

# Fonix Mobile plc

Strategic and directors' report,  
and company financial statements

Registered number 05836806

30 June 2023



## Company information

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## Strategic Report

### Chair's Review

I am pleased to update shareholders on another strong year of double-digit growth in profitability and cash generation. Once again Fonix has achieved record levels of profitability and underlying cash, whilst delivering on all its strategic goals laid out in the previous year. As well as a successful overseas expansion, the business has continued to win significant new contracts in the UK which will underpin its growth in the years ahead as the business looks to nurture those new customer relationships to their full potential.

The Fonix management team has continued to deliver another period of strong organic growth, with gross profits and adjusted EBITDA both increasing by over 12% year on year. At the same time, the business remains highly cash generative, with underlying cash increasing 12% over the same period. Given the strong trading performance and cash generation of the business, along with the confidence with which we consider the prospects for Fonix, I am pleased to announce that we will once again be increasing our final dividend for the year, in line with our progressive dividend policy to pay out at least 75% of adjusted earnings. The board has resolved to propose a final dividend of 4.89p, giving a total dividend for the year of 7.25p (FY22: 6.50p), an increase of 11.5% year on year.

The business' expansion into international markets has proven to be a huge success, with international transactions accounting for over 10% of gross profits in the year. Fonix is a market leader for interactive services in both the UK and Republic of Ireland, a feat achieved in Ireland within 12 months of launching there. As well as generating immediate financial returns for the business, the launch in Ireland has provided the team with a blueprint for further geographical expansion, which the board will update shareholders on as and when new regions are making a meaningful contribution to the business' growth.

Growth in the UK was strong in the second half of the year, with Fonix's larger media customers making up ground after the death of Her Majesty The Queen led to a slight decline year on year in HI gross profits whilst services were suspended for several weeks as a mark of respect.

### Financial results

Gross profit, which the board considers to be the business' most important financial metric, increased 13.9% to £15.1m (FY22: £13.2m) in the year. As was the case in the previous financial year, due to the seasonal nature of certain media clients, gross profit in the first half of the year was higher than the second. Adjusted EBITDA increased 12.7% to £11.6m (FY22: £10.3m), reflecting the business' high operating leverage and the management team's continued ability to control operating costs without compromising on top-line growth.

The company closed the year with £9.4m in underlying free cash (FY22: £7.8m). Actual cash, which includes money held on behalf of customers, closed the year at £20.6m (FY22: £17.0m).

The board recommends that the company pays a final dividend of 4.89p per share in November, bringing the total dividend for the year to 81% of adjusted earnings per share. If approved, the total distribution of dividends for the year ended 30 June 2023 will be £7.24m (FY22: £6.50m).

### **Product**

As well as onboarding and integrating services for several large new customers in the UK and Ireland, the business has continued to invest in new product innovations, including developing a new subscription engine for charity clients to be launched this autumn and intelligent dynamic filtering for users of our Campaign Manager product. At the same time, our dedicated in-house development team has continued to ensure platform resilience, scalability and cyber security remain fundamental to everything we do. Looking ahead, the business is in the early stages of broadening the suite of payment options integrated with its Campaign Manager and Checkout products, creating even greater growth opportunities with its key clients and new prospective customers.

### **ESG**

Throughout the period, the business has continued to maintain a strong focus on environmental, social and governance (ESG) excellence, building on our existing foundation of responsible business and industry practice. ESG considerations are put at the forefront of all the business' key decision making processes. During the year, Fonix's entire senior leadership team undertook Carbon Literacy Training and have committed to make meaningful changes to both their personal and working practices with the aim of further limiting the business' impact on the environment.

In recognising the feedback from some shareholders for greater independent representation on the board and its committees, William Neale resigned from both the remuneration and audit committees during the year and the board has committed to consider appointing a third non-executive director, providing the candidate can add meaningful strategic or commercial value, as well as fulfil governance functions.

Finally, I would like to say a thank you to all Fonix's staff, customers, partners, suppliers and shareholders for their continued support throughout the year. I look forward to achieving further successes together in the future.

### **Conclusion**

Fonix has entered the new financial year with an encouraging run-rate from its key clients and with the opportunity to nurture several recent client wins into top 5 customers. Fonix's highly operationally leveraged business model has proven to have solid resilience against a squeeze on consumer spending and rising interest rates, with only clients in the charity sector experiencing a drop-off in consumer activity. The business remains highly cash generative, with no debt and will continue to reward shareholders with a progressive dividend policy this year and beyond. With a growing customer base, significant new customer wins, extended market reach and increased dominance in the markets it operates, the board looks to the future with much confidence.

**Edward Spurrier, Non-executive Chair**

## CEO's Statement

This has been another fantastic year for Fonix, in line with management expectations. The business' strong performance was driven by significant overseas growth, key client wins in the UK and continued growth from our existing client base. As well as double-digit growth in commercial TPV, gross profits, and adjusted EBITDA, this year saw Fonix further strengthen its market lead in the UK and establish a similar position of dominance in the Republic of Ireland.

Commercially, Fonix's share of a transaction ('take-rate') in Ireland is broadly consistent with the UK, however the gross profit percentage reported is considerably lower due to a much higher take-rate commanded by mobile network operators in Ireland, which is reflected in the company reporting higher revenue and cost of sales under IFRS 15.

Throughout the year we've stayed true to our mantra of only working with high quality clients with the potential for enterprise scale revenues in our core sectors, a strategy that often means we only focus on a handful of sales opportunities at a time and invest as much time in optimising existing client relationships as we do in winning new ones. Through this approach, Fonix has never lost a significant customer to a competitor and is able to invest in developing sector specific product features that create substantial tangible value for our clients.

### Market opportunity

The majority of Fonix's growth this year has come from growth in international markets, which has seen us launch new services with Bauer Ireland, RTÉ (Ireland's National Television and Radio Broadcaster) and Wireless Radio Ireland, along with several smaller new clients in the Republic of Ireland. All have been delivered with minimal customisation of our cloud platform, which was connected to five new international mobile network operators and transacted with 16% of the adult population in Ireland during the year.

The success in Ireland has clearly demonstrated the business's ability to scale internationally, with minimal incremental cost. Beyond Ireland, we have already started to build relationships in other international markets with similar characteristics, which we believe present good opportunities for further international growth in the years ahead.

Along with opportunities in new geographical markets, this year has seen us win notable new contracts in the UK to run interactive services for the leading TV broadcasters ITV Plc and Channel 4. Both accounts represent significant growth opportunities in FY24 and beyond. In addition, we continue to identify other UK broadcasters currently not harnessing the power of interactive services, which we hope to win as customers in the years ahead.

The market for frictionless mobile payments remains significant and continues to grow year-on-year despite the expansion in alternative payment options such as Apple Pay and Google Pay. For the majority of our customers, adding carrier billing as a payment option is largely shown to reduce checkout abandonment and increase sales, rather than cannibalising existing transactions with alternative payment methods.

### **Delivering against our growth strategy**

Fonix continues to take a balanced approach to sustainable growth, looking to achieve a material percentage growth in gross profits and shareholder income year-on-year. There are five clear elements to our growth strategy set out below, which continue to guide our decision making and how we invest:

#### **1. Grow & deepen existing client relationships**

Our ability to nurture and scale clients' accounts in ways unmatched by our competitors is one of the key drivers behind Fonix's high client retention rate and reasons we have been able to continuously increase our market share in our core sectors and markets. Our existing clients have continued to grow strongly in the year, despite a temporary suspension of services in the first half of the year following the death of HM The Queen, narrowing the growth below what we would normally expect to see.

As it can often take years for clients to reach their peak transacting level, we continue to see significant growth opportunities from our existing customer base through optimisation of campaigns, new interactive products which will drive more participation and possibly increased tariffs in the future. In particular, we recognise that our relatively new Irish customer base and recent media customer wins in the UK are still in the process of maximising what they can do with Fonix.

#### **2. Take a disciplined sector focus**

We continue to take a disciplined sector focused approach to growth, targeting large enterprise clients and key partnerships across our core markets and geographies. Media continues to be our biggest sector, representing over 75% of gross profits in the year, with strong growth in both the UK and Ireland, including launching new services with ITV, Channel 4, RTÉ and Wireless Radio Ireland as well as some smaller regional radio stations. Our Campaign Manager product continues to advance significantly beyond the capabilities of any other providers in the market and we continue to see broadcasters seeking to diversify revenue away from a purely advertising funded business model. Media has been our entry sector in expanding services in Ireland, but we also see plenty of opportunity to win deals across our other target sectors in Ireland over time.

FY23 provided a challenging time for charities, with consumer donations down around 30% year on year. There were also fewer charitable campaigns in the year due to a change in the timing of some annual telethons, resulting in a reduction in managed service fees in the year. Coming into FY24 we expect a return to growth in the charity sector, with new campaigns such as the Game4Ukraine event broadcast on Sky in August, alongside a normalised schedule of activity from existing customers. In addition, Fonix is close to launching a new subscription product for our charity clients, allowing them to engage and collect donations from consumers throughout the year.

#### **3. Create sustainable, long-term profitability for shareholders**

The company's underlying cash balances have continued to grow strongly, as the company has continued to deliver on its strategy of achieving sustainable, long-term growth in profitability with limited incremental capital and operational investment. With only a modest expansion in commercial resources, Fonix has been able to win significant new customer relationships in both the UK and overseas during the year. This is a

testament to the company's reputation for having the best talent in the industry along with an exemplary track record of compliance and reliability.

Fonix's highly operationally leveraged business model has translated seamlessly into operations in Ireland and we see no reason why Fonix will not continue to see further economies of scale as it expands into other markets as well.

#### **4. Be client led with international expansion**

Our approach to international expansion continues to be client led, through our network of tier 1 multinational clients. Following our initial launch into Ireland through a referral from a UK customer, we have since added several new customers in Ireland and are now the master aggregator for all third-party aggregators looking to provide services to Virgin Media Ireland mobile consumers.

Outside of Ireland, further international growth remains a priority for the business, although it still forms a relatively small part of our short term forecasts. We are already making good progress in exploring other potential international markets and will discuss the specifics of new territories with shareholders once they are making a meaningful contribution to the business' growth.

#### **5. Widen our technological and operational advantage**

Targeting a limited number of sectors with large underlying markets has enabled Fonix to focus on building new innovative product features which create real tangible value for our clients and significant barriers to entry for any prospective competition.

During the year, the company made enhancements to our technical infrastructure to double the peak load capacity of our core products, allowing us to support significantly more and larger client campaigns in parallel.

Campaign Manager continues to be a market leading hybrid CPaaS and payments product, allowing our clients to optimise and increase the monetisation of their audience, to an extent unmatched by our competitors or alternative payment providers. This year we have added dynamic filtering of large data sets, new third-party integrations, international IVR votes and competition entries, and a subscription engine for key charity clients to fundraise all year round.

We have now migrated the vast majority of our customers to our new Checkout product, in preparation for introducing support for additional alternative payments in the year ahead. We strongly believe combining our phone-paid billing solutions with more traditional alternative payment methods, along with our sector specific intelligent payment routing will provide us with a unique value proposition when entering new markets that will enable us to displace even the most long standing incumbent providers.

We are confident these technological advantages will not only ensure retention of our existing customers, but also help us win significant new business from our competitors and allow us to target greenfield opportunities in new emerging sectors and markets.



We have now mirrored the trusted relationship we hold with both regulators and mobile operators in the UK with the equivalent stakeholder counterparts in Ireland, as demonstrated by our appointment in the year as master aggregator for Virgin Media Ireland. These key partnerships have not only proven invaluable when winning new customers, but have also been fundamental in discussing new direct connectivity with mobile operators in markets where there have been no new connections authorised in decades. In addition, we find these relationships have further reinforced the barriers to entry against other providers looking to form direct network operator connectivity in our core markets.

### **People**

Fonix prides itself on being a great place to work and having a culture where our team can thrive. Our average headcount grew over 13% to 43 employees over the year. Whilst inflation has remained persistently high throughout the period, leading to above average pay rises in January, I am pleased to say that we have been able to keep cost growth within our existing plans and offset any unplanned increases with savings elsewhere. Looking ahead, Fonix's highly operationally leveraged business model means we expect to be able to manage the wider inflationary pressures within our existing growth projections and there is no immediate need to significantly change the size of the team in order to hit our growth targets.

### **Product**

We continued to make good progress on our product roadmap with our dedicated in-house development team focusing on platform scalability, resilience, security and customer usability, coupled with releasing several new features as mentioned in the 'Widen our technological and operational advantage' section above.

### **Outlook**

We have continued to make great progress on our strategic goals this year, seizing an initial client-led opportunity in Ireland to become the leading provider of interactive services for media customers in a second geographical market. New client wins from ITV, RTÉ, Channel 4 and Wireless Radio Ireland significantly underpin our growth expectations in the year ahead whilst at the same time creating high barriers to entry to prospective competitors.

This year we have added more depth to our team and products, with an eye on further international growth and broadening the services we can offer to clients in the future. Our serviceable market has expanded significantly in the last 12 months through direct network connectivity in Ireland, and we will continue to consider establishing further direct connectivity in other territories in FY24 and beyond.

The first few months of the new financial year have started strongly, with a robust run-rate of consumer activity with our key customers. We continue to make great progress on our strategic goals and recognise that by delivering on these objectives and nurturing recent client wins we have a great opportunity to exceed expectations.

**Robert Weisz, Chief Executive Officer**

## **Business Model**

### **What we do**

Fonix is a leading mobile payments and messaging provider for businesses across media, charity, gaming, ticketing, mobility, and other digital services. Fonix processed over £268 million in consumer payments in the year (FY22: £258 million), representing over a third of the total UK market for phone-paid services.

Fonix has over 120 clients including ITV, Bauer Media, BT, Global Radio, Comic Relief and BBC Children In Need.

### **Value proposition**

Fonix's payment technology creates significant new revenue opportunities for businesses by providing frictionless payments that help them monetise their customer relationships and increase conversion rates in their checkout processes.

Unlike alternative payment providers, a significant differentiator is that Fonix's technology helps clients acquire new consumers, and the revenue through Fonix's platform is largely shown to be incremental rather than cannibalising their existing alternative payment provider transactions.

### **Services & revenue model**

#### ***Mobile payments***

Mobile payments enable consumers to make purchases from merchants (Fonix customers), charged to their mobile phone bill. Fonix facilitates the transaction, receiving the consumers' spend (TPV) from the carrier which it passes on to the merchant. On each transaction, Fonix generates a commission from the merchant which is recognised as revenue along with the carrier commission. Fonix pays the carrier a commission, which it recognises as cost of sales.

