100	-	-	-	4,115
Issue costs of equity shares	-	(254)	-	-	-	(254)
Balance at 31 December 2015	2,701	59,607	(7)	29	(59,042)	3,288
Balance at 1 January 2016	**2,701**	**59,607**	**(7)**	**29**	**(59,042)**	**3,288**
Loss for the period	**-**	**-**	**-**	**-**	**(3,011)**	**(3,011)**
Other comprehensive Income						
Foreign exchange differences on translation of foreign operations	**-**	**-**	**(40)**	**-**	**-**	**(40)**
Total comprehensive income for the period	**-**	**-**	**(40)**	**-**	**(3,011)**	**(3,051)**
Transactions with owners recognised in equity						
Equity settled share based payments	**-**	**-**	**-**	**-**	**116**	**116**
Issue of equity shares	**1,311**	**2,458**	**-**	**-**	**-**	**3,769**
Issue costs of equity shares	**-**	**(277)**	**-**	**-**	**-**	**(277)**
Balance at 31 December 2016	**4,012**	**61,788**	**(47)**	**29**	**(61,937)**	**3,845**

Consolidated Cash Flow Statement

For year ended 31 December 2016

	Notes	Group 2016 £000	Group 2015 £000
Cash flows from operating activities			
Loss for the period before tax		**(3,011)**	(2,876)
Adjustments for:			
Depreciation and amortisation		**551**	511
Fair value of contingent consideration		**-**	(748)
Financial income		**-**	(17)
Financial expenses		**71**	-
Equity settled share-based payment expenses		**116**	166
Taxation		**(754)**	(833)
Operating loss before changes in working capital and provisions		**(3,027)**	(3,797)
Decrease/(Increase) in trade and other receivables		**(277)**	(140)
Decrease/ (Increase) in inventory		**16**	26
(Decrease)/ Increase in trade and other payables		**441**	(495)
Cash absorbed by operations		**(2,847)**	(4,406)
Tax received		**480**	565
Net cash absorbed by operating activities		**(2,367)**	(3,841)
Cash flows from investing activities			
Net Interest received		**-**	17
Investment in subsidiaries		**-**	-
Acquisition of property, plant and equipment		**(96)**	(81)
Development expenditure capitalised and other intangible assets acquired		**(145)**	-
Net cash absorbed by investing activities		**(241)**	(64)
Cash flows from financing activities			
Net Interest paid		**(71)**	-
Net proceeds from the issue of share capital		**3,492**	3,074
Proceeds from new loan		**900**	**-**
Net cash from financing activities		**4,321**	3,074
Net (decrease)/increase in cash and cash equivalents		**1,713**	(831)
Cash and cash equivalents at start of period		**1,524**	2,359
Effect of exchange rate fluctuations on cash held		**(68)**	(4)
Cash and cash equivalents at end of period		**3,169**	1,524

Notes to the financial statements

1. Preliminary announcement

The preliminary announcement set out above does not constitute the Group's statutory financial statements for the years ended 31 December 2016 or 2015 within the meaning of section 434 of the Companies Act 2006 but is derived from those audited financial statements. The auditor's report on the consolidated financial statements for the year ended 31 December 2016 and 2015 is unqualified and does not contain statements under s498(2) or (3) of the Companies Act 2006.

The accounting policies used for the year ended 31 December 2016 are unchanged from those used for the statutory Financial statements for the year ended 31 December 2015. The 2016 statutory financial statements will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

2. Compliance with accounting standards

While the financial information included in this preliminary announcement has been computed in accordance with IFRSs as adopted by the EU, this announcement does not itself contain sufficient information to comply with IFRSs as adopted by the EU.

Accounting standards adopted in the year

No new accounting standards that have become effective and adopted in the year have had a significant effect on the Group's Financial Statements.

Accounting standards issued but not yet effective

The following IFRSs, IASs and IFRICs have been issued, are not yet effective, and have not been adopted by the Group or the Company in these financial statements:

IFRS 9 Financial Instruments, effective for periods commencing on or after 1 July 2018.

IFRS 16 Leases, effective for periods commencing on or after 1 January 2019.

The impact of these standards has not been fully assessed; Management expects IFRS 16 to have an impact on the Group financial statements when it is adopted but, at 31 December 2016, it had no leases extending for more than 12 months.

IFRS 15 Revenue for Contracts with Customers, effective for periods commencing on or after 1 January 2018. The Group has undertaken an initial review of the requirements of IFRS 15, and concludes that it will have no material impact on its financial statements.

