Strong earnings growth and momentum

Fonix Mobile plc

Annual Report
& Accounts 2021

“Strong earnings growth and momentum

Edward Spurrier
Non-executive Chairman

Contents

Highlights

How we did financially

TPV

£233.4m

+ 10% YOY

ACTIVE CUSTOMERS

111

+ 13% YOY

GROSS PROFIT

£11.3m

+ 14% YOY

ADJUSTED EBITDA

£8.8m

+ 15% YOY

ADJUSTED PBT

£8.3m

+ 15% YOY

Financial Highlights	2021 £'000	2020 £'000	Change
TPV	£233.4m	£211.7m	+10.3%
Revenue	£47.7m	£40.1m	+19.0%
Gross profit	£11.3m	£10.0m	+13.6%
Adjusted EBITDA[1]	£8.8m	£7.7m	+15.1%
Adjusted PBT[2]	£8.3m	£7.3m	+14.6%
Adjusted EPS[3]	7.0p	6.1p[4]	14.2%
Proposed Final DPS	3.53p	n/a	
Underlying cash[5]	£5.0m	£2.0m	+158.1%
Underlying cash inflow/(outflow)[5]	3.1m	£(0.3)m	

1. Adjusted EBITDA excludes share-based payment charges and AIM admission costs along with depreciation, amortisation, interest and tax from the measure of profit.
2. Adjusted PBT is profit before tax excluding share-based payment charges and AIM admission costs.
3. Adjusted EPS is earnings per share excluding share-based payment charges and AIM admission costs.
4. The weighted average number of shares in issue has been recalculated to take into account the share reorganisation that was implemented in September and October 2020, whereby the ordinary shares in issue was increased from 4,476,466 ordinary shares of £0.00001 each to 100,000,000 ordinary shares of £0.001 each.
5. Underlying cash is actual cash excluding cash held on behalf of customers.

How we did operationally

- Fonix's three business segments of payments, messaging and managed services have each continued to grow comfortably in line with management's expectations since Fonix's admission to trading on the AIM in October 2020
- 34 new customer contracts signed in period, with the active customer count increasing by 13% to 111 active customers at the year end[1]
- 18m unique mobile users made 628m interactions with Fonix's services in the year[2]
- Record £32m total payment volume (TPV) processed in a single month
- 50% increase in the number of charity clients using Fonix's payment services
- Fonix continues to maintain 100% client retention, with over 99% of income of a repeating nature
- 100% platform uptime in the period
- New connectivity in international markets

1. Active customers are those generating more than £500 in gross profit in the previous 12-months.
2. Unique users are calculated as the number of unique mobile station international subscriber directory numbers (MSISDNs) processed through Fonix services.

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 £233 million in consumer payments in 2021, representing over 33% of the total UK market for SMS and Carrier billing.

Fonix has over 100 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, 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:

01. Carrier billing

Carrier billing enables merchants 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 merchants to directly bill consumers, facilitating both 'text to buy' and 'click to buy' purchases such as ticketing.

02. 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.

03. Voice

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 Powwownow (conference calling) and BT (powering most of the UK TV voting such as The X Factor and Strictly Come Dancing).

Value proposition continued...

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 engagement market is estimated to be c.£154 million and the pay TV market c.£6 billion. On a global basis the OTT video market is thought to be $177 billion. The growth strategy is to improve upon Fonix's position in the SMS billing market, increase market share by focusing on carrier billing into TV, print and radio paywalls and support clients moving into international markets. Fonix expects existing clients to continue to offer significant growth opportunities.

CHARITY

This is a large market that is underdeveloped in terms of carrier billing. In the UK alone £10 billion was donated in 2020 of which only £66 million was through Carrier billing. The focus will be to continue to drive Fonix's market leading 'text to donate' and 'click to donate' products in the UK.

GAMING

A large market which is underserved by carrier billing. The UK online gaming industry is estimated to be worth £5.7 billion of which only £62 million uses Carrier billing, with additional opportunities for international roll out of existing Clients.

DIGITAL SERVICES

This covers growing markets including dating ($1.75 billion), fitness/diets ($192 billion) and car parking (£1.75 billion).

TICKETING AND TRANSPORT SERVICES

This is a significant market covering parking (£1.75 billion UK industry), bus services (£4 billion spent on 1.7 billion journeys in 20/21) as well as new forms of e-mobility, such as e-scooter hire and e-bike hire.

Gross profits from media, charity and gaming clients grew an average of 22% year-on-year

Rob Weisz
Chief Executive Officer

How we do it

Interactive services

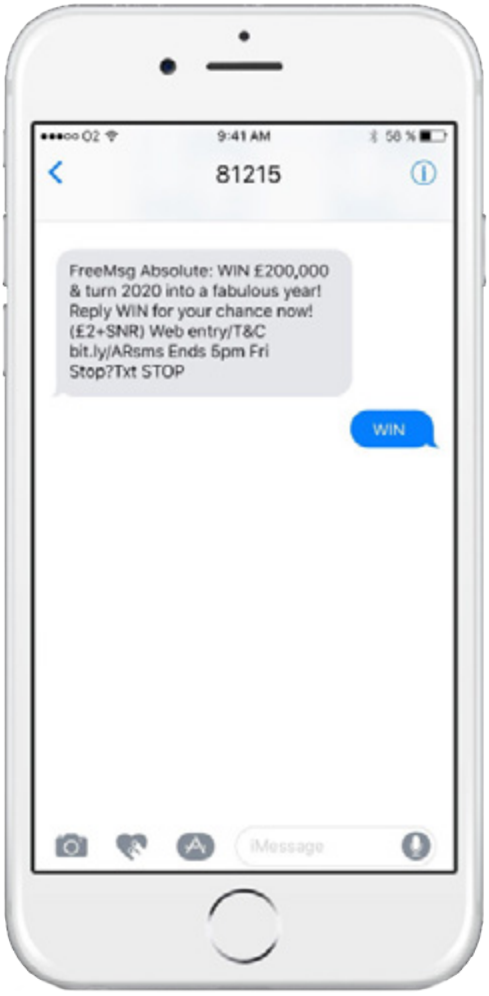
Mobile interaction and payments for media, charity & enterprise clients

Fonix's communications platform as a service (CPaaS) platform allows organisations to interact with their consumers, in real-time - all in one place. A proven platform in the broadcast industry for building more personal relationships with audiences.

Audience engagement
and CRM management

Audience monetisation
with donations & competitions

Marketing campaigns
through targeted mobile messaging



Payment services

Frictionless payments by mobile for apps, online and on-the-move services

Pay by mobile sits alongside other payment methods and is suitable for live events (sports & charity), single payments (episodes, movies), and subscriptions (streaming content).

Frictionless payments
with significant reach

Better conversion
& reduced basket abandonment

Increases revenues
with limited cannibalisation of other payment methods

pay by mobile

Pay

MEDIA GROUP

Case Study

Bauer Media Group

Bauer Media Group is a multinational media company and its main goal is to generate revenue from competitions whilst engaging with its audience.

Fonix's platform supports this and manages all text activities between listeners, readers and brands. Via strong data analytics, Fonix is able to give Bauer important insights that are vital to increasing response and engagement success rates.

270+
Active platform users

50
Brands

62%
CAGR growth

4 year
Partnership

“double digit year-on-year growth in income and profitability

Edward Spurrier
Non-executive Chairman

Chairman's Review

It's a testament to the strength and determination of the Fonix management team, that the business has transitioned seamlessly to becoming a public company in the midst of a global pandemic.

All whilst achieving double digit year-on-year growth in income and profitability, onboarding many new customers, and laying the foundations for future growth into new markets.

As the pandemic has accelerated decades of digital transformation, some industries have declined whilst other emerging technologies have flourished. I'm pleased to say Fonix fits into the latter category, with total consumer payments processed through the Fonix platform increasing by over 10% to over £233m in the year (2020: £212m).

Against the backdrop of COVID-19, the decline in traditional advertising revenues for many broadcast clients has cemented Fonix's mobile payments platform as a core part of their long-term commercial strategy and elevated our services to board level attention. As a result, Fonix's Campaign Manager platform is now widely recognised as a market leader in helping media and charity clients monetize their audience and provides Fonix with a significant competitive advantage.