There are three different ways in which transactions are charged to a consumer phone bill:

#### ***Carrier billing***

Carrier billing enables merchants (Fonix customers) to charge consumers directly to their mobile phone bills, or have the funds deducted from their pre-paid credit. This can be used for one-off purchases, recurring subscriptions, and in-app payments. The current regulation to which Fonix is subject, PSD2, stipulates a maximum spend of £40 per single transaction and £240 in aggregate per user per month. Fonix provides carrier billing connectivity through a suite of secure APIs, allowing its customers to directly bill consumers, facilitating both 'text to buy' and 'click to buy' purchases.

#### ***SMS billing***

SMS billing enables consumers to purchase SMS-based content and services, charged directly to their mobile phone bill via SMS, which facilitates impulse purchases. Content and services supplied using SMS billing include voting, competitions and interactive services across media and digital merchants. Fonix's Campaign

Manager is a platform for setting up, managing, operating, reconciling, and reporting on SMS billing content and services.

#### *Voice (billing)*

Voice shortcodes are 5 or 7 digit phone numbers that consumers call to be connected to voice services. Voice shortcodes are principally used by media and telecoms businesses. Clients include BT (powering most of the UK TV voting such as The X Factor and Strictly Come Dancing) and RTÉ (the state TV and radio broadcaster in the Republic of Ireland).

#### **Mobile messaging**

Fonix's messaging API enables consumers to receive SMSs sent by clients for a variety of purposes including two factor authentication, alerts, notifications, and marketing. Fonix is part of Google's rich communication services messaging early access programme, which will enable clients to send richer content and messaging experiences to increase engagement and conversion.

Fonix enables clients to send SMSs to consumers at no charge to the consumer. Fonix charges clients to facilitate the transaction, which is recognised as revenue. Carriers charge Fonix to facilitate the transaction, which is recognised as cost of sales.

#### **Managed services**

Fonix enables consumers to donate to a charity client via their mobile phone bill. The charity pays Fonix a fee for facilitating donations, which is recognised as revenue.

#### **Sector focus**

Fonix has a sector focussed growth strategy as follows:

##### *Media*

Consisting primarily of TV, radio, print and digital publishers, this is Fonix's largest market. The TV and radio engagement market is estimated to be circa £173.2 million (PSA Annual Market Review 2022-2023). The growth strategy is to further increase market share in our core markets by focusing on broadcasters and media organisations currently not utilising the power of interactive services and supporting clients moving into international markets. Fonix also expects existing clients to continue to offer significant growth opportunities.

##### *Charity*

This remains a large market that is underdeveloped in terms of carrier billing. In the UK alone £10.7 billion was donated by people in the UK in 2021 (CAF UK Giving Report 2022) of which only £35.9 million was through carrier billing (PSA Annual Market Review 2022-2023). The focus will be to continue to drive Fonix's market leading 'text to donate' and 'click to donate' products in the UK as well as new international markets..

*Gaming*

A large market which is underserved by carrier billing. The UK online gaming industry is estimated to be worth £6.4 billion ([www.statista.com](http://www.statista.com)) of which only £61.3 million uses carrier billing (PSA Annual Market Review 2022-2023), with additional opportunities for international roll out of existing clients.

*Ticketing and transport services*

This is a significant market covering the UK parking industry valued at £1.1 billion in 2022 ([www.ibisworld.com](http://www.ibisworld.com)) and the UK bus & tramway industry projected to be worth £7bn in 2024 ([www.ibisworld.com](http://www.ibisworld.com)), as well as new forms of e-mobility, such as e-scooter hire and e-bike hire.

## Key Performance Indicators

Financial	2023	2022	Change
Gross profit	£15,075k	£13,232k	13.9%
Adjusted EBITDA <sup>1</sup>	£11,567k	£10,265k	12.7%
Adjusted PBT <sup>2</sup>	£10,979k	£9,671k	13.5%
Underlying cash <sup>3</sup>	£9,446k	£7,786k	21.3%
Adjusted EPS <sup>4</sup>	8.9p	8.1p	9.9%
Adjusted ROCE <sup>5</sup>	111.50%	120.95%	

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Non-financial	2023	2022	Change
Total payments value (TPV)	£268.1m	£258.6m	3.7%
Active customer count <sup>6</sup>	122	123	-0.8%

<sup>1</sup> Adjusted EBITDA excludes share-based payment charges along with depreciation, amortisation, interest, and tax from the measure of profit.

<sup>2</sup> Adjusted PBT is profit before tax excluding share-based payment charges.

<sup>3</sup> Underlying cash is actual cash excluding cash held on behalf of customers.

<sup>4</sup> Adjusted EPS is earnings per share excluding share-based payment charges.

<sup>5</sup> Adjusted ROCE is return on capital employed calculated as adjusted EBIT (being earnings before interest and tax excluding share-based payment charges) divided by capital employed (total assets less total current liabilities).

<sup>6</sup> Active customers are those that generated more than £500 in gross margin in the previous 12-months.

## Financial Review

### Total payments volume (TPV)

TPV represents the cash payments processed by Fonix on behalf of customers. TPV grew 3.5% to £268m (2022: £259m) in the year, with particularly strong growth in the value of SMS billing transactions, offset by a 30% decline in charity related TPV.

### Revenue and other income

Company revenues for the year increased to £64.9m (2022: £53.6m), driven by strong growth in the mobile payments and messaging service lines. Revenues recognised for mobile payments relate to the total commission charged to customers, including the mobile network operator (MNO) share of a transaction, with the MNO commission also recognised within cost of sales. The directors therefore monitor results and performance of the company based upon the gross profit generated, which is considered the more meaningful measure of performance.

### Gross profit

Gross profit is the business' most important financial indicator as this represents the company's share of revenue for processing mobile payments and SMS messages.

Gross profit for the year increased to £15.1m (2022: £13.2m) growing 14% on the previous year, with mobile payments growing 16% (2022: 14%), mobile messaging growing 20% (2022: 30%) and managed services declining 18% (2022: growing 28%). The decline in managed service fees, which makes up a relatively small amount of gross profit was attributable to a reduction in the number and size of charity campaigns in the period. As was the case in FY22, growth was skewed slightly to the first half of the year due to the seasonality in the trade of media related clients.

Blended gross profit margins declined slightly to 23.2% (2022: 24.7%) attributable to falls in charity related managed services fees as well as changes in the product and client mix affecting the mobile payments and mobile messaging gross margin percentage. In particular, mobile payments in the Republic of Ireland are at a significantly lower margin percentage than those in the UK, due to the higher revenue share taken by mobile carriers in the Irish market.

### Adjusted operating expenses

Operating costs continue to have been kept firmly under control, with costs generally only increasing where the business has invested more in future growth. Adjusted operating costs increased 16% in the year to £3.5m (2022: £3.0m). The majority of the increase related to additional staff costs and incentives as the business has continued to invest more in growth, along with an increased spend on IT infrastructure costs.

Staff related costs and incentives increased to £3.5m (2022: £3.0m) in the year reflecting an increase in commercial and engineering headcount, as well as above average inflationary pay increases, offset by some efficiency savings. Average headcount for the year was 43 (2022: 38).

IT hosting costs increased to £205k (2022: £175k) in the year as the company upgraded its platform infrastructure.

Software development costs of £804k (2022: £608k) were capitalised in the year, representing 62% (2022: 60%) of development costs in the year. The increase reflects increases in the size of the development team and additional investment in the Fonix platform. The capitalisation of current year development spend was offset by an amortisation charge of £560k (2022: £462k). Development costs are amortised on a straight-line basis over 3-years.

### **Adjusted EBITDA**

The growth in gross profit and continued control of costs have resulted in a significant increase in adjusted EBITDA which is up 13% at £11.6m (2022: £10.3m) for the year. To provide a better guide to the underlying business performance, adjusted EBITDA excludes share-based payment charges along with depreciation, amortisation, interest and tax from the measure of profit.

### **Finance income and expenses**

Finance expense, which relates to the unwinding of the discounted lease liability, decreased marginally to £4k (2022: £10k) as the company's current office lease expires in November 2023. Management expects to renew the lease in the next financial year.

Interest on bank deposits increased to £341k (2022: £8k) due to the increase in bank interest rates.

### **EPS and Dividends**

Given the company's strong performance, cash resources and distributable reserves, as well as the confidence in the company's prospects, the board recommends to pay out 81% of adjusted EPS to shareholders in the form of an ordinary dividend, which is in line with the company's progressive dividend policy to pay out at least 75% of adjusted earnings per share each year. The board therefore intends to recommend a final dividend of 4.89p (2022: 4.50p) per share to be approved at the AGM in November.

### **Statement of Financial Position**

The company had net assets of £9.4m (2022: £7.8m) at the year-end, including capitalised software development costs with a carrying value of £1.2m (2022: £1.0m). The movement in net assets reflects profits after tax less dividend payments and share buy-backs.

Current assets increased to £57m (2022: £49m) as the company was owed more trade receivables and held greater cash balances at the year end, due to the increase in trade year on year.

Current liabilities similarly increased to £48m (2022: £42m) as the company owed more trade payables at the year end, due to the increase in trade year on year.

Non-current liabilities decreased to £0.1m (2022: £0.2m) as the business is now in the final year of its 3-year office lease agreement signed November 2020.

### **Cash and underlying cash**

The board distinguishes between actual cash, which includes cash held on behalf of customers, and underlying cash, which excludes cash held on behalf of customers.

Underlying cash far better represents the free cash flow available to the business. Underlying cash increased to £9.4m (2022: £7.8m) due to additional retained earnings less cash used in share buy-backs.

Actual cash, which includes cash held on behalf of customers, can vary substantially from period to period and is particularly sensitive to the timing of passthrough outpayments for customer charity campaigns. Actual cash held increased to £20.6m (2022: £17.0m) in the year. The increase beyond the increase in underlying cash is purely timing related and attributable to a mobile network operator settling a trade receivable invoice a few days earlier than the previous year.

**Michael Foulkes, Chief Finance Officer**



## Principal Risks and Uncertainties

The company faces a number of business risks and uncertainties due to ever changing market dynamics, including risks from competitors, supply-chain disruptions, regulatory changes, cyber criminals and other economic events. The table below sets out the key risks that have been identified, along with the company's approach to mitigating those risks:

Risk	Description
<b>Fall in demand for services</b>	<p>The company's future revenue and profit growth will depend largely on generating demand for its services. There can be no assurance that the company will continue to be successful in selling services to existing customers or winning new customers. There is a risk that the company may exhaust the list of services that it is able to cross sell or up-sell to existing customers, either through natural attrition or due to the customer wishing to use another provider. Given the company has enjoyed a consistent supply of repeat business from customers, a reduction in the demand for its services from existing customers could result in a material reduction in the company's revenue and profitability.</p> <p>The company mitigates this risk by continuing to invest in new product innovations, which provide additional value to its existing customers, differentiate it from its competitors and/or make it more appealing to new customers. In addition, the company is investing to target growth in new geographies and adjacent sectors.</p>
<b>Loss of key customers</b>	<p>Whilst the top 10 customers of the company can change each year (as new customers undertake large change programmes, for example), they have accounted for 83 percent, 85 percent and 88 percent of the company's gross profit in the years ended 2021, 2022 and 2023 respectively.</p> <p>Whilst the incentive to switch or cancel services appears to be low and the company has not lost a significant customer during the past five financial years, the loss of one or more of these key customers to a competitor or otherwise, could lead to a material adverse effect on the company's revenue and profitability.</p> <p>The company mitigates this risk by continuing to invest in new product features that differentiate it from its competitors and ensure customers are more embedded in the company's platform. All significant clients are also given dedicated and exemplary customer service support.</p>
<b>Dependency on key suppliers</b>	<p>The company's services are largely dependent on contracting with mobile network operators (MNOs) for the supply of mobile payments and messages. While the board is not presently aware of any reason likely to lead to the termination or variation of any such contracts, there can be no guarantee that such events will not occur in the future.</p> <p>It is common for contracts with MNOs to be capable of termination on short notice and in certain cases, the MNOs can exercise that right without cause. The MNOs are also entitled to review, vary and/or introduce new fees from time to time, and these</p>

tend to take effect between 30 – 60 days after written notice has been given to the company. Such terminations or variations could have a material adverse effect upon the company's ability to offer services to customers and therefore on the company's financial results.

To mitigate this risk, the company continues to maintain strong relationships with all its MNOs and takes a consultative approach with MNOs regarding any compliance and/or proposed commercial changes. In the event of MNOs enforcing adverse price variances, the company maintains the ability to pass the difference onto merchants.

**Mobile network  
operator  
indemnities**

As mobile network operators (MNOs) have no contractual relationships with the company's merchants (wholesale carrier billing and SMS billing customers of the company), the company takes on responsibility for them in its contracts with MNOs. As such, each MNO agreement will contain a number of warranties granted by the company relating to a merchant's fitness to operate, compliance with all applicable laws and information and platform security measures to be put into place. Although these warranties are numerous, they are standard in the industry.

MNO agreements will also contain indemnities to be granted by the company in favour of the MNO, including in relation to the operation of the company's platforms, infringement of third-party intellectual property rights and regulatory or other third party claims. It is common for liability to be uncapped.

To mitigate these risks, the company continues to maintain strong relationships with all its MNOs and regularly reviews its customers' services to ensure they comply with MNO contracts and regulatory guidelines.

**Technological  
change**

The company operates in an industry which is subject to continuous and fast-paced technological change, with new products and services being introduced to the market frequently. If the company is unable to respond to such changes in a cost-effective manner, the company may become less marketable and less competitive or perceived to be obsolete and the company's operating results may be adversely affected. Therefore, the company's success depends, in part, on its ability to anticipate these changes effectively and to develop its offering in line with changing customer demands and market preferences, as well as to adapt to changes in hardware, software, networking, browser and database technologies.

The company may be required to invest significant time and resources to develop or establish the necessary expertise and experience to sell and deliver new solutions to its customers effectively and there can be no assurance that any new investment would ultimately prove successful. Such investments carry the risks associated with any new development effort, including cost overruns, delays in delivery, performance issues and the risk that customers may be reluctant to adopt new solutions without seeing reference use cases.

Failure to adapt in response to changes in customer demand and preferences or to keep pace with relevant technological or regulatory change could limit the company's ability to serve its customers effectively and restrict the company's ability

to execute its growth strategy, which could lead to a reduction in customers and have a material adverse effect.

The company mitigates these risks by continuously reviewing its product roadmap to ensure new and planned product features remain relevant to the demands of its customers and prospective customers.