3. Critical accounting estimates and judgements

The following accounting judgements and estimates have been made by the Directors in interpreting treatment of amounts included in these financial statements in accordance with IFRSs.

Impairment

The requirement for the Directors to ensure that the Group and Company's assets are not carried at more than their recoverable amount (i.e. the higher of fair value less costs of disposal and value in use) is covered by IAS 36 Impairment of Assets. The fair values in respect of the valuation of the Group and Company's assets in relation to the future value of the returns those assets are predicted to generate have been estimated using an appropriate valuation model. The assumptions used as inputs to the model are by their nature areas of judgement. Based on the historic sales performance of the business and actions being taken to grow the business further, the directors do not currently assess any of these assets as impaired.

Going Concern

The requirement for the Group to be reasonably certain that it has sufficient working capital to continue operating for a period of time (usually 12 months) that is sufficient to carry out its commitments, obligations, and objectives is covered by generally accepted accounting principles. The Directors have concluded that, taking account of the Group's current cash balances, sensitised financial forecasts, availability of credit facilities and / or further equity funding, that it remains appropriate to consider the Group to be operating as a going concern.

4. Revenue

The directors consider that the Group has a single business segment, being the provision of hosted telecom solutions. The operations of the Group are managed centrally with group-wide functions covering sales and marketing, development, professional services, customer support and finance and administration. An analysis of revenue by type is given below.

Revenue by location of customer

	Group 2016 £000	Group 2015 £000
UK	3,300	2,718
USA	1,270	513
Rest of Europe	285	68
Other	-	-
Total revenues	4,855	3,299

Revenue by type

	Group 2016 £000	Group 2015 £000
Recurring subscriptions	3,312	2,030
PAYG Telephony	824	817
Non-recurring services and hardware	719	452
Total revenues	4,855	3,299

Revenue by product

All revenue is attributable to the Group's main activity, the provision of hosted telecoms solutions.

Information about major customers

The Group had no customers for continuing operations which represented more than 10% of sales in the period to 31 December 2016.

5. Expenses and auditor's remuneration

Expenses before non-recurring items	Group 2016 £000	Group 2015 £000
Salaries and sub-contractors	4,586	4,723
R&D development salary costs	145	-
Marketing	180	198

Premises	**412**	326
Travel, subsistence and general expenses	**382**	347
Other direct costs	**1,131**	743
Depreciation & amortisation	**553**	508
	7,389	6,845

The non-recurring item of £748k reported in 2015 was in respect of the release of contingent consideration on the acquisition of the Company's main trading subsidiary in 2012.

Auditor's remuneration	**Group 2016 £000**	Group 2015 £000
Amounts receivable by auditors and their associates in respect of:-		
Audit of these financial statements	**37**	36
Audit of financial statements of subsidiaries pursuant to legislation	**28**	13
Other services relation to taxation-compliance services	**7**	41
Tax advisory services	**26**	
	98	90

6. Directors and employees

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

Number of employees	**2016**	2015
Engineering	**10**	10
Development	**22**	15
Customer support	**19**	23
Sales and marketing	**21**	22
Admin and finance	**11**	11
Total	**83**	81

The aggregate payroll costs, including employer's NICs of these persons were as follows:

Aggregate payroll costs (all employees)	**2016 £000**	2015 £000
Wages and salaries	**4,114**	3,708
Capitalised wages and salaries	**(145)**	-
Share based payments	**116**	166
Other pension costs	**90**	107
Sub-total	**4,175**	3,981

Social security costs	**489**	439
Total	**4,664**	4,420

The table below includes the aggregate payroll costs including employer's NICs of those employees, including directors, considered to comprise the key management in the year as follows:

Aggregate payroll costs (key management employees)	**2016 £000**	2015 £000
Wages and salaries	**1,035**	1,126
Share based payments	**34**	(9)
Other pension costs	**26**	27
Sub-total	**1,095**	1,144
Social security costs	**119**	121
Total	**1,214**	1,265

Details of Directors' emoluments, the highest paid director and share interests are shown in the Directors' Remuneration Report.