This year has seen the business build solid foundations for international growth, establishing new supply-chain connectivity and winning its first international payments contract. As several of Fonix's multinational customers look to expand our services overseas, we're confident international markets will provide a meaningful contribution to growth in the years ahead and the highly operationally leveraged nature of Fonix's business means this can all be achieved with minimal increases in operating costs or overheads. It remains our strategy with regard to international expansion to be customer led.

the business maintains a strong focus on environmental, social and governance (ESG) excellence

Throughout the year, the business has continued to make good progress on its strategic goals (as set out in the CEO review), helping it to comfortably meet its baseline growth target of achieving at least 10% growth in income and adjusted earnings. By increasing its share of the UK market for phone-paid payments to over 30% and significantly outgrowing other UK providers in the year, the Company has also continued to deliver on its vision to be the leading provider of mobile payments in its core markets and geographies.

Throughout the period, the business has continued to maintain a strong focus on environmental, social and governance (ESG) excellence, by ensuring our operations remain best-in-class and that

our customers' services are of the highest quality. ESG considerations are put at the forefront of all the business' key decision making processes.

Financial results

Gross profit increased in line with market expectations to £11.3m (2020: £10.0m) despite the impact of the COVID-19 pandemic creating additional hurdles in the commercial sales cycle. Year-on-year growth in the first half of the year was higher than the second as clients in the media segment had a strong end to H1 followed by an intentionally softer start to H2, but this was just a timing issue, in line with the management's expectations and the overall trading direction remains very positive. Adjusted EBITDA increased to £8.8m (2020: £7.6m), reflecting the business' high operating leverage and the management team's continued ability to control operating costs after becoming a public company.

The Company closed the year with £5.0m in underlying free cash (2020: £2.0m), giving more than sufficient cover for the final dividend payment expected in November. Underlying cash at the end of September will be approximately £7.0m. Actual cash, which includes money held on behalf of customers, closed the year at £17.3m (2020: £28.6m), down on the prior year due to the timing differences on outpayments for some significant client charity campaigns, but this had no impact on the business' trading performance or liquidity.

The Board recommends that the Company pay a final dividend of 3.53p per share in November, in line with the Company policy of paying out 75% of adjusted earnings per share. If approved, the total distribution of dividends for the year ended 30 June 2021 will be £5.234m (2020: £5.179m).

Board update

We were pleased to welcome Michael Foulkes, who joined the Board and business as CFO in March 2021. Michael has significant sector and international experience, which will prove invaluable as we continue to execute our growth strategy. Michael succeeded Rupert Horner, who

we have made a promising start to the new financial year with a clear plan to double the size of the sales team

was appointed to assist with the Company's admission to the AIM in October 2020. On behalf of the board, I would like to thank Rupert for all his efforts and we are pleased he remains a very supportive shareholder in the Company.

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

Looking ahead to our priorities for 2022 and beyond, a key focus for the business will be scaling up commercial resources, further optimising margins across the product range and increasing the business' presence in new and neighbouring markets. We have made a promising start to the new financial year with a clear plan to double the size of the sales team, and a number of multinational clients are already looking to use Fonix's services in new territories. Fonix is well positioned to leverage these opportunities and build out strong reference clients in new markets in the same way as we have done in the UK.

Edward Spurrier
Non-executive Chairman

CEO's Statement

Our success in UK mobile operator payments for media, charity and gaming providers demonstrates our continued ability to deliver frictionless payments in our target verticals above and beyond, not only our direct competitors, but also major alternative payment solutions. This year we saw gross profits from media, charity and gaming clients grow an average of 22% year-on-year as we added new clients and continued to support our existing clients to better engage with their audiences. Taking a disciplined sector focus allows us to take a more consultative approach to customer relationships, helping us better understand and address their needs, and create products that truly deliver results. This in turn, allowed us to build deeper, meaningful partnerships with each of our clients, helping them acquire more customers and optimise their consumer checkout journeys in ways unmatched by our competitors.

We delivered a strong financial performance during the period with gross profits and adjusted earnings per share growing in line with expectations. Over the year our underlying cash position grew 158% and I am pleased to be able to recommend a final dividend in line with our policy to distribute 75% of adjusted earnings per share.

Market opportunity

The market for frictionless mobile payments is significant and continues to grow year-on-year with the rise in consumer demand for services in online gaming, digital publishing, streaming and other digital services. We are also seeing new emerging sectors, such as e-scooter hiring and new forms of mobility and transportation.

The total payment values (TPV) of transactions processed by Fonix on UK services increased by 10% to £233m in the year, significantly ahead of the rest of the UK market (Phone-paid Services Authority Annual Market Research, 2021). This

we take a considered approach to growth by balancing new business wins with driving transactions with existing clients

reinforces our strategy to focus on key sectors where we see sustained growth and demonstrates our ability to nurture and scale clients' accounts in ways unmatched by our competitors in the UK, all being a testament to our consultative sales approach.

For the majority of our customers, deploying Fonix's payment solutions has largely shown to reduce checkout abandonment and provide incremental revenues rather than cannibalizing existing transactions, as demonstrated by the box office pay-per-view payment solution used for BT Sport. For this reason, we do not consider ourselves to be in direct competition with traditional payment methods, such as credit card or ApplePay, but offering an alternative to consumers who would otherwise forgo purchasing.

“we look to deliver sustainable, highly profitable growth for our shareholders

Robert Weisz
Chief Executive Officer

01.

02.

03.

04.

05.

Growth strategy

Fonix takes a balanced approach to sustainable growth, looking to achieve a material percentage growth in gross profits and shareholder income year-on-year. Driven by this approach, Fonix has achieved compound annual growth rates (CAGR) in gross profit and profit before tax of 33% and 48% respectively over the last 4-years.

There are five clear elements to our growth strategy set out below, which continue to guide our decision making and how we invest:

01. Grow & deepen existing client relationships

A key part of our commercial strategy continues to be the 'land and expand' approach to growth, focusing on enterprise scale opportunities and innovating on our product suite in partnership with key reference clients.

Through 2021, we continued to scale existing customer revenues with double-digit growth and see clear opportunities for additional double-digit growth in these clients in the year ahead.

02. Take a disciplined sector focus

We continue to take a sector focused approach to growth, targeting large enterprise clients and key partnerships across our core markets.

In addition to a number of prospective customer contracts we will continue to look to win away from competitors, there remains significant opportunity to establish new contracts with businesses in our core sectors currently not harnessing the power of mobile payments and interactivity. Particularly for those businesses that continue to see a shift away from an advertising funded business model and seeking revenue diversification.

The power of frictionless mobile payments for television and radio broadcasts was perfectly articulated by the fact that Fonix's payment solution accounted for over 81% of the individual donations made to Comic Relief on-the-night this year. With the market for charity donations being worth over £10bn annually in the UK alone, carrier mobile payments providing a 'near-free' commission model and with Fonix's exceptional reference clients, there remains much greenfield opportunity for expansion in this market.

In the gaming sector, we continue to support our core client base who have continued to grow in transactions and revenues over the last year. Shortly after the year end, we agreed a significant partnership deal with a leading technology provider. We believe it will open up a considerable pipeline of opportunities in the UK and overseas in the next few years.

In online services, we recently launched services with a leading, multinational technology company operating thousands of online dating sites across the globe. Again, this will sit alongside their traditional payment solutions as they look to increase their overall checkout conversion rates.

We will be making the planned investment in growth in the year ahead, allowing us to leverage these partnerships and also target the substantial greenfield opportunities we see in particular across mobility, ticketing, sports as well as a range of other emerging digital merchants.

A number of our core sectors grew significantly in the year, with particularly strong growth in media, charity and gaming sectors that together grew more than 22% in the year.

03. Create sustainable, long-term profitability for shareholders

We are clear in our strategy to continue to achieve material growth in gross profit and adjusted earnings year-on-year. With our commercial focus on large, multinational clients with relatively long sales cycles and our priority on growing new clients to ensure that they are transacting to their full potential we therefore take a considered approach to growth by balancing new business wins with driving transactions with existing clients.

We already have a strong pipeline of identifiable opportunities across all of our target sectors and will double the size of the sales team in the year ahead as we look to capitalise on new industry targets identified, particularly in mobility and ticketing. We believe this is the best approach for providing a long-term return to shareholders.

04. Be client led with international expansion

In the last few years, Fonix has consistently outstripped growth in the rest of the UK market for phone-paid payments (Phone-paid Services Authority Annual Market Research) and will look to repeat this success in new neighbouring territories.

Our approach to international expansion continues to be client led, through our network of tier-1 multinational clients. With the recent signing of significant new partnerships with international technology providers in gaming and online dating, as well as our existing multinational customer base, we are in a strong position to leverage these relationships to spearhead our growth into international markets in the coming years.