**Regulatory and compliance breaches**

As a Phone-paid Services Authority (PSA) registered entity, the company is bound by the PSA Code of Practice (PSA Code). The PSA investigates complaints and monitors compliance and may initiate an investigation where there appears to be a breach of the PSA Code. For certain cases, the PSA may seek interim measures from a tribunal such as suspension of a service and/or that revenue be withheld before any formal adjudication of potential breaches of the PSA Code takes place. If a tribunal decides a provider has breached the PSA Code, the tribunal can apply a range of sanctions including but not limited to: (1) issuing a formal reprimand and/or warning as to future conduct; (2) ordering a provider to give refunds to customers; (3) imposing a fine of up to £250,000 per breach; and (4) barring access to the service for a defined period.

To mitigate this risk, the company regularly undertakes periodic customer compliance reviews and customer due diligence in line with the PSA Code.

A number of the company's customers operate in regulated industries, such as media companies who are regulated by Ofcom and gambling companies who are licensed by the UK Gambling Commission. Should any of the company's key customers lose their licence to operate, then this could impact their ability to continue operating services with the company, which in turn could have a material adverse effect on the company's business, financial performance, financial condition and/or prospects.

The company in part mitigates this risk by generally only working with customers with a long standing trading history.

In addition, general laws and regulations governing AIM listed businesses, the processing of personal data and the processing of payments in the United Kingdom and other territories continue to evolve and, depending on the evolution of such regulations, may adversely affect the company's business.

To mitigate this risk, the management team is responsible for ensuring that all applicable laws and regulations, along with proposed changes are well understood and addressed as required.

**Regulatory changes and gambling white paper**

The UK Gambling Commission is currently reviewing UK gambling legislation and it has been noted in the associated gambling white paper that this review will consider possible changes to the legislation of UK prize draw competitions. A number of the company's significant customers operate 'prize draw competitions', which currently operate outside gambling and lottery legislation in the company's core markets. Should new legislation be introduced which limits the ability of the company's customers to continue to operate prize draw competitions in their current form then

this in turn could potentially have a material adverse effect on the company's business, financial performance, financial condition and/or prospects.

To mitigate this risk, the company has been liaising with its significant customers operating prize draw competitions, along with the industry trade association, Association for Interactive Media and Micropayments (AIMM) to engage with the Gambling Commission during the gambling white paper consultation.

**Potential competition**

The company faces competition for its technology and products from other providers of carrier billing and alternative payment providers. The results of such increased competition may have a material adverse effect on the company's financial results.

Some of the company's alternative payment provider competitors may have significantly greater financial and human resources and may have more experience in development and commercialisation of their technology and products. As a result, the company's competitors may develop safer or more effective products, implement more effective sales and marketing programs or be able to establish superior proprietary positions.

It is possible some mobile network operators (MNOs) could develop direct contractual relationships with company's customers and therefore obviate the need to contract with the company to provide carrier billing services. In addition, it's possible that MNOs may allow new market entrants to establish direct network connectivity and therefore compete with the company. The results of such increased competition may have a material adverse effect on the company's reputation, financial performance, and prospects.

The company mitigates this risk by continuing to invest in new product features that differentiate it from its competitors and ensure customers are more embedded in the company's platform. In addition, all significant clients are also given dedicated and exemplary customer service support to ensure the company maintains strong customer relationships.

**Insufficient operational support**

Once a customer uses the company's platform, they depend on the company's technical support services to resolve any issues relating to the services delivered through the platform. If the company does not effectively and quickly resolve post-deployment issues, or provide effective ongoing support, the company's ability to sell additional services to existing customers would be adversely affected and the company's reputation with potential customers could be damaged. The company's failure to provide and maintain high quality support services, especially as the company's business grows, could lead to a reduction in customers and ultimately have a material adverse effect on the company's reputation, financial performance, and prospects.

The company mitigates this risk by continuously reviewing whether its operational processes and resources remain adequate given the size and nature of its customer base and the requirements of its contractual service-level agreements (SLAs).

**Loss of key staff  
and recruitment**

The company's future success depends, in part, on the ability and experience of its staff as well as the company's ability to continue to attract, adequately compensate, and retain key personnel. The company's success also depends on the continued services and contributions of senior management to execute on its business plan and to identify and pursue new opportunities and product innovations, as well as to maintain the company's culture and values despite geographical expansion and growth in employee numbers. Competition for suitably qualified individuals with the relevant technical expertise in the company's industry is intense, and the company may not recognise or respond adequately to market dynamics in order to retain or recruit key staff. Furthermore, any necessary increases in employee compensation could have an adverse effect on the company's profitability. Also, to the extent the company hires personnel from competitors, it may be subject to allegations that they have been improperly solicited, that they have divulged proprietary or other confidential information, or that their former employers own their inventions or other work product.

If the company is unable to identify, attract, develop, motivate, adequately compensate and retain well qualified and engaged personnel, or if existing highly skilled and specialised personnel leave the company and ready successors or adequate replacements are not available, the company may not be able to manage its operations effectively. This could cause the company to suffer delays in new product development or software implementations or otherwise fail to satisfy customers' demands, which could have a material adverse effect on the company's reputation, business, financial performance, financial condition and/or prospects.

The company mitigates this risk by promoting a positive work environment and ensuring the business remains an enjoyable and appealing place to work. The company also ensures responsibilities are shared across teams so key person risks are significantly reduced. In addition, the company regularly reviews its remuneration policy to ensure it remains competitive.

**Misappropriation  
of intellectual  
property rights**

The success of the company's business depends on its ability to protect and enforce its trademarks, and other unregistered intellectual property rights (IPR), including copyright and know-how. The company attempts to protect its intellectual property through registered trademarks and a combination of confidentiality procedures, contractual provisions, and other methods, all of which offer only limited protection. The company generally enters into confidentiality, invention assignment or licence agreements with employees, consultants and customers, and generally limits access to distribution of its proprietary information. However, the company cannot guarantee that it has entered into such agreements with all parties who may have or have had access to confidential information or that the agreements entered into will not be breached.

Despite the company's best efforts to protect its intellectual property rights, unauthorised parties may not be deterred or prevented from misuse, theft or misappropriation of information the company regards as proprietary. Moreover, policing unauthorised use of the company's intellectual property is difficult, expensive and time consuming, particularly in foreign countries where the laws may not be as protective of intellectual property rights as those in the UK and where mechanisms for enforcement of intellectual property rights may be weaker.

Attempts to enforce the company's rights against third parties could also provoke these third parties to assert their own intellectual property or other rights against the company or take unilateral steps to invalidate the company's intellectual property rights (IPR), which could result in a holding of official action that invalidates or narrows the scope of its rights, in whole or in part. If the company is unable to protect its proprietary rights, it may be at a competitive disadvantage compared to others who need not incur the additional expense, time, and effort required to create the payments platform that has enabled the company to be successful to date. Any of these events could have a material adverse effect on the company's reputation, business, financial performance, financial condition and/or prospects.

The company mitigates this risk by in general requiring that any agreements it enters into include appropriate confidentiality and IPR clauses.

**Security  
breaches**

Any unauthorised intrusion, malicious software infiltration, network disruption, denial of service or similar act by a malevolent party could disrupt the integrity, continuity, security and trust of the company's payments platform or the systems of the company's customers. These security risks could create costly litigation, significant financial liability, increased regulatory scrutiny, financial sanctions, and a loss of confidence in the company's ability to serve customers and cause current or potential customers to choose another carrier billing solution, any of which could have a material adverse impact on the company's business. In addition, as these threats continue to evolve, the company is required to continue investing significant resources to continuously modify and enhance the company's information security and controls or to investigate and remediate any security vulnerabilities. Although the company believes that it maintains a robust programme of information security and controls and none of the threats that the company has encountered to date have materially impacted the company, it may not be able to prevent a material event in the future or to promptly and effectively remedy a material event, and the impact of such an event could have a material adverse effect on the company's business, financial performance, financial condition and/or prospects.

The company mitigates this risk by ensuring that appropriate levels of data security and that intrusion detection processes remain in place. In addition, the company undergoes third-party penetration tests at least annually to ensure the robustness of its systems.

**Industry  
scandals**

Whilst the company and its customers have the utmost regard for the industry's regulations, it's possible there may be other providers, and customers of such providers, operating in the sector, which are less diligent and respectful of the rules and regulations. Should there be any misconduct by such organisations, this could potentially lead to a negative public relations (PR) event, such as was the case in the '2007 British premium-rate phone-in scandal'. In turn, this negative PR could lead to a loss in confidence in the sector from the company's customers and prospective customers, which could potentially have a material adverse effect on the company's financial performance, financial condition and/or prospects.

The company in part mitigates this, by continuing to work closely in partnership with the Phone-paid Service Authority (PSA) to promote best practice in the industry.

**Cost of living  
crisis and  
economic  
downturn**

The majority of the company's gross profit comes from a share of revenue on consumer purchases from the company's merchants (customers). In addition, the majority of said consumer transactions are for discretionary and spontaneous purchases. As such, any macroeconomic economic event that has a negative impact on consumer confidence, household disposable income and levels of consumer spending, could have a negative impact on merchant sales and therefore potentially the company's own gross profits. The impact of such an event could have a material adverse effect on the company's business, financial performance, financial condition and/or prospects.

The company in part mitigates this, by continuing to grow and diversify its customer base and by helping the company's merchant's to optimise their marketing spend with targeting consumer messaging.

**Foreign  
exchange**

The majority of the company's income and costs are denominated and handled in pounds sterling, which is the company's functional and reporting currency. However, as the business continues to grow overseas, an increasing proportion of the company's working capital is held in foreign currencies, particularly Euros. Whilst the company generally receives money on behalf of customers and pays out to customers in a single currency, the business is exposed to potential exchange rate losses on the revaluation of current and prior historic retained earnings held in foreign currencies.

The company in part mitigates this risk by converting working capital into its functional currency (pounds sterling) at the earliest opportunity after profits have been fully realised in net cash received.

**Treasury**

The company's business model requires it to receive and handle significant quantities of cash on behalf of its customers. As a result, at any one time, the company may hold significant amounts of cash. Generally this cash is only as secure as the counterparty (financial institutions) holding the cash on behalf of the company, and any failure of such financial institutions could have a material adverse effect on the company's business, financial performance, financial condition and/or prospects.

The company in part mitigates this risk by only holding cash in instant access bank accounts with financial institutions with high levels of credit worthiness. In addition, the company holds multiple banking relationships so that cash despotis can be moved to alternative financial institutions at short notice .

**Phishing**

The company's business model requires it to receive and handle significant quantities of cash on behalf of its customers. As a result, the company frequently makes significant cash outpayments to its customers. The business is therefore often targeted by criminals looking to manipulate the company's staff into making payments into incorrect bank accounts under their control, commonly known as 'phishing'. Any such theft of the company's cash resources could have a material adverse effect on the company's business, financial performance, financial condition and/or prospects.

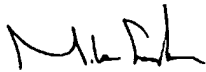
The company in part mitigates this risk by having comprehensive payment approval processes and ensuring any requests to change a merchant's bank details are thoroughly checked and cross referenced ahead of any changes being approved.

**Forecasting**

Contractual negotiations and the onboarding of new customers and operators can often be prolonged and delayed, making short and medium term revenues difficult to predict. In addition, the vast majority of merchant/customer contracts contain no revenue commitments and expected revenues can change significantly at short notice. As a result, forecasting gross profits and particularly the growth rate of gross profits can be difficult to predict.

The company in part mitigates this risk by taking a conservative approach to forecasting and avoids over committing resources during contract negotiations and merchant onboarding.

By order of the board



**Michael Foulkes**

Company Secretary

23 Heddon Street  
London  
W1B 4BQ

20 September 2023



## Governance

### Board of Directors

**Edward Spurrier**, *aged 58 – Independent Non-executive Chair*

Edward is also Non-executive Chair of Captec Group Limited. In the last 8 years he has chaired several successful fast growth Private Equity and VC backed technology companies. He also has non-executive roles with some private and not for profit organisations. He has been involved in the telecom, IT and tech sector for over 25 years and formerly was CEO and CFO of Alternative Networks plc (AIM listed) for 17 years, until 2015.

He qualified as a chartered accountant with PWC in London and spent 11 years advising entrepreneurs before joining Alternative Networks.

**Robert Weisz**, *aged 45 – Chief Executive Officer*

Rob has held several senior positions in technology companies including Commercial Director at Mobile Interactive Group Ltd and most recently, Chief Executive Officer at Fonix. Prior to this, Rob was a Commercial Partnership Manager at O2 (UK) where he worked within Interactive Services, holding responsibility for new business and account management. Rob has had extensive experience working in both public and private companies within the telecoms and technology sectors. Rob began his career at Thus Plc, working in business development and account management where he was responsible for a number of key clients including the US Embassy and The Telegraph Group.

**Michael Foulkes**, *aged 38 – Chief Financial Officer*

Michael is a chartered accountant with over 15 years working in senior finance roles for some of Europe's most successful technology businesses, including Mobile Interactive Group ("MIG"), previously one of Europe's largest mobile payments businesses. MIG was subsequently acquired by Velti, a Nasdaq listed mobile marketing business, where Michael continued in senior finance roles. Since, his most recent CFO role was over 4 years at the venture backed Black Swan Data.

**William Neale**, *aged 47 – Founder and Non-executive Director*

Will founded Fonix Mobile plc in 2006. In 2013, Will founded Grabyo, a cloud-based video production, editing and distribution company. Will is a serial investor having invested in many early-stage companies, including Revolut, Marshmallow and proSapien. Will began his career at Accenture where he worked within technology consulting, specialising in mobile telecoms.

**Carmel Warren**, *aged 58, Independent Non-executive Director*

Carmel has extensive financial experience across multiple industries with over 15 years' experience in the technology sector. She was previously CFO at D4t4 Solutions plc and prior to that at Celebrus Limited.

She is currently CFO of SEEN plc, as well as a Non-executive Director and Chair of the audit committee at Character Group plc. Carmel began her career at EY and is a member of the ICAEW.

## Directors' Report

The directors present their report and the audited financial statements for Fonix Mobile plc for the year ended 30 June 2023.

The preparation of financial statements is in compliance with IFRS issued by the International Accounting Standards Board (IASB) ("IFRS") and IFRIC Interpretations issued by the International Accounting Standards Board (IASB).

### Principal activities

The principal activity of Fonix Mobile Plc is facilitating mobile payments and messaging for merchants (customers) – including the related content. These solutions enable consumers to make online payments using their mobile devices.

### Business review and future developments

The review of the period's activities, operations, future developments, and key risks is contained in the Strategic Report on pages 4 to 21.