7. Taxation

Recognised in the Consolidated Income Statement and Statement of Comprehensive Income

	Group 2016 £000	Group 2015 £000
Current tax income/(expense)		
Overseas income tax charge for the current year	**(27)**	-
Current year tax credit	**589**	400
Adjustments in respect of prior year	**80**	369
	642	769
Deferred income tax credit for the current year	**112**	64
Total tax income	**754**	833
Reconciliation of effective tax rate		
Loss before tax	**(3,765)**	(3,709)
Tax credit using the group's effective tax rate of 20% (2015 20.25%)	**753**	751
Share based payments- deferred tax asset not recognised	**-**	(6)
Tax losses not recognised	**(298)**	(846)
Utilisation of trading losses	**813**	-
Depreciation in excess of capital allowances	**(31)**	57
Non-deductible expenses	**(55)**	44

Origination and reversal of temporary timing differences	**112**	64
R&D tax credit	**589**	400
Amortisation	**(45)**	-
Different tax rates in overseas jurisdictions	**3**	-
Enhanced R7D tax relief	**459**	-
Adjustments in respect of prior years	**80**	369
Total tax in the income statement	**754**	833

On 16 March 2016, the Chancellor of the Exchequer announced a planned progressive reduction in corporation tax rates to 17% by the financial year commencing 1 April 2020. The impact of this change on the group's financial statements is not significant as it has no recognised tax liabilities or assets, whether deferred or current, at the year end.

8. Intangible assets

Group	**Goodwill**	**Patents & trademarks**	**Acquired IPR**	**Software development costs**	**Total**
	£000	**£000**		**£000**	**£000**
Cost					
Balance at 1 January 2015	339	12	1,448	35	1,834
Balance as at 31 December 2015	339	12	1,448	35	1,834
Balance at 1 January 2016	**339**	**12**	**1,448**	**35**	**1,834**
Internally developed	**-**	**-**	**-**	**145**	**145**
Balance as at 31 December 2016	**339**	**12**	**1,448**	**180**	**1,979**
Amortisation					
Balance at 1 January 2015	-				
Amortisation for the year	-	(9)	(650)	(35)	(694)
Balance as at 31 December 2015	-	(3)	(291)	-	(294)
Balance at 1 January 2016	**-**	**(12)**	**(941)**	(35)	**(988)**
Amortisation for the year	**-**	**-**	**(287)**	-	**(287)**
Balance as at 31 December 2016	**-**	**(12)**	**(1,228)**	(35)	**(1,275)**
Net Book Value		**-**			
At 31 December 2015	339	-	507	-	846
Balance as at 31 December 2016	**339**	**-**	**220**	**145**	**704**

Goodwill

Goodwill arose on the acquisition of Cloudcall Ltd and represents the excess of the initial and contingent consideration over the fair value of the net assets acquired.

The goodwill was tested for impairment at 31 December 2016 by comparing the carrying value of the cash-generating unit with the recoverable amount. The recoverable amount was determined using a value in use methodology based on discounted cash flow projections. The key assumptions used in the value in use calculations were as follows:

The operating cash flows of the business for the three years to 31 December 2019 were taken from the plan approved by the Board which is closely linked with recent historical performance and current sales opportunities;

Growth in operating cash flows of 2.4% has been assumed for the remainder of the value in use calculation period;

A pre-tax discount rate of 10% has been used;

Based on the above assumptions, over a 10-year projection period, the recoverable amount of the CGU based on value in use is estimated to exceed the carrying amount by £11,687k (2015: £10,294k). Future annual operating cash inflows, which are most sensitive to the level of new business sales, would need to be consistently 16% below the growth assumption used in the value in use calculation over a 10-year projection period to cause the carrying amount to exceed the recoverable amount. Based on the historic sales performance of the business and actions being taken to grow the business further, the directors do not currently expect this to be the case.

Software
Other intangible assets comprise IPR and internally capitalised software and website costs acquired on the acquisition of Cloudcall Ltd, together with internally developed software costs capitalised since the acquisition of Cloudcall Ltd:

	2016		**2015**	
	Acquired IPR £000	Software and Website £000	Acquired IPR £000	Software and Website £000
Cost at 1 January	**1,448**	**35**	1,448	35
Internally developed	**-**	**145**	-	-
Cost at 31 December	**1,448**	180	1,448	35
Accumulated amortisation at 1 January	**(941)**	**(35)**	(652)	(33)
Amortisation	**(287)**	-	(289)	(2)
Accumulated amortisation at 31 December	**(1,228)**	**(35)**	(941)	(35)
Net Book Value				
At 31 December 2015			507	-
At 31 December 2016	**220**	**145**		

The acquired IPR arose on the acquisition of Cloudcall Ltd and represents the fair value of the proprietary software developed within Cloudcall. The fair value is based on its value in use and was determined by discounting the future cash flows to be generated over the 6 years following acquisition and applying a royalty rate. The key assumptions used in determining the value of software were:

- Royalty rate of 8%
- Corporation tax of 20%

- Discount rate of 10%

The carrying amount of ongoing development projects on which amortisation has not yet commenced was £145k (2015: nil).