This year saw the business establish new connectivity for our gaming clients in Austria, harnessing customers' deep understanding of the improved regulatory framework in the region. We anticipate additional neighbouring territories opening up in the years ahead also.

In addition, we are in advanced discussions to launch services with a key client in another European market, which we hope to announce in the coming months.

05. Widen our technological and operational advantage

Through our consultative led approach with customers and with years of investment, Fonix has been able to build new innovative technologies which create real tangible added value for our clients and provide Fonix with a significant competitive advantage.

With Fonix's Campaign Manager product, clients are able to optimise and increase the monetisation of their audience, to an extent unmatched by our competitors or alternative payment providers. We are confident this technological advantage will not only ensure retention of our existing customers, but help us win significant new business in the years to come.

By focusing on quality payment services and having a strong relationship with network operators and regulators, Fonix has been able to establish an exemplary reputation in the market for compliance. This trusted relationship with partners has proved to be invaluable when winning new business and attracting the best talent and reinforces the barriers to entry in other providers looking to establish direct network operator connectivity.

Our gradual and balanced approach to growth has allowed the business to achieve exceptional and increasing economies of scale from our

operations, with the business achieving an adjusted operating margin of over 73% in the year when comparing operating profit to gross profits.

People

Attracting, retaining, and inspiring industry leading talent remains a priority to drive future growth and success. Fonix prides itself on being a great place to work and having a culture where our team can thrive. Fonix is also proud to boast a diverse workforce with 46% of staff being female and over 25% being from a black, Asian and minority ethnic (BAME) background.

Our team grew 23% over the year to 38 employees by the year end. Michael Foulkes joined as CFO in March, bringing a wealth of experience in the mobile payments sector and scaling businesses internationally. Edward Spurrier and Lucinda Sharman-Munday also joined the Board as Non-executives, both with significant experience at similar AIM listed companies.

Next year we will make a substantial investment in our sales team and have already hired industry experts with specialist knowledge in travel, ticketing, and gaming sectors, as we look to invest in growth.

Product

We continued to make good progress on our product roadmap with our dedicated in-house development team focusing on platform resilience and security, coupled with releasing several new features for the interactive services and payments platforms.

As Fonix continues to scale and support more clients in the UK and internationally, with broader use-cases, we are also expanding our product and technology teams in the year ahead. This will allow us to connect to more markets whilst exploiting new revenue opportunities with existing clients and maintaining our competitive advantage.

COVID-19

We are proud of how our team responded to COVID-19, continuing to deliver valuable features for our customers and support the business' IPO process, even with our people moving to work remotely. Whilst new business sales cycles have been elongated by the pandemic, our business model has proven to be highly resilient throughout and we ended the year with a strong exit run-rate across all our key clients and sectors.

Our approach to international expansion continues to be client led

Outlook

In spite of fundamental changes to the way we work, we have continued to make great progress on our strategic goals this year and finished the year in a much stronger position than we started. The team has responded very well to all the challenges put in front of them and I am assured we have the foundations in place for many years of continued growth.

In line with our growth strategy, we will continue to invest in growth in the year ahead, spending more on sales and marketing along with a significant investment in product as we look to deliver sustainable, highly profitable growth for our shareholders and expand into new markets.

The first few months of the new financial year have started strongly, with a robust run-rate coming into the year and we continue to make great progress on our strategic goals. We recognise that by delivering on these objectives and potentially winning some flagship clients from our competitors we have a great opportunity to exceed expectations.

Robert Weisz
Chief Executive Officer

Key Performance Indicators

Financial	2021 £'000	2020 £'000	Change
Gross profit	11,347	9,988	13.6%
Adjusted EBITDA[1]	8,812	7,656	15.1%
Adjusted PBT[2]	8,312	7,255	14.6%
Underlying cash[3]	5,048	1,956	158.1%
Adjusted EPS[4]	7.0p	6.1p	14.2%
Adjusted ROCE[5]	150.85%	285.51%	

Non-financial	2021	2020	2020
Total payments value (TPV)	£233.4m	£211.7m	10.3%
Active customer count[6]	111	98	13.3%

The definition of active customers was changed in the second half of the year to only include customers generating more than £500 in gross margin in the previous 12-month period. Previously this was based on the number of customers integrated to the Fonix platform. On a like for like basis, the number of active customers at 31 December 2020 was 105 active customers.

1. Adjusted EBITDA excludes share-based payment charges and AIM admission costs along with depreciation, amortisation, interest, and tax from the measure of profit.
2. Adjusted PBT is profit before tax excluding share-based payment charges and AIM admission costs
3. Underlying cash is actual cash excluding cash held on behalf of customers.
4. Adjusted EPS is earnings per share excluding share-based payment charges and AIM admission costs
5. Adjusted ROCE is return on capital employed calculated as adjusted EBIT (being earnings before interest and tax excluding share-based payment charges and AIM admission costs) divided by capital employed (total assets less total current liabilities).
6. Active customers are those that generated more than £500 in gross margin in the previous 12-months

Financial Review

Total payments value (TPV)

TPV represents the cash payments processed by Fonix on behalf of merchants. TPV grew 10.3% to £233m (2020: £212m) in the year, with particularly strong growth in the value of carrier billing and SMS billing transactions.

Revenue and other income

Company revenues for the year were £47.7m (2020: £40.1m) growing 19% on the previous year, driven by strong growth in the mobile payments service line. 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.

Included in other income was £62k of one-off COVID-19 related rental concessions, provided as relief for periods where access to our office was restricted.

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 £11.3m (2020: £10.0m) growing 14% on the previous year, with mobile payments growing 15.4%, mobile messaging growing 1.7% and managed services 9.2%. Growth was skewed to the first half of the year as the media segment had a very strong end to H1 and as a result a number of media clients intentionally slowed down activity at the start of H2 in order to balance their own targets for the year, as customers generally work to an annual revenue target. The business tends to have good visibility of customer targets. These targets usually have strong alignment with actual results, with a tendency to overperform.

Blended gross profit margins decreased slightly to 23.8% (2020: 24.9%) attributable to changes in the product and client mix. In particular, increases in carrier billing and SMS billing margins were partially offset by declines in premium voice services, which have a different revenue profile. We however, anticipate the gross profit margins to increase in the year ahead as we look to optimise our margins further.

Adjusted operating expenses

Operating costs have been kept firmly under control since the business' IPO, with costs generally only increasing where the business has invested more in future growth. Adjusted operating costs increased 12% in the year to £2.6m (2020: £2.3m). The majority of the increase related to additional staff costs and incentives as the business invested more in growth with new product and commercial hires.

Staff related costs and incentives increased to £2.6m (2020: £2.2m) in the year reflecting the additional investment in corporate governance with new board members, increases in commission/bonus for strong business performance, increases in product investment and standard annual pay increases. Average headcount for the year was 36 (2020: 32). We continue to invest in sales with two new commercials hires starting shortly after the year end.

As well as the rent concessions recorded in other income, other general office and travel related expenses were estimated to be approximately £60k down year-on-year as result of changes in the 'ways of working' due to the COVID-19 pandemic. We anticipate a slow recovery in these costs to normalised levels in the year ahead, although the impact will be insignificant to the business' future cost base.

"Gross profit is the business' most important financial indicator

Michael Foulkes
Chief Finance Officer

Professional fees and other public limited company associated costs increased to £65k (2020: £nil) in the year as the Company became listed on the AIM in October 2020.

Software development costs of £540k (2020: £454k) were capitalised in the year, representing 56% (2020: 54%) 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 £375k (2020: £311k). Development costs are amortised on a straight-line basis over 3-years.

Adjusted EBITDA

The growth in gross profit and continued control of costs, particularly following the Company's IPO has resulted in a significant increase in adjusted EBITDA which is up 15% at £8.8m (2020: £7.7m) for the year. To provide a better guide to the underlying business performance, adjusted EBITDA excludes share-based payment charges and AIM admission costs along with depreciation, amortisation, interest and tax from the measure of profit.

Finance income and expenses

Finance expense which relates to the underwinding of the discounted lease liability increased marginally to £9k (2020: £4k) following the signing of a new lease agreement in November 2020, but remains negligible overall.

Interest on bank deposits fell to £17k (2020: £49k) due to the sharp decline in bank interest rates.

EPS and dividends

The Company's policy is to pay out 75% of adjusted EPS to shareholders in the form of an ordinary dividend each year. The Company's cash resources and distributable reserves are both considered more than adequate to cover a final dividend payment in line with this policy. The board therefore intends to recommend a final dividend of 3.53p per share to be approved at the AGM in November.