### Directors

The directors who held office during the period and subsequently were as follows:

1. Robert Weisz
2. Michael Foulkes
3. Edward Spurrier
4. William Neale
5. Carmel Warren

The company has agreed to indemnify its directors against third party claims which may be brought against them and has put in place a directors' and officers' insurance policy.

Details of directors' interests in the share capital of the company are disclosed in the Remuneration Committee Report set out on pages 37 to 41.

### Substantial holdings

The company has been advised of the following interests in more than 3% of its ordinary share capital as at 30th June 2023:

Holder	Total shares	%
William Neale (held by Ganton Limited)	22,827,288	22.88%
Charles Stanley	9,622,202	9.65%
Slater Investments	9,700,444	9.72%
Investec Wealth & Investment	9,381,306	9.40%
Richard Thompson (held by Starnevesse Limited)	8,792,241	8.81%
Robert Weisz	7,325,356	7.33%

### **Risk management objectives and policies**

Details of the company's financial risk management objectives and policies are set out in note 17 of the financial statements. The key non-financial risks that the company faces are set out on pages 17 to 24 of the Strategic Report.

### **Dividends**

There was a profit for the year after taxation amounting to £8.80m (2022: £8.03m).

A final dividend of £4.50m (4.50p per share) was paid during the year in respect of the year ended 30 June 2022 (2021: £3.53m, 3.53p per share).

An interim dividend of £2.36m (2.36p per share) was paid during the year in respect of the year ended 30 June 2023 (2022: £2.00m, 2.00p per share).

The directors recommend a final dividend of 4.89p per share (2022: 4.50p per share). If approved, the total dividend for the year would be 7.25p per share (2022: 6.50p per share) and the total distribution of dividends would be £7.24m (2022: £6.50m).

### **Disclosure of information to the auditor**

The directors who were in office on the date of approval of these financial statements confirm that:

- So far as each director is aware, there is no relevant audit information of which the company's auditor is unaware.
- The directors have taken all the 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 company's auditor is aware of that information.

### **Auditors' appointment**

UHY Hacker Young were appointed during the period and have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the board



**Michael Foulkes**  
Company Secretary

23 Heddons Street  
London, W1B 4BQ

20 September 2023

## Corporate Governance statement

### Chair's corporate governance report

As chair of the board of directors, corporate governance is my responsibility and I recognise the importance of sound corporate governance and confirm that the company is complying with the QCA Corporate Governance Code. The QCA Code is based upon the principle that companies need to deliver growth in long-term shareholder value. The following report sets out how we do this in accordance with the 10 principles of the QCA Code. The directors consider that the company has broadly not departed from any of the principles of the QCA Code, although any areas where the company has deviated are described in further detail below.

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

The company's business strategy is reviewed at least annually by the board and with goals and targets set for the business accordingly. The company's business strategy aims to create long-term value for shareholders by:

- Growing income from existing customers and winning new customer accounts.
- Building products and services that provide new revenue opportunities and create deeper relationships with existing customers.
- Realising international growth opportunities by investing in international supply-chain connectivity and nurturing multinational client relationships.
- Scaling costs effectively to balance growth, risk and shareholder income.

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

The board endeavours to engage in clear and consistent dialogue with both existing and potential shareholders to understand their needs and expectations, and to ensure that the company's strategy, business model, governance structures and progress are clearly understood.

The chief executive officer and the chief financial officer will meet with representatives of most major institutional shareholders at least twice per year, with their feedback being shared with the wider board. The chair is also available and has engaged with institutional shareholders where required.

The board also recognises that the annual general meeting ("AGM") provides an opportunity to meet shareholders and values the feedback provided by shareholders at this meeting. Due notice of the AGM is sent to shareholders at least 21 days before the date of the meeting and all directors routinely attend the AGM and are available to answer questions raised by shareholders.

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

Engaging with stakeholders enables the company to understand their needs more effectively which in turn helps the company make more informed business decisions. In addition to its shareholders, the company's key stakeholders are its employees, customers, suppliers, and regulators. The board regularly considers these stakeholders to ensure the business is taking appropriate actions to further strengthen these key relationships.

Further information on the specific actions the business is taking can be found in the 'Section 172 Statement' on page 33.

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

The board retains overall responsibility for the company's framework of internal controls and reviewing their effectiveness. The business' key opportunities, wins, losses and threats are documented by the senior leadership team and shared with the board each month. The company's risk register is also reviewed and updated by management across the business once a quarter and subsequently shared and discussed at board level each quarter. The information, which is always provided in a timely manner, is high quality and comprehensive, ensuring that the board is well informed and has the tools to facilitate proper assessment of matters which require its insight and decision making. The board and management team look to take mitigating actions or reinforcement of controls whenever unreasonable risks are identified.

There is currently no internal audit function as the board and audit committee considers that given the company's current stage of development, it is not necessary, but this will be reviewed annually as the company evolves.

**Principle 5 – Maintain the board as a well-functioning, balanced team led by the chair**

The QCA code requires that boards have an appropriate balance between executive and non-executive directors and that each board should have at least two independent directors. The board comprises the non-executive chair, who was independent at the time of appointment, two executive directors and two other non-executive directors. Of the non-executive directors, the board considered two to be Independent directors (Edward Spurrier and Carmel Warren).

Acknowledging the request from some shareholders for further independent representation on the board, the board commits to continue considering appointing a third independent non-executive director should an individual be identified who could provide other meaningful strategic value to the business at the same time.

The board meets monthly and is supported by supplementary meetings where appropriate. The board is further supported by an appropriate committee structure, consisting of separate audit and remuneration committees that have the necessary skills and knowledge to discharge their duties and responsibilities effectively. Further details of the current directors and a note of those who are considered to be independent are set out on page 25.

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

The board consists of individuals with backgrounds and experience in publicly and privately-owned commerce, payments, finance and technology organisations. Collectively, the board's members have a wide range of experience, personal qualities and capabilities.

The board contains two executive directors, and three non-executive directors, one female and two male. In all new appointments the board aims to appoint candidates who bring new and diverse attributes to its composition.

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

The company currently conducts annual monitoring of both corporate and personal performance. Agreed personal objectives and targets are determined each year for the executive directors and leadership team and performance is measured against these metrics. The independent non-executive chair undertakes the responsibility of assessing and monitoring the performance of the executive directors.

The board regularly reviews its composition and efficacy of performance and utilises the results of performance evaluations when considering this composition and/or succession planning.

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

The board seeks to ensure that the highest standards of integrity and ethical behaviour are demonstrated in the conduct of the company's operations. These standards are enshrined in the company's written policies which are adopted by all employees and reviewed during the annual performance review.

An open culture is encouraged within the company, with employee feedback sought and regular progress and performance updates provided to all employees.

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

The long-term success of the company is the responsibility of the board of directors, which comprises three non-executive directors and two executive directors. The executive directors have responsibility for the operational management of the company's activities. The non-executive directors are responsible for bringing independent and objective judgement to board decisions.

There is a clear separation of the roles of the non-executive chair and the chief executive officer. The chair is responsible for the running of the board and has ultimate responsibility for corporate governance matters. The chief executive officer has ultimate responsibility for implementing the strategy of the board and managing the day-to-day business activities of the company. The company secretary is responsible for ensuring that board procedures are followed, and applicable rules and regulations are complied with.

The board has established an audit committee and a remuneration committee, with formally delegated duties and responsibilities, which are each chaired by a non-executive director. The audit committee is chaired by Carmel Warren and the remuneration committee is chaired by Edward Spurrier. Acknowledging requests from some shareholders for greater independent representation in the company's committees, William Neale, who is not considered an independent director, resigned from the audit and remuneration committees during the year.

The company has not appointed a nominations committee. The board has concluded that given the size of the company this function can be effectively carried out by the whole board.

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

The company communicates with shareholders in a number of ways, including: the company's annual report and accounts, full and half year trading updates, other regulatory announcements, the annual general meeting (AGM), bi-annual investor roadshows and other ad hoc investor meetings.

A range of corporate information, including annual reports, full and half year results announcements, notices of general meetings and other regulatory announcements, is also available to shareholders, investors, and the public through the company's website: <http://www.fonix.com/investors>

**Board and committee attendance**

The board met twelve times during the financial year and its committees met a further five times, including three audit committee meetings.

The attendance of the directors at these meetings is detailed below. On the occasions when a director is unable to attend a meeting, any comments he or she has arising from the information pack circulated prior to the meeting are provided to the chair.

	Board meetings		Audit committee		Remuneration committee	
	Possible	Attended	Possible	Attended	Possible	Attended
Robert Weisz	12	12	-	-	-	-
Michael Foulkes	12	11	-	-	-	-
William Neale	12	12	-	-	-	-
Edward Spurrier	12	12	3	3	2	2
Carmel Warren	12	12	3	3	2	2

**Committees of the board**

**The remuneration committee**

The remuneration committee is chaired by Edward Spurrier and its other member is Carmel Warren. The remuneration committee reviews the performance of the executive directors and makes recommendations to the board on matters relating to their remuneration and terms of employment. The remuneration committee also makes recommendations to the board on proposals for the granting of share options and other equity incentives pursuant to any share option scheme or equity incentive scheme in operation from time to time. The remuneration and terms and conditions of appointment of the non-executive directors of the company are set by the board. The remuneration committee invites the executive board members and other relevant parties to attend where necessary.

William Neale resigned from the remuneration committee during the year to ensure compliance with the QCA Code and the QCA's Remuneration Committee Guide for Small and Mid-Size Quoted Companies for all members of the remuneration committee to be independent non-executive directors.

The remuneration committee meets as frequently as necessary and not less than once a year.

#### **The audit committee**

The audit committee is chaired by Carmel Warren and its other member is the non-executive chair, Edward Spurrier. The external auditors are invited to each meeting and the Chief Executive Officer, Chief Financial Officer (together with members of the finance team as appropriate) and William Neale (as a non-executive director) attend by invitation.

William Neale resigned from the audit committee during the year to ensure all members are independent non-executive directors.

The audit committee has primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the company is properly measured and reported on. It receives and reviews reports from the company's management and auditors relating to the annual accounts and the accounting and internal control systems in use throughout the company. The audit committee has unrestricted access to the company's auditors. Further, the audit committee advises the board on the company's overall risk appetite and strategy including, inter alia, regularly reviewing, and updating (if appropriate) the risk assessment processes in place, including in relation to remuneration and compliance functions, and assisting in overseeing implementation of the adopted strategy.

Edward Spurrier is Chair of the company and therefore his membership of the audit committee does not comply with the recommendation of the QCA Code. However, the board has determined that, in light of Edward Spurrier's extensive knowledge of financial governance and internal controls and taking into account the size and nature of the company and the independence of the other members of the audit committee, it is appropriate for Edward Spurrier to be a member of the audit committee.

The company does not comply with the QCA's requirement to publish a separate audit committee Report as it believes that the information provided within this Corporate Governance Report gives shareholders adequate information on the Committee's activities.

The audit committee meets as frequently as necessary and not less than three times a year.

#### **Relations with shareholders**

The board is committed to regular, open and effective communication with shareholders to ensure that the company's strategy and performance are clearly understood. The company provides annual and interim statutory financial reports, investor and analyst presentations, regular trading and business updates. At the Annual General Meeting (AGM) all shareholders have the opportunity to meet and ask questions of the board of directors. The next AGM is scheduled for 14 November 2023.



## Section 172 Statement

The directors are aware of their duty under Section 172 of the Companies Act 2006 to act in the way which they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- a) the likely consequences of any decision in the long term; and
- b) the interests of the company's employees; and
- c) the need to foster the company's business relationships with suppliers, customers and others; and
- d) the impact of the company's operations on the community and the environment; and
- e) the desirability of the company maintaining a reputation for high standards of business conduct; and
- f) the need to act fairly as between members of the company.

### ***Engaging with employees***

The company operates frequent all staff meetings, sharing updates from across the business in an open forum. These briefs allow employees to learn and share their views on the business, including team, product and market changes as well as new commercial opportunities. In addition, the company undertakes anonymous staff surveys at least once per year, giving all staff a chance to provide honest feedback to the senior leadership team and company board.

Whilst the company operates a 'working from home' and a flexible working policy, staff have been encouraged to work in the office at least once a week on a voluntary basis, with teams often meeting in person once a week. The ambition of this in-office based working is to allow junior staff to engage with senior colleagues and to encourage staff to immerse themselves in the company's culture. To this aim, the company hosts weekly social events in the office.

### ***Engaging with customers***

The company's main customers are its payment merchants. All significant customer accounts have a dedicated client services representative who meets with the customer regularly to discuss their needs and ensures the company is helping them meet their objectives.

### ***Engaging with suppliers***

The company's largest suppliers are those of mobile network operators (MNOs) and technology partners. Each MNOs has close relationships with several members of the senior management team, who meet regularly with MNOs to discuss their needs, new commercial opportunities, existing in-life services and regulatory changes. MNOs are also frequently invited to customer events so that both parties can learn about opportunities in the market.

### ***Engaging with regulators***

The management team works closely with regulators and trade associations to ensure the best standards and services are upheld in the industry. To this aim, the Chief Executive Officer acts as Vice Chair and member of the board of the Association for Interactive Media and Micropayments (aimm), a specialist trade association in the UK.

### ***Minimising environmental impact***

The board is committed to reducing the environmental impact of the company's activities and ensuring the business operates in a sustainable way. We recognise that we have an ethical responsibility to go beyond what is legally required of us, so as a business we strive to: reduce our energy consumption; reduce waste and increase recycling; incorporate environmental considerations into our decision making; minimise use of carbon intensive travel options such as air travel; and encourage staff to use alternative modes of travel such as walking, cycling and public transport.

To this aim, the company continues to implement initiatives aimed at reducing electricity consumption. Where energy consumption is necessary, such as in our office and in our data centre storage centres, we strive to use the most environmentally friendly suppliers and those using high proportions of 100% renewable energy.

Fonix's entire senior leadership team undertook Carbon Literacy Training during the year and have committed to make meaningful changes to both their personal and working practices with the aim of reducing their negative impact on the environment.