9. Deferred tax assets and liabilities

Recognised deferred tax liabilities
Deferred tax in respect of the timing difference arising on the recognition of software development costs fair-valued at £1,448k on the acquisition of Cloudcall Ltd is now fully recognised in the income statement, and there is now no provision at 31 December 2016 (2015: £112k):

Group	2015	Recognised in income	Recognised in equity	**2016**
	£000	£000	£000	**£000**
Intangible assets				
Acquired Software development	112	(112)	-	**-**

No deferred tax asset has been recognised in respect of the cumulative losses of the Company or the Group in relation to unrelieved trading losses or temporary differences on share based payments as, in accordance with IAS 12, there is at present insufficient evidence that sufficient taxable profits will be available in the near future to recover the assets. This is due to the early stage of commercialisation of product and the position will be reviewed each year. The amount not recognised is £3.1m (2014: £2.9m).

10. Trade and other receivables

All trade and other receivables are expected to be recovered in less than 12 months except for the amounts due from group undertakings.

	Group 2016 £000	Group 2015 £000
Trade receivables	**613**	316
Other receivables and prepayments	**284**	304
Amounts receivable due from group undertakings	**-**	-
	897	620

11. Cash and cash equivalents

	Group 2016 £000	Group 2015 £000
Bank - current account	**1,802**	826
Bank - deposit account	**1,367**	698
	3,169	1,524

12. Trade and other payables

	Group 2016 £000	Group 2015 £000
Trade payables	**251**	91
Non-trade payables and accrued expenses	**734**	453
Amounts payable to group undertakings	**-**	-
	985	544

All trade and other payables are payable in less than 12 months.

13. Bank Loan

On 17 February 2016, the Company announced that it had agreed a loan facility with Barclays Bank whereby Barclays has made available a sterling term loan facility in an amount of £900,000 (the "Loan"). Interest on the Loan, which is for a fixed two-year term expiring in March 2018, is set at 8.7% above base rate and is payable quarterly. Repayment is by a single repayment of the principal in full on the final repayment date in March 2018.

As per the terms of the Loan, £500,000 was drawn down in March 2016, and the remaining £400,000 in June 2016.

There is a debenture over all the assets of the group, and a cross guarantee in place in favour of Barclays Bank plc under which the Company's subsidiaries undertake to repay the bank debt should it be required.

The Company is currently in negotiations with Barclays to extend its current borrowing facilities beyond the initial two-year term.

14. Share Capital

The issued, called up and fully paid share capital of the Company at 31 December was as follows:

Number of Shares	**2016 (000)**	2015 (000)	**2016 (£000)**	2015 (£000)
Allotted, called up and fully paid Ordinary shares of £0.20 each	**20,060**	**13,505**	**4,012**	2,701
Shares classified in equity	**20,060**	**13,505**	**4,012**	2,701

The movement in the issued share capital in the year was as follows:

Number of Shares	**Ordinary Shares (000)**
In issue at 31 December 2015 - fully paid	**13,505**
Issued in consideration for additional shares placed	**6,555**

In issue at 31 December 2016 - fully paid	**20,060**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

On 25 August 2016, 3,700,960 ordinary shares were issued for cash at a price of 57.5 pence per share to fund further development and working capital in the Group.

On 12 October 2016, 2,854,521 ordinary shares were issued for cash at a price of 57.5 pence per share to fund further development and working capital in the Group.

15. Earnings per share

Basic earnings per share

The calculation of basic loss per share at 31 December 2016 of £0.20 (2015: £0.25) was based on the loss for the year attributable to owners of the parent of £3.01m (2015: £2.87m) and a weighted average number of Ordinary Shares outstanding during the period of 15,424,000 (2015: 11,456,000), calculated as follows:

(Thousands of Shares)	**2016**	**2015**
Issued ordinary shares at start of period(*)	**13,505**	**8,431**
Shares issued in respect of contingent consideration	-	**177**
Shares issued in respect of long-term management incentives	-	**151**
Issued for cash on 12th October 2016	**624**	-
Issued for cash on 25th August 2016	**1,294**	
Issued for cash on 10th April 2015	-	**2,695**
Issued in respect of warrants and options	-	**2**
Weighted average number of ordinary shares	**15,423**	**11,456**

Diluted earnings per share

The weighted average number of shares and the loss for the year for the purposes of calculating diluted earnings per share are the same as for the basic loss per share calculation. This is because the outstanding share options would have the effect of reducing the loss per share and would not, therefore, be dilutive under the terms of IAS 33.