Statement of Financial Position

The Company had net assets of £5.2m at the year-end (2020: £2.4m), including capitalised software development costs with a carrying value of £849k (2020: £684k). The movement in net assets reflects profits after tax less dividend payments.

Current assets fell in the year as actual cash held, which includes money held on behalf of customers fell in the year. Movement in cash balances are described in further detail in the 'cash and underlying cash' section below.

Current liabilities fell to £38m (2020: £48m) as the Company held less charity funds on behalf of customers at the year end.

Non-current liabilities increased to £0.3m (2020: £0.1m) as the business signed a new 3-year lease agreement on its office in 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 158% to £5.0m (2020: £2.0m) due to additional retained earnings and working capital improvements.

Actual cash which includes cash held on behalf of customers varies substantially from period to period and is particularly sensitive to the timing of passthrough outpayments for customer charity campaigns. Actual cash held fell to £17.3m (2020: £28.6m) in the year. The decrease is purely a timing issue and is largely attributed to holding fewer passthrough charity funds on behalf of charity customers at the year end.

The Company made use of the COVID-19 linked scheme to defer VAT payments. At the year end, the Company had deferred £578k of VAT to be repaid over the 7-months to Jan-22. This deferral increased actual cash held, but had no impact on underlying cash, which excludes customer related VAT balances.

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 competitions, supply-chain disruptions, regulatory changes, cyber criminals and other economic events. Below sets out the key risks that have been identified, along with the Company's approach to mitigating those risks:

Fall in demand for services

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 amount of work sold to existing customers could result in a material reduction in the Company's revenue and profitability.

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.

Loss of key customers

Whilst the top 10 customers of the Company do change each year (as new customers undertake large change programmes, for example), they have accounted for 80 per cent., 83 per cent. and 83 per cent. of the Company's gross profit in the years ended 2019, 2020 and 2021 respectively.

Whilst the incentive to switch or cancel services appears to be low and the Company has not lost a significant customer during the past four 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.

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.

Dependency on key suppliers

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.

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 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.

MNO 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. The PSA investigates complaints and monitors compliance and may initiate an investigation where there appears to be a breach of the PSA Code of Practice. 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 of Practice.

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

As Fonix continues to scale and support more clients we are also expanding our product and technology teams

Robert Weisz
Chief Executive Officer

and regulations, along with proposed changes are well understood and addressed as required.

Electronic Communications Exclusion limitations

The Company is not currently authorised or regulated by the FCA, relying, in relation to the regulation of providers of payment services and issuers of electronic money, on an exclusion relating to electronic communications - the electronic communications exclusion (ECE).

The Company's operations are, because of the ECE, limited to certain types of services, such as digital content, voice-based services, tickets and charitable donations, and to caps on end-user spend (£40 per transaction and £240 per month). These conditions may have commercial implications for the Company as they limit the circumstances in which carrier billing and SMS billing may be used in comparison with other means of paying for goods and services.

The Company relies on each of the MNOs with whom it deals in relation to carrier billing and SMS billing complying in full with the ECE, and all of its conditions. The Company also relies upon those MNOs not themselves being FCA authorised, for example as an authorised payment services provider or an authorised electronic money institution, and not being an agent of an FCA authorised firm. If there were a failure of compliance with the ECE at the MNO level it might have the effect that the Company would be carrying on activities, and in particular payment services, for which it would need to be FCA authorised.

The Company's business in this area of carrier billing and SMS billing is, for as long as it is not FCA authorised, very much circumscribed by, and dependent upon the continued existence of, the ECE. The limits on the scope of the payments-related business that the Company may undertake without obtaining authorisation may put it at a competitive disadvantage against competitors who are FCA authorised. The possibility of regulatory change in relation to the continued existence or terms of the ECE is a further risk factor for the Company's business.

To mitigate this risk, the Company continues to keep under review whether any of its activities outside of the scope of the ECE might cause it to need to be authorised by the FCA. Should it become necessary, the Company sees no reason why FCA authorisation cannot be reasonably obtained in a timely manner.

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 merchants 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 such personnel. Such success also depends on the continued services and continuing contributions of the Company's 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 margins. 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, results of operations, 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, 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, results of operations, financial condition and/or prospects.

The Company mitigates this risk by ensuring 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, results of operations, 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.

COVID-19 pandemic

The 2020 outbreak of COVID-19 negatively impacted economic conditions globally and is having an adverse and disruptive effect on the Global economy. The Company's way of operating has adapted and is likely to need to continue to adapt over the coming months in response to the developments relating to the COVID-19 outbreak. If the COVID-19 pandemic continues for a prolonged period of time, this may result in delays to the execution of the Company's strategy and the Company failing to secure new business. The COVID-19 pandemic may therefore have an adverse effect on the Company's business, cash flows, profitability, results of operation and financial condition.

The Company has in part mitigated the impact of COVID-19 by continuously reviewing its business strategies to ensure they address any commercial or operational issues arising from the pandemic.

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 results of operations, 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.

Board of Directors

Edward Spurrier, AGED 56

Independent Non-executive Chairman

Edward is an experienced chairman of entrepreneurial technology companies, with over 10 years combined service as Chair, and has extensive experience in the AIM market. He joined Alternative Networks plc, the IT managed services provider and telecoms group as Finance Director in 1999 and following its successful admission to AIM in 2005, he was CFO for 7 years before becoming CEO for 3 years, prior to its sale to the Daisy Group in 2016.

Previously, Edward was a chartered accountant, qualifying with PWC in London and spent 12 years in advisory roles and supporting entrepreneurs.

Robert Weisz, AGED 43

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 36

Chief Financial Officer

Michael is a chartered accountant with over 14 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.

Michael succeeded Rupert Horner as a full time Chief Financial Officer of the Company on 29 March 2021. Mr Horner was appointed to the Board to assist with the Company's admission to AIM in October 2020. Whilst Mr Horner has stepped down from the Board, he remains a very supportive shareholder in the Company.

William Neale, AGED 45

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 proSapient. Will began his career at Accenture where he worked within technology consulting, specialising in mobile telecoms.

Lucinda Sharman-Munday, AGED 43

Independent Non-executive Director

Lucinda is currently CFO of Eagle Eye Solutions Group Plc a role she has held since July 2014. Prior to this, she was the CFO of the 5one group, the global consultancy providing services, analysis, and software to help retailers achieve a customer-centric strategy. The global role covered Europe, South Africa and setting up America. Prior to this she worked for Adapt Group Ltd, and in 2006 iSOFT plc as an integral part of the turn-around team that successfully sold the business to IBA Health Group at the end of 2007. Lucinda began her career at KPMG in 1999 where she qualified as a Chartered Accountant.

Directors' Report

The Directors present their report and the audited financial statements for Fonix Mobile plc for the year ended 30 June 2021.

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 – 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 12–29.

Directors

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

1. Robert Weisz
2. William Neale
3. Richard Thompson (resigned 3 August 2020)
4. Rupert Horner (appointed 28 September 2020, resigned 29 March 2021)
5. Edward Spurrier (appointed 12 October 2020)
6. Lucinda Sharman-Munday (appointed 12 October 2020)
7. Michael Foulkes (appointed 29 March 2021)

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 41–44.

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 24–29 of the Strategic Report.

Dividends

There was a profit for the year after taxation amounting to £6.06m (2020: £6.02m).

A final dividend of £1.643m (36.7p per share) was paid during the year in respect of the year ended 30 June 2020 (2019: £2.517m, 57p per share).

An interim dividend of £1.700m (1.7p per share) was paid during the year in respect of the year ended 30 June 2021 (2020: £3.536m, 79p per share).

The Directors recommend a final dividend of 3.53p per share (2020: 36.7p per share). If approved, the total distribution of dividends for the year ended 30 June 2021 will be £5.234m (2020: £5.179m).

Substantial holdings

The Company has been advised of the following interests in more than 3% of its ordinary share capital as at 31 August 2021:

Holder	Total shares	%
William Neale (held by Ganton Limited)	26,432,749	26.43%
Richard Thompson (held by Starnevesse Limited)	10,180,933	10.18%
Slater Investments	9,700,444	9.70%
Robert Weisz	8,482,361	8.48%
Charles Stanley	3,706,843	3.71%

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 reappointment

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 Heddon Street
London
W1B 4BQ

22 September 2021

Corporate Governance Statement

Chairman's corporate governance report

As Chairman 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.
- 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 and progress are clearly understood.