## Environment, Social and Governance (ESG) Scorecard

The board considers the following key indicators when assessing whether the business continues to meet its objective of being an environmentally and socially responsible organisation with a balanced and effective governance structure:

	2023	2022 Unit
<b>Environmental</b>		
Energy consumption (scope 1 & 2)	0.005	0.097 MWh/£m of revenue
CO2 production (scope 1 & 2)	0.000	0.000 tonnes/£m of revenue
Water consumption	3.389	3.728 m3/£m of revenue
Waste production	0.192	0.078 tonnes/£m of revenue
Google Workspace (part of scope 3) <sup>1</sup>	135.131	kgCO <sub>2</sub> e
Amazon Web Services (part of scope 3) <sup>2</sup>	0.005	0.441 MTCO <sub>2</sub> e
<b>Social</b>		
Employee turnover rate	16.9%	26.3% per annum
Effective corporation tax rate	19.0%	16.7%
<b>Governance</b>		
Board seats held by women	20.0%	20.0%
Board seats held by independent directors	40.0%	40.0%

<sup>1</sup> Google Workspace emissions data is taken from Google's Carbon Footprint for Google Workspace tool. As data has only been made available since May 2023, the emissions for 2023 have been estimated by extrapolating data from May 2023 to July 2023.

<sup>2</sup> Amazon Web Services (AWS) emissions data is taken from Amazon's Carbon Footprint Tool. In several months this year AWS's carbon footprint tool showed zero CO<sub>2</sub>e, which is believed to be due to AWS gradually switching services to 100% renewable sources of energy, although this could not be validated.

### Energy and carbon report

The majority of Fonix's CO<sub>2</sub>e emissions are believed to come from scope 3 sources, including its suppliers Amazon Web Services (AWS), Google Drive and the mobile network operators. AWS and Google Drive emissions are shown in the table above, which are taken from each supplier's online carbon footprint tool. No data is available from the mobile network operators that allows the company to estimate the carbon footprint of their services.

Google has set the specific target of making all of its power sources carbon-free by 2030, and reached its 100% renewable energy target in 2018. Google's "moonshot" goal is to operate on 24/7 carbon-free energy in all their data centres and campuses worldwide by 2030. Amazon has set the goal of powering its company 100% with renewables by 2025 and becoming carbon net-zero by 2040.

As the company has not directly consumed more than 40,000 kWh of energy in this reporting period, it qualifies as a low energy user under these regulations and is not required to report on its emissions, energy consumption or energy efficiency activities.

### **Waste**

As a business, Fonix consumes very little water and produces very little waste. Fonix operates a paperless office and has recycling facilities in place for any waste it or its staff produce. Where possible, Fonix ensures all shareholder, customer or supplier communications are made electronically.

### **Social responsibility**

We prioritise the wellbeing of our employees. We support flexible working practices within the organisation which is incredibly well received by the staff. We carry out anonymous staff satisfaction surveys at least annually, where all staff and contractors are invited to provide honest feedback and recommendations to the board. The results of such surveys continue to be very positive, with changes to business practices considered in areas wherever scores could be improved.

At Fonix, we celebrate diversity and foster an inclusive workplace culture. Our workforce is composed of individuals from diverse backgrounds, with a significant proportion of staff belonging to minority groups.

Health and safety is, of course, fundamental to the business' operations, and whilst Fonix is assessed as a low risk workplace, a significant proportion of our staff are first aid or fire warden trained, with the offer to train every member of staff that wishes to be trained.

Fonix upholds the highest standards of data protection, with all staff enrolled in monthly data security training, and the business' leadership frequently consider new data related risks and mitigation strategies. Whilst Fonix holds very limited amounts of personally identifiable information (PII), there are clear data retention policies in place to ensure this data is not held for longer than necessary.

## Remuneration Committee Report

### Remuneration of executive directors

The company's remuneration policy is formulated to attract and retain high-calibre executives and motivate them to develop and implement the company's business strategy in order to optimise long-term shareholder value. It is the intention that this policy should conform to best practice standards and that it will continue to apply for FY24 and subsequent years, subject to ongoing review as appropriate.

The company's remuneration policy for executive directors seeks to:

- consider each individual's experience and the nature and complexity of their work in order to set a competitive base salary that attracts and retains individuals of the highest quality, whilst avoiding remunerating more than is necessary; and
- link remuneration packages to the company's long-term performance through share plans; and
- provide post-retirement benefits through payment into private pension arrangements and/or salary supplements; and
- design long-term incentives that are prudent and will not expose shareholders to unreasonable financial risk.

Executive directors' remuneration packages are considered annually by the remuneration committee in line with the above policy and comprise a number of elements:

#### Salaries

The base salary is reviewed by the remuneration committee at least annually each November, with any changes in pay implemented from January the following year. In that process, the committee takes account of the profitability and ongoing strategy of the company and the individual's contribution. Consideration is also given to the need to retain and motivate individuals, with reference made to information on salary levels in comparable organisations. To assist in this the remuneration committee looks at external salary surveys and undertakes its own research.

#### Annual bonus

The company introduced an annual bonus scheme for the Chief Financial Officer (CFO) in FY22, with a maximum bonus opportunity of £40,000 per year in FY23.

The Chief Executive Officer has no annual bonus scheme as they are rewarded through annual salary and growth in the value of their existing shareholding.

The total bonus payable to the executive directors in respect of the current financial year was determined as set out below:

Name	Maximum reward	Actual performance	Annual bonus payable
Michael Foulkes	£40,000	100% of bonus	£40,000

### Pensions

The company operates a work-place pension scheme, where directors are paid an employer pension contribution of 5% of salary between the lower and upper level of qualifying earnings, as set by the UK pension regulator.

### Share awards

Executive directors may, at the discretion of the remuneration committee, be granted share option awards.

## Remuneration of non-executive directors

The remuneration of the non-executive directors is determined by the board, based on a review of current practices in comparable companies. The non-executive directors do not receive any pension payments and generally do not participate in any incentive schemes, with the exception of the chair who received some share options as listed in the sections below. In the light of best practice, it is not intended to grant any further share options to the non-executive directors in the future.

## Wider employee considerations

The company encourages share ownership amongst all staff and therefore permanent staff with long lengths of service, are awarded share option grants at set intervals.

## Shareholder engagement

The remuneration committee seeks and takes into consideration the views of shareholders on remuneration on an ongoing basis and they are invited to make contact directly with the chair of the remuneration committee at any time should they wish to do so.

## Remuneration committee advice

In undertaking its responsibilities, the committee seeks independent external advice as necessary.

## Annual remuneration statement

On behalf of the board, I am pleased to present our remuneration report for FY23.

### Salaries

The base salaries for executive directors were increased in the year effective from 1 January 2023. The Chief Financial Officer received a further increase to base pay from 1 July 2023. At 1 July 2023, the base salaries of executive directors were as follows:

Robert Weisz	Chief Executive Officer	£177,388
Michael Foulkes	Chief Finance Officer	£150,000

#### Fees for non-executive directors

Fees for non-executive directors at 01 July 2023 were as below. The fees are inclusive of fees for chairing the remuneration committee and audit committee.

Name	Role	Committee chair	Fee
Edward Spurrier	Chair	Remuneration	£65,000
William Neale	Non-executive director		£40,000
Carmel Warren	Non-executive director	Audit	£35,000

#### Equity plan

No further share options were issued by the company during the year, although it is expected new share options awards will be announced in FY24.

#### Outstanding equity awards

At the 30 June 2023, the following outstanding options were held by the directors of the company:

	FY	Date of grant	Type of award	Number of shares granted	Exercise price £	Vested during the year	Exercised during the year	Lapsed during the year	Total 30 June 2023	Final vesting date
Edward Spurrier	FY21	07/10/2020	Executive scheme	500,000	£0.900	-	-	-	500,000	07/10/2023
				500,000		-	-	-	500,000	
Michael Foulkes	FY21	08/04/2021	General employee scheme	64,426	£1.785	-	-	-	64,426	08/04/2026
	FY22	11/05/2022	General employee scheme	31,469	£1.430	-	-	-	31,469	11/05/2027
				95,895		-	-	-	95,895	

## Summary of directors' total remuneration

The directors received the following remuneration during the year to 30 June 2023:

	Salary and fees	Bonus	2023 Total (excl. pension)	2023 Pension	2023 Total fixed remuneratio n	2023 Total variable remuneratio n	2022 Total (excl. pension)	2022 Pension
Name of Director	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Executive</b>								
Robert Weisz	176	-	176	-	176	-	174	-
Michael Foulkes	125	40	165	2	127	40	137	2
<b>Non-Executive</b>								
William Neale	40	-	40	-	40	-	40	-
Edward Spurrier	65	-	65	-	65	-	65	-
Carmel Warren <sup>1</sup>	35	-	35	-	35	-	11	-
Lucinda Sharman- Munday <sup>2</sup>	-	-	-	-	-	-	25	-
	441	40	481	2	443	40	452	2

<sup>1</sup> Carmel Warren was appointed as a non-executive director on 14 March 2022

<sup>2</sup> Lucinda Sharman-Munday resigned as a non-executive director on 14 March 2022

## Application of remuneration policy for FY24

### Salaries

During the course of the financial year, the remuneration committee met to review the remuneration of the board. Based on external data provided by consultants, it was clear that the remuneration of the board is lower than most comparable listed peers, and mindful of the need to retain quality individuals and reward them at appropriate levels for success, the following changes were recommended and approved:

- The Chief Financial Officer received an increase to base pay from 1 July 2023.

The remaining executive directors base salaries will be reviewed by the remuneration committee during the course of the year with any further increases effective from 1 January 2024.

### Annual bonus

From 01 July 2023, the CFO's bonus opportunity was increased to £75,000 per annum. The bonus is 100% allocated to achievement against the company's EBITDA objective. The remuneration committee retains discretion to adjust the bonus award in exceptional circumstances.

### Company chair and non-executive directors

The fees for the company chair and non-executive directors will be reviewed during the course of the year with any increases effective from 1 January 2024.



**Shares held by directors**

Name of director	Beneficially owned shares		Unvested share options		Vested unexercised share options	
	30 June	30 June	30 June	30 June	30 June	30 June
	2022	2023	2022	2023	2022	2023
<b>Executive</b>						
Robert Weisz	7,325,356	7,325,356	-	-	-	-
Michael Foulkes	-	-	95,895	95,895	-	-
<b>Non-Executive</b>						
William Neale	22,827,288	22,827,288	-	-	-	-
Edward Spurrier	-	-	500,000	500,000	-	-

## Statement of Directors' Responsibilities

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

Company law requires the directors to prepare company financial statements for each financial year. The directors are required by the AIM Rules of the London Stock Exchange to prepare company financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the United Kingdom ('UK').

The company financial statements are required by law and IFRS adopted by the UK to present fairly the financial position and performance of the company; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing each of the company financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently; and
- b. make judgements and accounting estimates that are reasonable and prudent; and
- c. for the company financial statements, state whether they have been prepared in accordance with IFRSs adopted by the UK, subject to any material departures disclosed and explained in the company financial statements; and
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 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.

## Financial Statements

### Independent Auditor's Report

to the board of Fonix Mobile plc

#### Opinion

We have audited the financial statements of Fonix Mobile Plc (the 'company') for the year ended 30 June 2023, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, the Statement of Underlying Free Cash Flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in preparation of the company's financial statements is applicable law and UK adopted International Accounting Standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted International Accounting Standards; and
- 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 company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statement is appropriate.

Our evaluation of the director's assessment of the entity's ability to continue to adopt the going concern basis of accounting included:

Evaluation of management assessment	Key observations
<p>Management has prepared forecasts to 31 December 2024 ("the forecast period").</p> <p>We evaluated the management's going concern assessment and performed the following procedures:</p> <ul style="list-style-type: none"> <li>• Reviewing the forecasts, the methodology behind these and ensuring they are arithmetically correct;</li> <li>• Challenging the assumptions with management;</li> <li>• Obtaining post year end management information and comparing these to budget to ensure budgeting is reasonable and the results are in line with expectations;</li> <li>• Discussing with management plans for the company going forward, ensuring these have been incorporated into the budgeting and would not have a material adverse impact on the going concern status of the company; and</li> <li>• Assessing the transparency, completeness and accuracy of the matters covered in the going concern disclosure by evaluating management's cash flow projections for the forecast period and the underlying assumptions;</li> </ul>	<p>The company generated a profit of £8,797,000 in the year ended 30 June 2023 (2022: £8,026,000). They generated net underlying free cash flows from operating activities of £9,582,000 (2022: £9,006,000) and had underlying free cash of £9,446,000 (2022: £7,786,000) as at 30 June 2023.</p> <p>The forecast to 31 December 2024 shows that the Company continues to be profitable and has at all times available cash and liquidity to meet its liabilities as they fall due.</p>

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

### **Our approach to the audit**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account an understanding of the structure of the Company, their activities, the accounting processes and controls, and the industry in which they operate. Our planned audit testing was directed accordingly and was focused on areas where we assessed there to be the highest risk of material misstatement.

The audit team met and communicated regularly throughout the audit with the CFO in order to ensure we had a good knowledge of the business of the Company. During the audit we reassessed and re-evaluated audit risks and tailored our approach accordingly.

The audit testing included substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls and the management of specific risk.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant findings, including any significant deficiencies in internal control that we identify during the audit.

### **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) we identified, including those which 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. This is not a complete list of all risks identified during our audit. Going concern is a significant key audit matter and is described above. In arriving at our audit opinion above, the other key audit matters were as follows:

Key audit matters	How our audit addressed the key audit matters
<p><b>Revenue recognition in line with IFRS 15</b></p> <p>The company recognises income as one of the three key service lines as detailed in the revenue policy (mobile payments, mobile messaging or managed service). Each is assessed against the 5 step process in line IFRS 15.</p> <p>Revenue is a key driver of the business and is made up of a high number of individual low value transactions therefore in respect of services provided there is a risk that revenue is recorded inappropriately relative to the provision of underlying services.</p> <p>In addition, there is the risk of management override to overstate results due to the company being AIM listed and having performance related bonuses.</p> <p>We therefore identified the risk over the existence and occurrence assertions relating to revenue recognition as a significant risk, which was one of the most significant risks of material misstatement.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>• Documenting our understanding of management's process for evaluating revenue recognition and assessing the design effectiveness of related key controls.</li> <li>• We conducted on a sample basis and encompassed transactions arising across the year under review, to ensure that the amounts attributable to revenue had been correctly calculated in accordance with IFRS 15 and included in the correct accounting period.</li> <li>• We obtained copies of the customer contracts in order to check that relevant revenue and VAT had been posted accurately in the accounts.</li> <li>• Performing transaction testing by tracing transactions recognised in the revenue nominal ledger to the monthly billing spreadsheets and then agreed a sample of sales to the source documents to test the occurrence.</li> <li>• We used data analytics software to review the monetary flows of revenue to ensure every transaction results in a cash in-flow to gain assurance of occurrence.</li> <li>• We performed a trend analysis of revenue and cost of sales to identify any outliers in movements which could indicate misstatement.</li> <li>• Whilst performing our audit testing we assessed whether the treatment of revenue was in accordance with the correct recognition criteria as per the Company's accounting policy.</li> <li>• Assessing whether the Company's accounting policy for revenue recognition are in accordance with the requirements of IFRS 15.</li> </ul>

	<p>The Company's accounting policy on revenue recognition is shown in Principal Accounting Policies for the consolidated financial statements and related disclosures are included in note 2.</p> <p><b>Key observations</b></p> <p>We have not found any issues or errors involving sales and are therefore satisfied we have assurance over sales recognition and treatment.</p>
<p><b>Management override of controls</b></p> <p>As an AIM listed Company there is a risk of pressure on management to deliver strong results for the board, so the risk of bias or manipulation is higher. There is also a risk due to performance related bonuses being paid to senior management.</p> <p>The Company applies the QCA Corporate Code as set out in the Corporate Governance Statement.</p>	<p>We assessed the level of control management has over the financials and what controls are in place to keep to the governance rules.</p> <ul style="list-style-type: none"> <li>• We reviewed estimates included in the financial statements for any evidence of management bias arising in their calculation.</li> <li>• We conducted enquiries of management and other staff to determine if they were aware of any unusual journals or other adjustments.</li> <li>• We tested a sample of journal entries, other adjustments, large or unusual transactions in the year to determine that they are valid business transactions.</li> </ul> <p><b>Key observations</b></p> <p>As a result of our testing, we concluded that the risk of management override of controls is sufficiently mitigated.</p>

### Our application of materiality

The scope and focus of our audit was influenced by our assessment and application of materiality. We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements.