The Chief Executive Officer and 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 Chairman 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 private shareholders and values the feedback of such shareholders. The 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 39.

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 its 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 Chairman

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 Chairman, 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 Lucinda Sharman-Munday).

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 pages 30–31.

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 Chairman 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 Chairman and the Chief Executive Officer. The Chairman 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 Lucinda Sharman-Munday and the Remuneration Committee is chaired by Edward Spurrier.

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

Fonix 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 11 times during the financial year and its committees met a further 4 times.

As the Audit Committee was formed part-way through the 2021 financial year, following the Company's admission to a public market, the Audit Committee only met on one occasion, to discuss the planning of the external audit of the year end annual accounts. In an ordinary financial year, the Audit Committee will meet not less than three times a year.

The attendance of the Directors at these meetings is detailed overleaf. 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 Chairman.

	Board meetings		Audit Committee		Remuneration Committee	
	Possible	Attended	Possible	Attended	Possible	Attended
Robert Weisz	11	11	-	-	-	-
Rupert Horner[1]	8	8	-	-	-	-
Michael Foulkes[2]	3	3	1	1	-	-
William Neale	11	11	1	-	3	3
Edward Spurrier[3]	10	10	1	1	3	3
Lucinda Sharman -Munday[4]	10	10	1	1	3	3

Committees of the Board

THE REMUNERATION COMMITTEE

The Remuneration Committee is chaired by Edward Spurrier and its other members are Lucinda Sharman-Munday and William Neale. 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.

William Neale is not considered to be independent for the purposes of the QCA Code and therefore his membership of the Remuneration Committee does not comply with the recommendation of 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. However, the Board has determined that, in light of William Neale's knowledge of the industry in which the Company operates and competes for senior management personnel and taking into account the size and nature of the Company and the independence of the other members of the Remuneration Committee, it is appropriate for William Neale to be a member of the Remuneration Committee.

The Remuneration Committee meets as frequently as necessary and not less than once a year.

1 Rupert Horner was appointed as an Executive Director on 28 September 2020 and was invited to attend two board meetings prior to being appointed. Rupert subsequently resigned on 29 March 2021.
2 Michael Foulkes was appointed as an Executive Director on 29 March 2021 and was invited to attend the Audit Committee meeting.
3 Edward Spurrier was appointed as an Non-executive Director on 12 October 2020 and was invited to attend two board meetings prior to being appointed
4 Lucinda Sharman-Munday was appointed as an Non-executive Director on 12 October 2020 and was invited to attend two board meetings prior to being appointed

THE AUDIT COMMITTEE

The Audit Committee is chaired by Lucinda Sharman-Munday. Its other members are the Non-executive Chairman, Edward Spurrier and the Non-executive, William Neale. The external auditors are invited to each meeting and the Chief Executive Officer and Chief Financial Officer (together with members of the finance team as appropriate) attend by invitation.

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 Chairman 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.

As the Audit Committee was formed part-way through the 2021 financial year, following the Company's admission to a public market, the Audit Committee only met on one occasion, to discuss the planning of the external audit of the year end annual accounts. In an ordinary financial year, the Audit Committee will meet 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 11 November 2021.

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 a bi-weekly all-staff conference call, 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, each department meets regularly as a team giving all staff a chance to provide feedback to the senior leadership team via their manager. Since the easing of COVID-19 restrictions, staff have been encouraged back to the office on a voluntary basis, with teams often meeting in person once a week. To this aim, the Company has been hosting weekly social events in the office throughout summer.

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 (MNO) 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 Chairman 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, such as sensor and timed LED lighting and working with our landlord to improve the efficiency of office spaces. In addition, where energy consumption is necessary, such as in our data centre storage centres, we strive to use the most environmentally friendly suppliers and those using high proportions of 100% renewable energy.

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:

	2021	Unit
Environmental		
Energy consumption (scope 1)	0.005	MWh/£m of revenue
CO2 production (scope 1)	0.000	tonnes/£m of revenue
Water consumption	1.258	m3/£m of revenue
Waste production	0.021	tonnes/£m of revenue
Social		
Employee turnover rate	16.0%	per annum
Effective corporation tax rate	17.3%	
Governance		
Board seats held by women	20.0%	
Board seats held by independent Directors	40.0%	

These are newly introduced metrics for the current financial year, so comparatives have not been calculated as the required data was not available.

Energy and carbon report

As the Company has not 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. The Company only consumed 240 kWh of scope 1 energy in this reporting period so has a very low carbon footprint.

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 2022 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 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 does not operate an annual bonus scheme as Directors are rewarded through their base pay and annual share option awards.

PENSIONS

The Company operates a work-place pension scheme, where Directors are paid a employer pension contribution of 3% of salary, up to the maximum statutory qualifying earning of £44,030.

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 Chairman 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 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 Chairman 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 2021.

SALARIES

The base salaries for Executive Directors were increased in the year effective from 1 January 2021 by 2%. At 30 June 2021, the base salaries of Executive Directors were as follows:

Robert Weisz	Chief Executive Officer	£173,910
Michael Foulkes	Chief Finance Officer	£115,000

FEES FOR NON-EXECUTIVE DIRECTORS

Fees for Non-executive directors at 30 June 2021 were as below. The fees are inclusive of fees for chairing the Remuneration Committee and Audit Committee.

Name	Role	Committee Chair	Fee
Edward Spurrier	Chairman	Remuneration	£65,000
William Neale	Non-executive Director		£40,000
Lucinda Sharman-Munday	Non-executive Director	Audit	£35,000

EQUITY PLAN

During the year, certain directors were issued share options in the Company. All options had an exercise price equal to the closing mid-market price the day before the date of grant. Details of options issued to directors are listed below:

Name of Director	Date of grant	Number	Exercise price	Initial vesting date	Final vesting date	Lapse date
Edward Spurrier	07/10/2020	500,000	£0.900	07/10/2023	07/10/2023	07/10/2030
Michael Foulkes	08/04/2021	64,426	£1.785	08/04/2024	08/04/2026	08/04/2031

There are no other options, either vested or unvested outstanding from previous periods.

Summary of Directors' total remuneration

The Directors received the following remuneration during the year to 30 June 2021:

Name of Director	Salary & fees £'000	Bonus £'000	2021 Total* £'000	2021 Pension £'000	2021 Total fixed remuneration £'000	2021 Total variable remuneration £'000	2020 Total* £'000	2020 Pension £'000
Executive								
Robert Weisz	172	-	172	-	172	-	168	-
Michael Foulkes[1]	30	-	30	-	30	-	-	-
Rupert Horner[2]	19	-	19	-	19	-	-	-
William Neale[3]	52	-	52	-	52	-	190	-
Non-executive								
William Neale[3]	21	-	21	10	31	-	-	-
Edward Spurrier[4]	47	-	47	-	47	-	-	-
Lucinda Sharman-Munday[5]	25	-	25	-	25	-	-	-
	366	-	366	10	376	-	358	-

* Excluding pension

1. Michael Foulkes was appointed as an Executive Director on 29 March 2021
2. Rupert Horner was appointed as an Executive Director on 28 September 2020 and resigned on 29 March 2021
3. William Neale changed from an Executive Director to a Non-executive Director on 12 October 2020. During the year, William sacrificed £10k of his salary as a Non-executive Director for a one-off employer pension contribution.
4. Edward Spurrier was appointed as a Non-executive Director on 12 October 2020
5. Lucinda Sharman-Munday was appointed as a Non-executive Director on 12 October 2020

Application of remuneration policy for FY22

SALARIES

The Executive Directors base salaries will be reviewed by the Remuneration Committee during the course of the year with any increases effective from 1 January 2022.

ANNUAL BONUS

There is currently no bonus scheme for Directors. The Executive Directors annual bonus opportunity will be reviewed by the Remuneration Committee during the course of the year, with any changes effective from 1 January 2022.

COMPANY CHAIRMAN AND NON-EXECUTIVE DIRECTORS

The fees for the Company Chairman and Non-executive Directors will be reviewed during the course of the year with any increases effective from 1 January 2022.

Shares held by Directors

	Beneficially owned shares		Unvested		Vested unexercised	
Name of Director	**30 June 2020**	**30 June 2021**	**30 June 2020**	**30 June 2021**	**30 June 2020**	**30 June 2021**
Executive						
Robert Weisz	16,964,722	8,482,361	-	-	-	-
Michael Foulkes	-	-	-	64,426	-	-
Non-executive						
William Neale	52,865,497	26,432,749	-	-	-	-
Edward Spurrier	-	-	-	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.