We define financial statement materiality as the magnitude by which misstatements, including omissions, could reasonably be expected to influence the economic decisions taken on the basis of the financial statements by reasonable users.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Overall materiality	We determined materiality for the financial statements as a whole to be £545,000 (2022: £478,000).
How we determine it	Based on a benchmark of 5% of profit before tax for the year.
Rationale for benchmarks applied	We believe profit for the year to be the most appropriate benchmark due to the size, growth stage, increase in profitability and the nature of the Company.
Performance materiality	On the basis of our risk assessment, together with our assessment of the Company's control environment, our judgement is that performance materiality for the financial statements should be 65% of materiality, and was set at £354,200 (2022: £286,800).
Materiality for specific transactions, balances or disclosures	We considered a lower materiality of £2,000 (2022: £2,000) for related party transactions and directors' remuneration. There is no quantitative limit set for these transactions as they are qualitatively material.

#### *Reporting threshold*

We agreed with the Audit Committee that we would report to them all misstatements over £27,250 (2022: £23,900) (5% of materiality) identified during the audit, as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

#### **Other information**

The directors are responsible for the other information contained within the annual report. The other information comprises the information included in the annual report, 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.

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 this gives rise to a material misstatement in the financial statements themselves.



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.

### **Opinions on other matters prescribed by the Companies Act 2006**

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.

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

In the light of the knowledge and understanding of the 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.

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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**

As explained more fully in the directors' responsibilities statement on page X, 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 controls 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 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 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.

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

Based on our understanding of the company and the industry in which it operates, we identified that the principal risks of non-compliance with laws and regulations related to Phone-paid Authority Service Code of Practice (PSA Code), AIM listing rules and Data Security regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and QCA code. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to inflated revenue and profit.

Audit procedures performed included: review of the financial statement disclosures to underlying supporting documentation, review of correspondence with legal advisors, enquiries of management, and testing of journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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



**Martin Jones (Senior Statutory Auditor)**

**For and on behalf of UHY Hacker Young**

Chartered Accountants and Statutory Auditor

UHY Hacker Young  
4 Thomas More Square  
London E1W 1YW

Date 20 September 2023

## Statement of Comprehensive Income

For the year ended 30 June 2023

	Note	2023 £'000	2022 £'000
<b>Continuing operations</b>			
Revenue	4	64,916	53,649
Cost of sales		(49,841)	(40,417)
<b>Gross profit</b>		15,075	13,232
Other income		-	51
Adjusted operating expenses <sup>1</sup>		(3,508)	(3,018)
<b>Profit before interest, tax, depreciation, amortisation, share-based payment charge and exceptional costs</b>		11,567	10,265
Share-based payment charge		(125)	(100)
Depreciation and amortisation		(924)	(592)
<b>Operating profit</b>	5	10,518	9,573
Finance income	7	341	8
Finance expense	7	(5)	(10)
<b>Profit before taxation</b>		10,854	9,571
Taxation	8	(2,057)	(1,545)
<b>Total comprehensive profit for the financial year</b>		8,797	8,026

<sup>1</sup> Adjusted operating expenses excludes share-based payment charge, depreciation and amortisation

<b>Earnings per share</b>	<b>2023</b>	<b>2022</b>
Basic earnings per share	8.8p	8.0p
Diluted earnings per share	8.7p	8.0p
Adjusted basic earnings per share	8.9p	8.1p


## Statement of Financial Position

As at 30 June 2023

	Note	2023 £'000	2022 £'000
<b>Non-current assets</b>			
Intangible asset	10	1,239	995
Right of use asset	11	42	155
Tangible assets	12	28	25
		1,309	1,175
<b>Current assets</b>			
Trade and other receivables	13	36,058	31,975
Cash and cash equivalent		20,648	16,992
		56,706	48,967
<b>Total assets</b>		<b>58,015</b>	<b>50,142</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	18	100	100
Share premium account	18	679	679
Treasury shares	18	(495)	-
Share option reserves		297	172
Retained earnings		8,807	6,870
		9,388	7,821
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities	16	157	160
Lease liabilities	15	-	17
		157	177
<b>Current liabilities</b>			
Trade and other payables	14	48,453	42,028
Lease liabilities	15	17	116
		48,470	42,144
<b>Total liabilities</b>		<b>48,627</b>	<b>42,321</b>
<b>Total equity and liabilities</b>		<b>58,015</b>	<b>50,142</b>

These financial statements were approved by the board on 20 September 2023 and signed on its behalf.

  
**M Foulkes**  
Director

  
**R Weisz**  
Director

## Statement of Changes in Equity

For the year ended 30 June 2023

		Share capital	Share premium	Share option reserve	Treasury shares	Retained earnings	Total
	Note	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1 July 2021</b>		100	679	72	-	4,374	5,225
Profit for the financial year		-	-	-	-	8,026	8,026
		-	-	-	-	8,026	8,026
<b>Transactions with shareholders</b>							
Dividends	19	-	-	-	-	(5,530)	(5,530)
Share-based payment charge		-	-	100	-	-	100
Capital issued		-	-	-	-	-	-
		-	-	100	-	(5,530)	(5,430)
<b>Balance at 30 June 2022</b>		100	679	172	-	6,870	7,821
Profit for the financial year		-	-	-	-	8,797	8,797
		-	-	-	-	8,797	8,797
<b>Transactions with shareholders</b>							
Dividends	19	-	-	-	-	(6,860)	(6,860)
Share-based payment charge		-	-	125	-	-	125
Purchase of own shares		-	-	-	(495)	-	(495)
Capital issued		-	-	-	-	-	-
		-	-	125	(495)	(6,860)	(7,230)
<b>Balance at 30 June 2023</b>		100	679	297	(495)	8,807	9,388

## Statement of Cash Flows

For the year ended 30 June 2023

	2023 £'000	2022 £'000
<b>Cash flows from operating activities</b>		
Profit before taxation	10,854	9,571
Adjustments for		
Depreciation	16	15
Amortisation	908	575
Share-based payment charge	125	100
Finance income	(341)	(8)
Finance expense	5	10
(Increase)/decrease in trade and other receivables	(4,083)	(7,095)
Increase/(decrease) in trade and other payables	6,115	4,121
Income tax paid	(1,750)	(1,365)
<b>Net cash flows from operating activities</b>	<b>11,849</b>	<b>5,924</b>
<b>Cash flows from investing activities</b>		
Interest received	341	8
Payments to acquire tangible assets	(19)	(17)
Payments to acquire intangible assets	(1,040)	(608)
<b>Net cash flows from investing activities</b>	<b>(718)</b>	<b>(617)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(6,860)	(5,530)
Purchase of own shares	(495)	-
Capital payments in respect of leases	(116)	(111)
Interest paid in respect of leases	(4)	(10)
<b>Net cash flows from financing activities</b>	<b>(7,475)</b>	<b>(5,651)</b>
<b>Net (decrease)/increase in cash and cash equivalents for the period</b>	<b>3,656</b>	<b>(344)</b>
Cash and cash equivalents at beginning of period	16,992	17,336
<b>Cash and cash equivalents at end of period</b>	<b>20,648</b>	<b>16,992</b>

Cash and cash equivalents comprise the balances held at the bank

## Statement of Underlying Free Cash Flows

For the year ended 30 June 2023

The company's mobile payments segment involves collecting cash on behalf of clients which is then paid to clients net of the company's share of revenues or fees associated with collecting the cash. The company's cash balance therefore fluctuates depending on the timing of "pass through" cash received and paid.

The analysis below shows the movements in the company's free underlying cash flow excluding the monies held on behalf of customers. The underlying cash is derived from actual cash by adjusting for customer related trade and other receivables less customer related trade and other payables and customer related VAT liabilities.

	2023 £'000	2022 £'000
<b>Underlying free cash flows from operating activities</b>		
Profit before taxation	10,854	9,571
Adjustments for		
Depreciation	16	15
Amortisation	908	575
Share-based payment charge	125	100
Finance income	(341)	(8)
Finance expense	5	10
(Increase)/decrease in trade and other receivables	11	(31)
Increase/(decrease) in trade and other payables	24	139
Income tax paid	(1,750)	(1,365)
<b>Net underlying free cash flows from operating activities</b>	<b>9,852</b>	<b>9,006</b>
<b>Underlying free cash flows from investing activities</b>		
Interest received	341	8
Payments to acquire tangible assets	(19)	(17)
Payments to acquire intangible assets	(1,039)	(608)
<b>Net underlying free cash flows from investing activities</b>	<b>(717)</b>	<b>(617)</b>
<b>Underlying free cash flows from financing activities</b>		
Dividends paid	(6,860)	(5,530)
Purchase of own shares	(495)	-
Capital payments in respect of leases	(116)	(111)
Interest paid in respect of leases	(4)	(10)
<b>Net underlying free cash flows from financing activities</b>	<b>(7,475)</b>	<b>(5,651)</b>
<b>Net (decrease)/increase in underlying free cash for the period</b>	<b>1,660</b>	<b>2,738</b>
Underlying free cash at beginning of period	7,786	5,048
<b>Underlying free cash equivalents at end of period</b>	<b>9,446</b>	<b>7,786</b>

## Notes to Financial Statements

### 1 Accounting Policies

#### Basis of preparation

These financial statements have been prepared on a going concern basis under the historical cost convention, and in accordance with UK adopted International Accounting Standards (IFRS) and the International Financial Reporting Interpretations Committee (IFRIC) interpretations issued by the International Accounting Standards Board (IASB) that are effective or issued and early adopted as at the date of these financial statements and in accordance with the provisions of the Companies Act 2006

The Profit before interest, tax, depreciation, amortisation, share-based payment charge and exceptional costs (adjusted EBITDA) is presented in the income statement as the directors consider this performance measure provides a more accurate indication of the underlying performance of the company and is commonly used by City analysts and investors.

The preparation of financial statements requires management to exercise its judgement in the process of applying accounting policies. The areas involving a higher degree of judgement, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in note 2.

The presentational and functional currency of the company is sterling. Results in these financial statements have been prepared to the nearest £1,000

#### Changes in accounting policy and disclosures

##### New and amended Standards and Interpretations applied

The following new and amended Standards and Interpretations have been issued and are effective for the current financial period of the company:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018–2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41);
- References to Conceptual Framework (Amendments to IFRS 3).

The new and revised standards and interpretations have had no material impact on the financial statements.

##### New and revised Standards and Interpretations in issue but not yet effective

At the date of authorisation of these financial statements, the company has not early adopted the following amendments to Standards and Interpretations that have been issued but are not yet effective:



Standard or Interpretation	Effective for annual periods commencing on or after
Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8: Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12: Deferred Tax Related to Assets and Liabilities arising from a Single Transaction.	1 January 2023
Amendments to IAS 1: Classification of Liabilities as Current or Non-Current	1 January 2024
Amendments to IFRS 16 Leases: Liability in a Sale and Leaseback	1 January 2024

The directors do not expect any material impact as a result of adopting the standards and amendments listed above in the financial year they become effective.

### Going concern

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company is not externally funded and accordingly is not affected by borrowing covenants. In addition, the cost of capital represents the dividend distributions or purchase of own shares – which are discretionary.

At 30 June 2023 the company had Cash and Cash Equivalents of £20.6 million (2022: £17.0 million) and Net Current Assets of £8.2 million (2022: £6.8 million). The business model of the company is cash generative – with increased sales impacting positively on the working capital cycle and profits from trading activities being rapidly reflected in cash at bank.

The directors maintain sufficient net assets in the company by moderating or increasing dividend distributions as necessary.

The directors have prepared detailed cash flow forecasts for the next 18 months that indicate the existing activities of the company do not require additional funding during that period. The forecasts are challenged by various downside scenarios to stress test the estimated future cash and net current asset position. The directors are pleased to note that the stress tests did not have a significant impact on the funding requirement. In addition, current trading is in line with the forecast.

Accordingly, the directors continue to adopt the going concern basis of accounting in preparing these financial statements.

## Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers as set out in note 3 below. The chief operating decision-makers (who are responsible for allocating resources and assessing performance of the operating segments) have been identified as the executive directors that make strategic decisions.

## Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and that the revenue can be reliably measured – which is at the time of each transaction. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes.

Services	Nature and timing of satisfaction of performance obligations and significant payment terms
<b>Mobile payments</b>	<p data-bbox="459 875 1439 1021">The company's technology for mobile payments facilitates a low friction way for mobile phone users to purchase services and charge them to their mobile phone bill or pre-paid balance. This revenue stream primarily consists of direct billing and premium SMS billing.</p> <p data-bbox="459 1072 1439 1256">Under IFRS 15 the company considers its involvement in all mobile payments transactions to be acting as an agent between customers and end-consumers. Management has determined that it is acting as an agent under IFRS 15 because it does not have the primary responsibility for providing the services to the end consumer.</p> <p data-bbox="459 1308 1439 1453">Revenue is recognised at a point in time, as mobile payments are processed through the company platform. Revenues recognised relate to the total commission charged to customers, with the mobile network operator commission recognised within cost of sales.</p>
<b>Mobile messaging</b>	<p data-bbox="459 1482 1439 1585">Mobile messaging represents the delivery of SMSs from the company's customers to the mobile network operators (MNOs), for purposes such as marketing, notifications and two factor authentication. Consumers are not charged for these SMSs.</p> <p data-bbox="459 1637 1439 1704">Under IFRS 15 the company considers its involvement in all mobile messaging transactions, to be acting as a principal.</p> <p data-bbox="459 1756 1439 1870">Revenue is recognised as messages are processed through the company platform. Revenues recognised relates to the amount charged to customers, with the MNO costs recognised within cost of sales.</p>

**Managed services** Managed services represent the delivery of services including event services, campaign management and technology services.