Independent Auditor's Report

to the Board of Fonix Mobile plc

Opinion

We have audited the financial statements Fonix Mobile Plc (the 'Company') for the year ended 30 June 2021, 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 a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted International Financial Reporting 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 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted International Financial Reporting 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
Management have prepared forecasts to 30 June 2023 ("the forecast period). We evaluated the management's going concern assessment and performed the following procedures: • Reviewing the forecasts, the methodology behind these and ensuring they are arithmetically correct; • Challenging the assumptions with management; • Obtaining post year end management information and comparing these to budget to ensure budgeting is reasonable and the results are in line with expectations; • 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 • 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;	The Company's forecasts to 30 June 2023 ('the forecast period') have been approved by the Board. These are prepared based on certain key assumptions, against which plausible sensitivities have been applied. These included considering further investments being made, any further shares to be issued and any further investments to be realised over the forecast period. The forecast shows that the Company has at all times available cash and liquidity to meet its liabilities as they fall due.

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 judgment, 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 shown on in the table overleaf.

Key audit matters	How our audit addressed the key audit matters
REVENUE RECOGNITION 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. 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. We therefore identified the risk over the existence and completeness assertions relating to revenue recognition as a significant risk, which was one of the most significant risks of material misstatement.	Our audit work included, but was not restricted to: • Documenting our understanding of management's process for evaluating revenue recognition and assessing the design effectiveness of related key controls. • 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. • We obtained copies of the customer contracts in order to check that relevant revenue and VAT had been posted accurately in the accounts. • Performing transaction testing by tracing total revenue into the nominal ledger from the monthly billing spreadsheets and then agreeing a sample of sales to the source documents to test the occurrence. • 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. • Assessing whether the Company's accounting policy for revenue recognition is in accordance with the requirements of IFRS 15. 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 4. **KEY OBSERVATIONS** We have not found any issues or errors involving sales and are therefore satisfied we have assurance over sales recognition and treatment.
MANAGEMENT OVERRIDE OF CONTROLS This is the first year that the Company has been a Plc and the first year that the Company has used the governance rules as stated on the governance report. As a recently 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.	We assessed the level of control management has over the financials and what controls are in place to keep to the governance rules. • We reviewed estimates included in the financial statements for any evidence of management bias arising in their calculation. • We conducted enquiries of management and other staff to determine if they were aware of any unusual journals or other adjustments. • We tested a sample of journal entries, other adjustments, large or unusual transactions in the year to determine that they are valid business transactions. **KEY OBSERVATIONS** As a result of our testing, we concluded that the risk of management override of controls is sufficiently mitigated.

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 £370,000.

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, reduction 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 60% of materiality, and was set at £222,000.

Reporting threshold: We agreed with the Audit Committee that we would report to them all misstatements over £18,500 (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. 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.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

THE EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES INCLUDING FRAUD

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 the acts by the Company, which were contrary to applicable laws and regulations including fraud, 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. 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 and reports to the regulators, review of correspondence with legal advisors, enquiries of management and review of internal audit

reports in so far as they related to the financial statements, 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. This description forms part of our auditor's report.

Other matters which we are required to address

We were re-appointed by the Board of Directors in August 2020. The period of total uninterrupted engagement of the firm is three years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

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
Statutory Auditor

UHY Hacker Young
Quadrant House
4 Thomas More Square
London E1W 1YW

Date 22 September 2021

Statement of Comprehensive Income

For the year ended 30 June 2021

	Note	2021 £'000	2020 £'000
Continuing operations			
Revenue	4	47,668	40,061
Cost of sales		(36,321)	(30,073)
Gross profit		11,347	9,988
Other income		76	31
Adjusted operating expenses[1]		(2,611)	(2,363)
Profit before interest, tax, depreciation, amortisation, share-based payment charge and exceptional costs		8,812	7,656
Share-based payment charge		(72)	-
AIM admission costs		(844)	-
Depreciation and amortisation		(507)	(446)
Operating profit	5	7,389	7,210
Finance income	7	17	49
Finance expense	7	(9)	(4)
Profit before taxation		7,397	7,255
Taxation	8	(1,334)	(1,235)
Total comprehensive profit for the financial year		6,063	6,020

Earnings per share	2021	2020
Basic earnings per share	6.1p	6.1p
Diluted earnings per share	6.0p	6.1p
Adjusted basic earnings per share	7.0p	6.1p

The weighted average number of shares in issue for the year ended 30 June 2020 has been restated to take into account the share reorganisation that was implemented in September and October 2020, whereby the ordinary shares in issue was increased from 4,476,466 ordinary shares of £0.00001 each to 100,000,000 ordinary shares of £0.001 each.

1. Adjusted operating expenses excludes share-based payment charge, AIM admission costs, depreciation and amortisation

Statement of Financial Position

As at 30 June 2021

	Note	2021 £'000	2020 £'000
Non-current assets			
Intangible asset	10	849	684
Right of use asset	11	268	41
Tangible assets	12	23	33
		1,140	758
Current assets			
Trade and other receivables	13	24,880	21,148
Cash and cash equivalent		17,336	28,618
		42,216	49,766
Total assets		43,356	50,524
Equity and liabilities			
Equity			
Share capital	18	100	-
Share premium account	18	679	779
Share option reserves		72	-
Retained earnings		4,374	1,654
		5,225	2,433
Liabilities			
Non-current liabilities			
Deferred tax liabilities	16	147	92
Lease liabilities	15	133	-
		280	92
Current liabilities			
Trade and other payables	14	37,740	47,958
Lease liabilities	15	111	41
		37,851	47,999
Total liabilities		38,131	48,091
Total equity and liabilities		43,356	50,524

These financial statements were approved by the Board on 22 September 2021 and signed on its behalf by:

M Foulkes
Director

R Weisz
Director

Statement of Changes in Equity

For the year ended 30 June 2021

	Share capital £'000	Share premium £'000	Share option reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 July 2019	-	505	-	1,687	2,192
Profit for the financial year	-	-	-	6,020	6,020
	-	-	-	6,020	6,020
Transactions with shareholders					
Dividends	-	-	-	(6,053)	(6,053)
Share-based payment charge	-	-	-	-	-
Capital issued	-	274	-	-	274
	-	274	-	(6,053)	(5,779)
Balance at 30 June 2020	-	779	-	1,654	2,433
Profit for the financial year	-	-	-	6,063	6,063
	-	-	-	6,063	6,063
Transactions with shareholders					
Dividends	-	-	-	(3,343)	(3,343)
Share-based payment charge	-	-	72	-	72
Capital issued	100	(100)	-	-	-
	100	(100)	72	(3,343)	(3,271)
Balance at 30 June 2021	100	679	72	4,374	5,225

Statement of Cash Flows

For the year ended 30 June 2021

	2021 £'000	2020 £'000
Cash flows from operating activities		
Profit before taxation	7,397	7,254
Adjustments for		
Depreciation	15	13
Amortisation	492	433
Profit on disposal of tangible assets	-	(16)
Share-based payment charge	72	-
Finance income	(17)	(49)
Finance expense	9	4
(Increase)/decrease in trade and other receivables	(3,732)	(3,380)
Increase/(decrease) in trade and other payables	(10,151)	21,240
Income tax paid	(1,346)	(1,200)
Net cash flows from operating activities	(7,260)	24,300
Cash flows from investing activities		
Interest received	17	49
Payments to acquire tangible assets	(6)	(39)
Proceeds from sale of tangible assets	-	24
Payments to acquire intangible assets	(540)	(454)
Net cash flows from investing activities	(529)	(421)
Cash flows from financing activities		
Net proceeds from issue of equity	-	274
Dividends paid	(3,343)	(6,053)
Capital payments in respect of leases	(141)	(122)
Interest paid in respect of leases	(9)	(4)
Interest paid	-	-
Net cash flows from financing activities	(3,493)	(5,905)
Net (decrease)/increase in cash and cash equivalents for the period	(11,282)	17,974
Cash and cash equivalents at beginning of period	28,618	10,645
Cash and cash equivalents at end of period	17,336	28,618

Cash and cash equivalents comprise the balances held at the bank.

Statement of Underlying Free Cash Flows

For the year ended 30 June 2021

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.

	2021 £'000	2020 £'000
Underlying free cash flows from operating activities		
Profit before taxation	7,397	7,254
Adjustments for		
Depreciation	15	13
Amortisation	492	433
Profit on disposal of tangible assets	-	(16)
Share-based payment charge	72	-
Finance income	(17)	(49)
Finance expense	9	4
(Increase)/decrease in trade and other receivables	245	(252)
Increase/(decrease) in trade and other payables	247	(200)
Income tax paid	(1,346)	(1,200)
Net underlying free cash flows from operating activities	7,114	5,987
Underlying free cash flows from investing activities		
Interest received	17	49
Payments to acquire tangible assets	(6)	(39)
Proceeds from sale of tangible assets	-	24
Payments to acquire intangible assets	(540)	(454)
Net underlying free cash flows from investing activities	(529)	(421)
Underlying free cash flows from financing activities		
Net proceeds from issue of equity	-	274
Dividends paid	(3,343)	(6,053)
Capital payments in respect of leases	(141)	(122)
Interest paid in respect of leases	(9)	(4)
Interest paid	-	-
Net underlying free cash flows from financing activities	(3,493)	(5,905)
Net (decrease)/increase in underlying free cash for the period	3,092	(339)
Underlying free cash at beginning of period	1,956	2,294
Underlying free cash equivalents at end of period	5,048	1,956

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 International Financial Reporting Standards (IFRSs) as adopted by the UK 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

ADOPTION OF IFRS ACCOUNTING STANDARDS

This is the first period of account where the Company has prepared its financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the UK. The statutory financial statements for the year ended 30 June 2020 were prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland (United Kingdom Generally Accepted Accounting Practice - "UK GAAP").

The Company's effective IFRS transition date for the purposes of these financial statements was 30 June 2020. The effect of this transition to IFRS on the year-end balance sheet at 30 June 2020 and the income statement for the year ended 30 June 2020 are set out in note 23.

NEW AND AMENDED ACCOUNTING STANDARDS

None of the new IFRS standards, interpretations and amendments effective for the first time from 1 January 2020 onwards has had a material effect on the financial statements.

FUTURE STANDARDS

There are new IFRS standards, interpretations and amendments that are effective for periods beginning on or after 1 January 2021 as follows:

1. Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2
2. Amendments to IAS 1, Presentation of financial statements' on classification of liabilities

There are no other IFRSs, IFRIC interpretations or amendments that are not yet effective that would be expected to have a material impact on the financial statements.

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. Fonix Mobile is not externally funded and accordingly is not affected by borrowing covenants. In addition, the cost of capital represents the dividend distributions – which are discretionary.

At 30 June 2021 the Company had cash and cash equivalents of £17.3 million (2020; £28.6 million) and net current assets of £4.4 million (2020: £1.8 million). The business model of Fonix Mobile 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 a commensurate level of 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.

There has been negligible impact of COVID-19 on the trading position of the Company – and this is expected to continue in the future. Employees are seamlessly working from home where required and no staff have been furloughed.

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.

As the Company's operations are all in one location within the United Kingdom – the Directors are of the opinion that the Company has only one reportable geographical operating segment. This is in line with internal reporting provided to the Executive Directors.

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
MOBILE PAYMENTS	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. 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. Revenue is recognised at a point in time, as mobile payments are processed through the Company platform. Revenues recognised relates to the total commission charged to customers, with the MNO commission recognised within cost of sales.
MOBILE MESSAGING	Mobile Messaging represents the delivery of SMSs from the Company's customers to the MNOs, for purposes such as marketing, notifications and two factor authentication. Consumers are not charged for these SMSs. Under IFRS 15 the Company considers its involvement in all mobile messaging transactions, to be acting as a principal. Revenue is recognised at a point in time, 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.
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.

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 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 the cash at bank is 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.

The only intangible asset at each year end is platform software that has been developed by the Company. 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 2021.

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 2021. 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.

During the period, the Company received COVID-19-related rent concessions on a lease. The Company chose to apply the practical expedite to the rent concession - that is to recognise the full concession in the Statement of Comprehensive Income as other income in the period it occurred. The total concessions recognised in the other income in the year were £62k (2020: £31k)

There have been lease modification changes made to the lease liability (and the corresponding right of use asset) during the reporting period as set out in Notes 11 and 15 below.

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.

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.

Taxation

The tax expense for the three years to 30 June 2021 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 2021 is £71,840 (2020: £nil). 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 expenditure 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. 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 three years to 30 June 2021 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. Details of the judgements made are included in note 15.

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:

Gross Profit	2021 £'000	2020 £'000
Mobile payments	9,577	8,297
Mobile messaging	1,045	1,027
Managed services	725	664
	11,347	9,988

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.

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 wholly undertaken in the United Kingdom.

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:

Revenue by service line	2021 £'000	2020 £'000
Mobile payments	37,169	29,747
Mobile messaging	8,928	8,867
Managed services	1,571	1,446
	47,668	40,061

5. Operating profit

Operating profit each year is stated in the Statement of Comprehensive Income after charging or (crediting) the following:

	2021 £'000	2020 £'000
Exchange differences	(1)	4
Audit of the Company's financial statements	21	16
AIM admission costs	844	-
Depreciation of owned tangible fixed assets	15	13
Profit/(loss) on disposal of tangible fixed assets	-	(16)
Amortisation of intangible assets	375	311
Amortisation of right of use asset	117	122
R&D expenditure	287	314

6. Staff costs

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

Employment costs	2021 £'000	2020 £'000
Wages and salaries	2,317	1,902
Share-based payment charge	72	-
Social security cost	241	219
Pension costs	37	29
	2,667	2,149
Less: amounts captialised as intangible assets	(540)	(454)
	2,127	1,694

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

Average number of employees	2021 Number	2020 Number
Sales	6	6
Administration	16	13
Development	14	13
	36	32

Key management remuneration

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

Key management compensation	2021 £'000	2020 £'000
Salaries	757	584
Share-based payment charge	45	-
Social security cost	90	74
Pension costs	24	10
	916	668

Directors' remuneration

Remuneration of Directors during the year was as follows:

Directors' remuneration	2021 £'000	2020 £'000
Salaries	310	174
Pension costs	10	-
	320	174

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

Highest paid Director	2021 £'000	2020 £'000
Total remuneration paid	172	168

7. Finance income and expenses

Interest income	2021 £'000	2020 £'000
Interest receivable on bank deposits	17	49

Interest expense	2021 £'000	2020 £'000
Interest on lease liability	9	4

8. Taxation

	2021 £'000	2020 £'000
Current tax		
UK corporation tax on profits for the current period	1,279	1,215
Adjustments in respect of prior years	-	-
	1,279	1,215
Deferred tax		
Current deferred tax expense/(credit)	55	20
Adjustments in respect of prior years	-	-
	55	20
Total tax charge	1,334	1,235

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:

Tax reconciliation	2021 £'000	2020 £'000
Profit before taxation	7,397	7,255
Tax using UK corporation tax rate of 19.00% (2020: 19.00%)	1,405	1,378
Non-deductible expenses	117	6
Share-based payments	14	-
Research and development tax credit claim	(219)	(148)
Other permanent differences	-	(10)
Deferred tax rate adjustment	17	9
Total tax charge	1,334	1,235

9. Earnings per share

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

	2021 £'000	2020 £'000
Retained profit for the financial year	6,063	6,020

Number of shares	2021 Number	2020 Number
Weighted average number of shares in issue	100,000,000	98,509,808
Share options	465,475	-
	100,465,475	98,509,808
Earnings per ordinary share		
Basic	6.1p	6.1p
Diluted	6.0p	6.1p

The weighted average number of shares in issue for the year ended 30 June 2020 has been restated to take into account the share reorganisation that was implemented in September and October 2020, whereby the ordinary shares in issue was increased from 4,476,466 ordinary shares of £0.00001 each to 100,000,000 ordinary shares of £0.001 each. The weighted number of shares in issue for the year ended 30 June 2020 before the share reorganisation was 4,409,758, which has then been multiplied by a factor of 100,000,000/4,476,466 to give a restated figure of 98,509,808 weighted shares.