Under IFRS 15 the company considers its involvement in all managed services transactions to be acting as a principal. With revenue recognised over the period of providing the service to a customer.

Revenues recognised relates to the amount charged to customers, with any third party costs incurred by the company recognised within cost of sales.

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### **Contracts and obligations**

To determine whether to recognise revenue, the company follows the 5-step process as set out within IFRS 15 for all revenue streams:

1. Contract identification is performed, with each customer and mobile network operator having a separate signed contract with the company. Thereafter any subsequent changes are affected by separate addendums to the relevant contract. Although every contract is unique, each has a significant level of replicated clauses that give similar trading arrangements within each income stream.
2. The performance obligation for each revenue stream is set out above.
3. The transaction price is determined as the fair value of the consideration the company expects to receive for the provision of the service. Accordingly, the transaction price is calculated on a per unit basis in all significant income streams.
4. The transaction price is allocated to the performance obligations as each individual message is delivered or received by the company.
5. Revenue is either recognised at a point in time, or over time, as set out in the respective policy for each revenue stream set out above, as each performance obligation is fulfilled. Delays in invoicing means that each month's revenue transactions are accrued at the month end (reflected in accrued income) and transferred to trade receivables when invoiced.

### **Settlement terms**

Customers are expected to settle trade receivables within 30 days of the month end.

### **Interest income**

Interest income from cash deposits recognised in the Statement of Comprehensive Income using the effective interest method.

## Property, plant and equipment

Property, plant & equipment under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Historical cost includes expenditure that is directly attributable to the location and condition necessary for an asset to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets (less any residual value) over their estimated useful lives – using the straight-line method. The estimated useful lives range is as follows:

Fixtures and fittings	3 years
Computer equipment	3 years
Office equipment	3 years

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset. The resulting gain or loss is credited or charged to profit or loss.

The assets' residual values, useful lives and depreciation methods are reviewed (and adjusted if appropriate) at each year end or if there is an indication of any significant change since the last reporting date.

## Intangible assets

Intangible assets are initially recognised at cost. After recognition intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made – then the useful life shall not exceed ten years. Intangible assets at the year end relate to customer contracts acquired and platform software that has been developed by the company.

The estimated useful life of customer contracts acquired is determined by the minimum revenue commitment period in each customer contract and amortisation is applied on a straight line basis. The amortisation charge is recognised within administrative expenses.

The estimated useful life of this platform software is 3 years and amortisation is applied on a straight line basis. The amortisation charge is recognised within administrative expenses.

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits. Accordingly, all expenditure on research is recognised as an expense when it is incurred.

Expenditure on internally developed products is capitalised as an Intangible asset from the development phase of a project if (and only if) certain specific criteria are met as follows:

- The expenditure attributable to the intangible asset under development can be measured reliably; and
- The process being developed is technically and commercially feasible; and
- The future economic benefits arising are probable; and
- The company can use (and intends to use) the developed asset; and
- The company has adequate technical plus financial and other resources available to complete the asset.

The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives.

If it is not possible to distinguish between the research phase and the development phase of an internal project – the expenditure is treated as if it were all incurred in the research phase only.

### **Impairment of intangibles plus property, plant and equipment**

At each reporting period end date, the company reviews the carrying amounts of its property, plant & equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication of impairment exists – the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset – the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount of an asset is the higher of its fair value less costs to sell and the value in use of that asset.

There have been no impairment losses in the year to 30 June 2023.

### **Cash & cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

### **Financial instruments**

The company classifies financial instruments (or their component parts) on initial recognition as a financial asset or a financial liability or as an equity instrument in accordance with the substance of the underlying contractual arrangement.

Financial instruments are recognised on the date when the company becomes a party to the contractual provisions of the instrument. Financial instruments are initially recognised at fair value. Financial instruments cease to be recognised at the date when the company ceases to be party to the contractual provisions of the instrument.

Financial assets are included on the balance sheet as trade and other receivables or cash and cash equivalents. An analysis of the financial assets at each year end is set out in note 17 below.

Financial liabilities are included on the balance sheet as trade and other payables. An analysis of the financial liabilities at each year end is set out in note 17 below.

## **Financial assets**

### **(a) Trade receivables**

Trade receivables are amounts due from customers for services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current assets.

Trade receivables are recognised initially at the transaction price. The company holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

The company applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing.

The expected loss rates are based on the company's historical credit losses experienced over the three year period prior to 30 June 2023. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the company's customers. The company has identified the UK gross domestic product (GDP), unemployment rate and inflation rate as the key macroeconomic factors.

## **Financial liabilities**

### **(b) Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities because the company does not have an unconditional right (at the end of the reporting period) to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date – they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and all are repayable within one year. Accordingly these are included at the undiscounted amount of the cash expected to be paid.

## Leases

Short term leases or leases of low value are recognised as an expense on a straight-line basis over the term of the lease.

The company recognises the right of use assets under lease agreements in which it is the lessee. The underlying asset recognised by the company in the financial statements comprises property that is used by the company in the normal course of business.

The right of use assets comprise the initial measurement of the corresponding lease liability payable plus payments made at (or before) the commencement day.

The right of use asset is recognised in the statement of financial position as a non-current asset. The corresponding lease liability is included in the statement of financial position as a current or non-current liability dependent upon the repayments due within twelve months of the balance sheet date.

The right of use asset is depreciated over the lease term and (if necessary) it is impaired in accordance with the policy set out above.

The lease liability is initially measured in the balance sheet at the present value of the lease payments that are not paid at that date – discounted using the interest rate implicit in the lease. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (calculated from the interest rate implicit in the lease) and by reducing the carrying amount to reflect the lease payments made.

Any modifications made to the terms of a lease are reflected in the month that these are agreed with the lessor. The adjustments are reflected in the balance sheet value of both the lease liability and corresponding right of use asset.

## Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense – unless those costs are required to be recognised as part of the cost of fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are rendered.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

### **Retirement benefits**

The company operates a defined contribution plan for its employees. This is a pension plan under which the company pays fixed rate contributions based on salary into a separate entity. Once the contributions have been paid the company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position.

The assets of the pension plan are held separately from the company in independently administered funds.

### **Share capital and dividends**

Share capital issued by the company is recorded at the proceeds received (or receivable) net of transaction costs.

Interim dividends are recognised on payment.

Final dividends payable are recognised as liabilities once they are no longer at the discretion of the company. As final dividends are not proposed to shareholders or approved by shareholders until the annual general meeting (AGM) of shareholders held after the year end, they are not recognised as liabilities at the year end.

### **Share options**

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the Statement of Comprehensive Income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each Statement of Financial Position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties.

Where the terms and conditions of the options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the Statement of Comprehensive Income over the remaining vesting period.

### **Share buy-back**

On 18 May 2023 the company announced a share buyback programme to repurchase ordinary shares in the company (Fonix Mobile Plc) up to a maximum aggregate consideration of 250,000 ordinary shares. The share buyback programme completed on 19 May 2023.



The purpose of the buyback programme is to hold the shares in treasury for the purpose of satisfying future employee share option obligations.

The cost of treasury shares held is presented as a separate reserve (the "treasury shares") and recorded in equity.

## **Taxation**

The tax expense for the year to 30 June 2023 comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income – except where a charge is attributable to an item recognised as other comprehensive income or recognised directly in equity. In these latter circumstances the corresponding tax charge (or credit) is also recognised in other comprehensive income or directly in equity respectively.

### **Current tax**

The current income tax charge is calculated on the basis of UK tax rates and laws that have been enacted or substantively enacted at each balance sheet date.

### **Deferred tax**

Deferred tax balances are recognised in respect of all timing differences that have originated but not yet reversed at each balance sheet date.

Deferred tax balances are not recognised in respect of permanent differences that do not reverse.

Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by each balance sheet date.

Any Deferred tax assets that arise (such as on short term timing differences) are offset against Deferred tax liabilities.

## **2 Critical accounting estimates and judgements**

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. These judgements, estimates and associated assumptions are based on historical experience plus other factors that are considered to be relevant. The actual subsequent results and outcomes of the assets and liabilities may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis by the directors. Any revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period. Where the revision affects both current and future periods – the revision is recognised in both the period of the revision and also those future periods.

### **Key sources of estimation uncertainty**

The key estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows:

#### **Useful Economic Lives of Intangible Fixed Assets** (see note 10)

The directors make estimates regarding the useful economic lives of intangible fixed assets. Intangible fixed assets consist of platform software – which is considered to have a 3-year life. Details of the judgements made are included in note 10.

#### **Share-based payment charge**

The company issues share options to certain employees. The Black-Scholes model is used to calculate the appropriate charge for these options. The choice and use of this model to calculate a charge involves using a number of estimates and judgements to establish the appropriate inputs to be entered into the model, covering areas such as the use of an appropriate risk-free interest rate and dividend rate, exercise restrictions and behavioural considerations. A significant element of judgement is therefore involved in the calculation of the charge. In addition, the directors estimate the percentage of options that are expected to vest considering the likelihood of achieving performance targets and employee churn rates. Should more options vest than estimated the charge would increase.

The total charge recognised in the year to 30 June 2023 is £124,786 (2022: £100,106). Further information on share options can be found in note 20.

### **Key sources of judgement**

#### **Capitalisation of intangible fixed assets** (see note 10)

The directors make judgements regarding the appropriateness of the time costs to capitalise on development projects. All expenditures on potential intangible fixed assets are treated as an expense unless the item being worked on meets the definition of an intangible asset as set out in note 1.

Each month development staff report the amount of actual time spent on development activities. The resulting direct labour cost arising (including an appropriate level of overheads) that meet the above criteria is transferred from operating expenses to Intangible fixed assets.

#### **Principal v agent considerations** (see note 4)

The directors make judgements regarding the appropriateness of treating revenue transactions as being undertaken as a principal or agent. In addition, the directors also make judgements regarding how the contracts with customers are recognised. The directors' judgements on the income streams for the year to 30 June 2023 are set out in note 1.

#### **Lease term modifications**

The directors make judgements regarding how to reflect the modifications arising from changes to the terms of a lease as set out in note 1 above.

### 3 Segmental reporting

Management currently identifies one operating segment in the company under IFRS 8 – being the facilitating of mobile payments and messaging. However, the directors monitor results and performance based upon the gross profit generated from the service lines as follows:

	<b>2023</b>	<b>2022</b>
<b>Gross profit</b>	<b>£'000</b>	<b>£'000</b>
Mobile payments	12,689	10,951
Mobile messaging	1,626	1,355
Managed services	760	926
	<b>15,075</b>	<b>13,232</b>

Differences between the way in which the single operating segment is reported in the financial statements and the internal reporting to the board for monitoring and strategic decisions, relates to the recording of revenue in line with IFRS 15. The IFRS adjustments do not impact on the calculation or reporting of gross profit.

Gross profits can be attributed to the following geographical locations, based on the end user and the associated mobile network operators' location:

	<b>2023</b>	<b>2022</b>
<b>Gross profit by geography</b>	<b>£'000</b>	<b>£'000</b>
United Kingdom	13,534	13,212
Rest of Europe	1,541	20
	<b>15,075</b>	<b>13,232</b>

## 4 Revenue

The company disaggregates revenue between the different streams outlined in note 1 above as this is intended to show its nature and amount.

The total revenue of the company has been derived from its principal activity undertaken wholly in the United Kingdom and EU.

Revenue is recognised at the point in time of each transaction when the economic benefit is received. The total revenue of the company by service line (as set out in note 1 above) is as follows:

	2023	2022
Revenue by service line	£'000	£'000
Mobile payments	47,607	40,129
Mobile messaging	15,513	11,673
Managed services	1,796	1,847
	64,916	53,649

Revenues can be attributed to the following geographical locations, based on the end user and the associated mobile network operators' location:

	2023	2022
Revenue by geography	£'000	£'000
United Kingdom	55,352	53,442
Rest of Europe	9,564	207
	64,916	53,649

## 5 Operating profit

Operating profit each year is stated in the statement of comprehensive income after charging or (crediting) the following:

	2023	2022
	£'000	£'000
Exchange differences	12	(0)
Audit of the company's financial statements	33	32
Depreciation of owned tangible fixed assets	16	15
Amortisation of intangible assets	796	462
Amortisation of right of use asset	113	113
R&D expenditure	208	258

## 6 Staff costs

The aggregate employee benefit expenses during each year were as follows:

	2023	2022
Employment costs	£'000	£'000
Wages and salaries	2,751	2,500
Share-based payment charge	125	100
Social security cost	316	295
Pension costs	59	42
	3,251	2,937
Less: amounts capitalised as intangible assets	(804)	(608)
	2,447	2,329

The average monthly number of employees during each year was as follows:

	2023	2022
Average number of employees	Number	Number
Sales & marketing	10	8
Administration	15	16
Development	18	14
	43	38

### Key management remuneration

Remuneration of the key management team, including directors, during the year was as follows:

	2023	2022
Key management compensation	£'000	£'000
Salaries	1,067	907
Share-based payment charge	80	71
Social security cost	126	105
Pension costs	11	9
	1,284	1,092

## Directors' remuneration

Remuneration of directors during the year was as follows:

	2023	2022
Directors' remuneration	£'000	£'000
Salaries	481	452
Pension costs	2	2
	483	454

The remuneration of the highest paid director during the year was:

	2023	2022
Highest paid director	£'000	£'000
Total remuneration paid	176	174

## 7 Finance income and expenses

	2023	2022
Interest income	£'000	£'000
Interest receivable on bank deposits	341	8

	2023	2022
Interest expense	£'000	£'000
Interest on lease liability	5	10

## 8 Taxation

	2023 £'000	2022 £'000
<b>Current tax</b>		
UK corporation tax on profits for the current period	2,060	1,599
Adjustments in respect of prior years	-	(67)
	2,060	1,532
<b>Deferred tax</b>		
Current deferred tax expense/(credit)	(3)	13
Adjustments in respect of prior years	-	-
	(3)	13
<b>Total tax charge</b>	2,057	1,544

The actual charge for each year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

	2023 £'000	2022 £'000
<b>Tax reconciliation</b>		
Profit before taxation	10,854	9,571
Tax using UK corporation tax rate of 20.50% (2022: 19.00%)	2,225	1,818
Non-deductible expenses	10	7
Share-based payments	26	19
Research and development tax credit claim	(244)	(214)
Other permanent differences	-	-
Deferred tax rate adjustment	40	(19)
Adjustments in respect of prior years	-	(67)
<b>Total tax charge</b>	2,057	1,544

## 9 Earnings per share

The calculations of earnings per share are based on the following profits and number of shares:

	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Retained profit for the financial year	8,797	8,026

	<b>2023</b>	<b>2022</b>
<b>Number of shares</b>	<b>Number</b>	<b>Number</b>
Weighted average number of shares outstanding	99,970,504	100,000,000
Share options	760,799	510,056
	100,731,303	100,510,056

<b>Earnings per ordinary share</b>		
Basic	8.8p	8.0p
Diluted	8.7p	8.0p

The calculations of adjusted earnings per share are based on the following adjusted profits and number of shares listed above:

	<b>2023</b>	<b>2022</b>
<b>Adjusted earnings per share</b>	<b>£'000</b>	<b>£'000</b>
Retained profit for the financial year	8,797	8,026
<b>Adjustments</b>		
Share-based payment charge	125	100
Net adjustments	125	100
Adjusted earnings	8,922	8,126
Adjusted basic earnings per ordinary share	8.9p	8.1p



## 10 Intangible assets

The Intangible asset represents the internally developed platform software and acquired customer relationships, and the movements each year are as follows:

	<b>Customer relationships £'000</b>	<b>Platform software £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
At 1 July 2021	-	1,914	1,914
Additions	-	608	608
Written-off	-	(304)	(304)
<b>At 30 June 2022</b>	-	2,218	2,218
Additions	236	804	1,040
Written-off	-	(295)	(295)
<b>At 30 June 2023</b>	236	2,727	2,963
<b>Amortisation</b>			
At 1 July 2021	-	1,065	1,065
Charge for the year	-	462	462
Written-off	-	(304)	(304)
<b>At 30 June 2022</b>	-	1,223	1,223
Charge for the year	236	560	796
Written-off	-	(295)	(295)
<b>At 30 June 2023</b>	236	1,488	1,724
<b>Net book value</b>			
<b>At 30 June 2023</b>	-	1,239	1,239
At 30 June 2022	-	995	995
At 30 June 2021	-	849	849

When amortising intangible assets management make judgements over the use-ful economic life of assets and the likelihood that future economic benefits will flow from the assets held.

Customer relationships are amortised over the period that the associated customers are contractually committed to provide income to the business. The cost of a customer relationship acquired is fully amortised in the year of acquisition where there is no income commitment in the associated customers' contract.

Internally generated platform software costs are amortised over 3-years as this is management's prudent assessment of on average how long computer code is retained before being replaced, upgraded or refactored with new code.

## 11 Right of use asset

	<b>Right to use land &amp; buildings £'000</b>
<b>Carrying value</b>	
At 1 July 2021	268
Amortisation for year	(113)
<b>At 30 June 2022</b>	<b>155</b>
Amortisation for year	(113)
<b>At 30 June 2023</b>	<b>42</b>

The right of use asset represents a property lease on the offices used by the company.

## 12 Tangible assets

	Fixtures & fittings £'000	Computer equipment £'000	Office equipment £'000	Total £'000
<b>Cost</b>				
At 1 July 2021	24	8	49	81
Additions	8	-	9	17
Disposals	-	-	(2)	(2)
<b>At 30 June 2022</b>	<b>32</b>	<b>8</b>	<b>56</b>	<b>96</b>
Additions	-	-	19	19
Disposals	-	(8)	(11)	(19)
<b>At 30 June 2023</b>	<b>32</b>	<b>-</b>	<b>64</b>	<b>96</b>
<b>Depreciation</b>				
At 1 July 2021	21	8	29	58
Charge for the year	3	-	12	15
Disposals	-	-	(2)	(2)
<b>At 30 June 2022</b>	<b>24</b>	<b>8</b>	<b>39</b>	<b>71</b>
Charge for the year	4	-	12	16
Disposals	-	(8)	(11)	(19)
<b>At 30 June 2023</b>	<b>28</b>	<b>-</b>	<b>40</b>	<b>68</b>
<b>Net book value</b>				
<b>At 30 June 2023</b>	<b>4</b>	<b>-</b>	<b>24</b>	<b>28</b>
At 30 June 2022	8	-	17	25
At 30 June 2021	3	-	20	23

## 13 Trade and other receivables

	2023 £'000	2022 £'000
Trade receivables	22,658	21,540
Other debtors	22	22
Prepayments	204	214
Accrued income	13,174	10,199
	<b>36,058</b>	<b>31,975</b>

The company takes advantage of the practical expedient available under IFRS 15 so that no adjustments are made to Trade receivables – as the settlement terms are less than one year.

Trade receivables include gross mobile payments amounts due from mobile network operators that are payable to customers. These amounts are not recognised as revenue as detailed in note 1 above.

The movement on accrued income comprises the following:

	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Opening balance	10,199	9,807
Transfer to Trade Receivables	(10,199)	(9,807)
Revenue recognised in advance of invoicing	13,174	10,199
<b>Closing balance</b>	<b>13,174</b>	<b>10,199</b>

The carrying amounts of the company's trade and other receivables are denominated in the following currencies:

	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Sterling	32,918	31,647
Euros	3,140	328
US Dollars	-	-
	<b>36,058</b>	<b>31,975</b>

## 14 Trade and other payables

	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Trade payables	41,135	36,506
Corporation tax	857	547
Other taxation and social security	1,229	1,521
Other creditors	1,280	492
Deferred income	-	22
Accruals	3,952	2,940
	<b>48,453</b>	<b>42,028</b>

Trade payables include gross mobile payments amounts due to customers where the company has received funds (or the funds are receivable) on their behalf. These funds are not recognised within revenue or expenditure in the company's income statement.

The carrying amounts of the company's trade and other payables are denominated in the following currencies:

	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Sterling	45,499	41,715
Euros	2,954	313
US Dollars	0	-
	<b>48,453</b>	<b>42,028</b>

## 15 Leases

The corresponding liability of the Right of Use asset set out in note 11 above represents the following:

	<b>Property lease liability</b>
	<b>£'000</b>
<b>Carrying value</b>	
At 1 July 2021	244
Interest charge	10
Repayments	(121)
Modification to lease	-
<b>At 30 June 2022</b>	<b>133</b>
Interest charge	4
Repayments	(120)
Modification to lease	-
<b>At 30 June 2023</b>	<b>17</b>

A new lease agreement is expected to be signed in the next financial year.

The lease liability is reflected in the balance sheet at each year end as follows:

	<b>Current liability</b>	<b>Non current liability</b>	<b>Total liability</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>At 30 June 2023</b>	17	-	17
At 30 June 2022	116	17	133

## 16 Deferred tax

The elements of deferred taxation are as follows:

	2023	2022
	£'000	£'000
<b>Closing liability</b>		
Accelerated capital allowances	317	194
General provisions	(85)	(1)
Share-based payments	(74)	(33)
	157	160
	2023	2022
	£'000	£'000
<b>Movements in the year</b>		
Liability at 1 July	160	147
Charge/(credit) to statement for comprehensive income	(3)	13
<b>Liability at 30 June</b>	157	160

## 17 Financial instruments

The principal financial instruments used by the company from which financial instrument risk arises are as follows:

	2023	2022
	£'000	£'000
<b>Financial assets</b>		
Trade receivables	22,658	21,540
Accrued income	13,174	10,199
Cash & cash equivalents	20,648	16,992
	56,480	48,731
<b>Financial liabilities</b>		
Trade payables	41,135	36,506
Other creditors	1,280	492
Accruals	3,952	2,940
Leases	17	133
	46,384	40,071

### Financial risk management

The company uses various financial instruments in its operations. These primarily include cash and various items, such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to finance the working capital requirements of the company.

The existence of these financial instruments exposes the company to a number of financial risks, which are described in more detail below.

The directors review and agree policies for managing each of these risks and they are summarised below:

#### Liquidity risk

The company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and closely managing its cash balance.

The company's policy throughout the period has been to ensure continuity of funding. Short-term flexibility is achieved by paying trade payables relating to mobile payment transactions generally only after the corresponding sums from trade receivables have been received.

#### Foreign exchange risk

The majority of the company's revenues and costs are in Sterling (the company's functional currency) and involve no currency risk. Activities in currencies other than Sterling are funded as much as possible through operating cash flows, mitigating foreign exchange risk. Funds held in foreign currencies and not required for operating expenses in the local currency are converted to Sterling on a prompt basis taking into consideration prevailing foreign exchange rates at the time of receipt.

The company has the following cash and cash equivalent deposits:

	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Sterling	19,501	16,979
Euros	1,139	11
US Dollars	8	2
	<b>20,648</b>	<b>16,992</b>

#### Credit risk

The company's principal financial assets that may be impacted by credit risk are cash at bank plus trade receivables and accrued income.

The credit risk associated with cash at bank is limited, as the counterparties have high credit ratings assigned by international credit-rating agencies. Credit losses historically incurred by the company on these financial assets have been nil.

The company has trade receivables of £22,658,369 at 30 June 2023 (2022: £21,539,760) arising from past contractual payment terms that are not deemed impaired. The directors monitor any customers not settling to terms at each month end – and take appropriate remedial action. Credit losses historically incurred by the company on trade receivables have been negligible and this is not anticipated to change over the next twelve months.

The trade receivables of the company is dominated by mobile network operators – which are considered to be large credit worthy entities. There have been no failures in settlements during the seven years ended 30 June 2023 and this position is expected to continue in the foreseeable future. Accordingly, an expected loss rate of 0 per cent. has been applied to each element of the trade receivable profile.

Accrued income at each year end is invoiced in the following July and collected as part of the usual trade receivable routines. There have been no historic issues with collecting the accrued income and the directors consider this will continue in the future.

### Capital risk

The company considers its capital comprises share capital plus share premium and retained profits.

The company maintains adequate capital to safeguard its ability to continue as a going concern and also to provide an adequate return to shareholders – commensurate with their risk. Accordingly the capital risk is managed by paying an appropriate level of dividends each year.

### Maturity of financial assets and liabilities

All of the company's financial assets and financial liabilities at each reporting date are either receivable or payable within one year, other than in respect of the company's leases (see note 15).

## 18 Share capital and reserves

The share capital in issue at each year end is as follows:

	2023	2022
Number of shares	Number	Number
Ordinary shares at 0.1p each	100,000,000	100,000,000
	100,000,000	100,000,000
	2023	2022
Allotted, called up and fully paid	£'000	£'000
Ordinary shares at 0.1p each	100	100
	100	100



### **Share premium**

The share premium disclosed in the statement of financial position represents the difference between the issue price and nominal value of the shares issued by the company.

### **Treasury shares**

On 18 May 2023 the company announced a share buyback programme to repurchase ordinary shares in the company (Fonix Mobile Plc) up to a maximum aggregate consideration of 250,000 ordinary shares. The share buyback programme completed on 19 May 2023.

The purpose of the buyback programme is to hold the shares in treasury for the purpose of satisfying future employee share option obligations.

The cost of treasury shares held is presented as a separate reserve (the "treasury shares") and recorded in equity.

### **Retained earnings**

Retained losses are the cumulative net profits / (losses) in the state of comprehensive income

Movements on these reserves are set out in the statement of changes in equity

## 18 Dividends

Amounts recognised as distributions to equity holders in the year:

	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Final dividend for year ended 30 June 2022 of 4.50p (2021: 3.53p) per share	4,500	3,530
Interim dividend for year ended 30 June 2023 of 2.36p (2022: 2.00p) per share	2,360	2,000
	<b>6,860</b>	<b>5,530</b>
Proposed final dividend for year ended 30 June 2023 of 4.89p (2022: 4.50p) per share	4,878	4,500

## 20 Share-based payments

The company has a share option scheme for certain employees and directors of the company. Options are generally exercisable at a price equal to the market price of the company's shares on the day immediately prior to the date of grant. Options are forfeited if the employee or director leaves the company before the options vest. The service and performance criteria relating to the options are the continuing employment of the holder.

During the year ended 30 June 2023 the company had share-based payment arrangements under two schemes. The fair value of the employees' services received in exchange for the grant of share options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted. Fair value is determined by reference to the Black-Scholes option pricing model. No share options were issued during the current financial year.

A reconciliation of option movements over the year to 30 June 2023 is shown below:

	2023		2022	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
At 1 July	1,559,674	1.04	1,354,426	0.94
Granted during the year	-	-	305,248	1.43
Exercised during the year	-	-	-	-
Lapsed in the year	(62,797)	1.13	(100,000)	0.90
Outstanding at the end of the year	1,496,877	1.04	1,559,674	1.04
Exercisable at the end of the year	-	-	-	-

Options outstanding under the company's share option schemes were as follows:

Name of Scheme	2023 No. of options	2022 No. of options	Calendar year of grant	Exercise period	Exercise price per share
Executive Scheme	500,000	500,000	2020	2023	90.0p
General Employee Scheme	655,000	690,000	2020	2023-2025	90.0p
General Employee Scheme	64,426	64,426	2021	2024-2026	178.5p
General Employee Scheme	277,451	305,248	2022	2025-2027	143.0p
	1,496,877	1,559,674			

The company recognised a charge of £124,786 (2022: £100,106) related to equity-settled share-based payment transactions in the year.

## 21 Related party transactions

### Wizzard Limited

Wizzard Limited is a company in which the directors W Neale and R Weisz held a significant influence during the prior financial year, due to their indirect and direct shareholdings in Wizzard Limited until March 2022.

The company invoiced Wizzard Limited £27 during the year to 30 June 2023 (2022: £23) for messaging services. Wizzard Limited invoiced the company £24,083 during the year to 30 June 2023 (2022: £28,483) for design consultancy services, including design of the annual report, provided to the company.

At the year ended 30 June 2023 an amount of £11 was due from (2022: £4) the related party.

### Ganton Limited

Ganton Limited is a company in which the director and majority shareholder W Neale, has a significant influence – due to his shareholding in Ganton Limited.

The company paid dividends to Ganton Limited during the year ended 30 June 2023 of £1,566,138 (2022: £1,461,579).

At the year ended 30 June 2023 an amount of £nil (2022: £nil) was due to or from the related party.

## 22 Ultimate controlling party

There is no ultimate controlling party of the company.