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

Adjusted earnings per share	2021 £'000	2020 £'000
Retained profit for the financial year	6,063	6,020
Adjustments		
Share-based payment charge	72	-
AIM admission costs	844	-
Net adjustments	916	-
Adjusted earnings	6,979	6,020
Adjusted basic earnings per ordinary share	7.0p	6.1p

10. Intangible assets

The intangible asset represents the internally developed platform software and the movements each year are as follows:

	Platform software £'000
Cost	
At 1 July 2019	1,718
Additions	454
Written-off	(437)
At 30 June 2020	1,735
Additions	540
Written-off	(361)
At 30 June 2021	1,914
Amortisation	
At 1 July 2019	1,177
Charge for the year	311
Written-off	(437)
At 30 June 2020	1,051
Charge for the year	375
Written-off	(361)
At 30 June 2021	1,065
Net book value	
At 30 June 2021	849
At 30 June 2020	684
At 30 June 2019	541

11. Right of use asset

	Right to use land & buildings £'000
Carrying value	
At 1 July 2019	304
Amortisation for year	(122)
Modification in November 2019	113
Modification in May 2020	(254)
At 30 June 2020	41
Amortisation for year	(117)
Modification in November 2020	344
At 30 June 2021	268

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

The terms of the property lease extant at 30 June 2017 were renegotiated in November 2019, which primarily involved extending the termination date. In May 2020 the Company gave notice on the property lease and subsequently a new lease was signed for the property in November 2020.

12. Tangible assets

	Fixtures & fittings £'000	Computer equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 July 2019	19	8	36	63
Additions	8	-	31	39
Disposals	(2)	-	(24)	(26)
At 30 June 2020	25	8	43	76
Additions	-	-	6	6
Disposals	(1)	-	-	(1)
At 30 June 2021	24	8	49	81
Depreciation				
At 1 July 2019	16	8	24	48
Charge for the year	4	-	9	13
Disposals	(2)	-	(16)	(18)
At 30 June 2020	18	8	17	43
Charge for the year	3	-	12	15
Disposals	-	-	-	-
At 30 June 2021	21	8	29	58
Net book value				
At 30 June 2021	3	-	19	23
At 30 June 2020	7	-	26	33
At 30 June 2019	3	-	12	15

13. Trade and other receivables

	2021 £'000	2020 £'000
Trade receivables	14,868	12,596
Unpaid share capital	-	274
Other debtors	23	23
Prepayments	182	153
Accrued income	9,807	8,102
	24,880	21,148

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:

	2021 £'000	2020 £'000
Opening balance	8,102	10,034
Transfer to trade receivables	(8,102)	(10,034)
Revenue recognised in advance of invoicing	9,807	8,102
Closing balance	**9,807**	**8,102**

14. Trade and other payables

	2021 £'000	2020 £'000
Trade payables	33,026	39,048
Corporation tax	380	446
Other taxation and social security	1,511	2,423
Other creditors	238	82
Delayed charity payment	-	3,900
Deferred income	19	-
Accruals	2,566	2,059
	37,740	**47,958**

Trade payables include gross mobile payments amounts due to merchants 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 delayed charity payment at 30 June 2020 represents funds that have been collected by the Company on behalf of the charity – but which have not been remitted to the charity by the year end (at its request).

15. Leases

The corresponding liability of the right of use asset set out in note 11 above represents the following:

	Property lease liability £'000
Carrying value	
At 1 July 2019	303
Interest charge	4
Repayments	(126)
Modification to lease	113
Termination notice	(253)
At 30 June 2020	41
Interest charge	9
Repayments	(131)
Modification to lease	325
At 30 June 2021	244

The property lease was renegotiated in November 2019 and the revised terms included termination in November 2022. The monthly rent payable was not impacted significantly by this renegotiation. Accordingly, modifications were made to the lease liability and corresponding right of use asset to reflect the extended lease term.

In May 2020 the Company gave notice on the property lease – and the agreement will terminate in November 2020 with no penalty or dilapidation payments arising. Accordingly, the lease liability and corresponding right of use asset were modified to reflect the shorter date to termination. A new lease agreement was signed in November 2020.

The impact of the modifications to the lease on the right of use asset is set out in Note 15 above.

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

	Current liability £'000	Non current liability £'000	Total liability £'000
At 30 June 2021	111	133	244
At 30 June 2020	41	-	41

16. Deferred tax

The elements of deferred taxation are as follows:

Closing liability	2021 £'000	2020 £'000
Accelerated capital allowances	161	92
Share-based payments	(14)	-
	147	92

Movements in the year	2021 £'000	2020 £'000
Liability at 1 July	92	72
Charge/(credit) to statement for comprehensive income	55	20
Liability at 30 June	147	92

17. Financial instruments

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

	2021 £'000	2020 £'000
Financial assets		
Trade receivables	14,868	12,596
Accrued income	9,807	8,102
Cash & cash equivalents	17,336	28,618
	42,011	49,317
Financial liabilities		
Trade payables	33,026	39,048
Delayed charity payment	-	3,900
Other creditors	238	82
Accruals	2,566	2,059
Leases	244	41
	36,074	45,130

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:

MARKET RISK

Market risk encompasses three types of risk, being currency risk, interest rate risk and price risk. The Company holds no external loans and has minimal trade with foreign currencies. As such all these three aspects of market risk are considered immaterial to the financial statements.

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 only after the corresponding sums from trade receivables have been received.

The Company liquidity requirements to date have not been impacted by Covid 19. However, the Directors continually monitor trade receivables to ensure that there is no deterioration in its profile.

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 £14,868,196 at 30 June 2021 (2020: £12,596,037) 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 customer base of the Company is dominated by merchants – which are considered to be large credit worthy entities. There have been no failures in settlements during the five years ended 30 June 2021 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:

Number of shares	2021 Number	2020 Number
Ordinary shares at 0.1p each	100,000,000	-
A Ordinary shares at 0.00001p each	-	4,028,133
B Ordinary shares at 0.00001p each	-	448,333
	100,000,000	4,476,466

Allotted, called up and fully paid	2021 £	2020 £
Ordinary shares at 0.1p each	100,000	-
A Ordinary shares at 0.00001p each	-	40
B Ordinary shares at 0.00001p each	-	5
	100,000	45

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.

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

IPO reorganisation

As at 30 June 2020 the issued share capital of the Company comprised 4,028,133 A ordinary shares of £0.00001 each ("A Shares") and 448,333 B ordinary shares of £0.0001 each ("B Shares"). In connection with admission, the Company undertook a number of steps to reorganise its share capital as follows:

1. On 23 September 2020, £99,955.24 of the available £505,329.00 of the Company's share premium account was capitalised through the issue of bonus A Shares and B Shares, issued to existing shareholders pro rata to their holdings of A Shares and/or B Shares. The capitalisation resulted in an issued share capital of 8,998,466,648 A Shares and 1,001,533,352 B Shares
2. On 23 September 2020, the 8,998,466,648 A Shares and 1,001,533,352 B Shares in issue were consolidated into 89,984,666 A ordinary shares of £0.001 each and 10,015,334 B ordinary shares of £0.001 each in the capital of the Company.
3. Immediately prior to admission taking place, the A Shares and B Shares were re-designated as Ordinary Shares on the basis of one Ordinary Share per A Share or B Share then in issue.
4. Following the pre-IPO reorganisation, the issued share capital of the Company as at 12th October 2020 comprised 100,000,000 ordinary shares of £0.001 each.

19. Dividends

Amounts recognised as distributions to equity holders in the year:

	2021 £'000	2020 £'000
Final dividend for year ended 30 June 2020 of 36.7p (2019: 57p) per share	1,643	2,517
Interim dividend for year ended 30 June 2021 of 1.7p (2020: 79p) per share	1,700	3,536
	3,343	6,053
Proposed final dividend for year ended 30 June 2021 of 3.53p (2020: 36.7p) per share	3,534	1,643

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 2021 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. The inputs into the option pricing model for options issued in the year are as follows:

	Executive scheme	General employee scheme	General employee scheme
Grant date	12 Oct 2020	12 Oct 2020	8 Apr 2021
Vesting period ends	12 Oct 2023	12 Oct 2025	8 Apr 2026
Share price at date of grant	90p	90p	178.5p
Volatility	50%	50%	50%
Option life	10-years	10-years	10-years
Expected dividend yield	5.00%	5.00%	5.00%
Risk free investment rate	0.52%	0.52%	1.57%
Fair value at grant	26.0p	26.0p	53.5p
Exercise price at date of grant	90p	90p	178.5p

The volatility of the Company's share price on each date of grant is calculated as the average of the annualised standard deviations of daily continuously compounded returns on the Company's stock

A reconciliation of option movements over the year to 30 June 2021 is shown below:

	2021		2020	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
At 1 July	-	-	-	-
Granted during the year	1,384,426	0.94	-	-
Exercised during the year	-	-	-	-
Lapsed in the year	(30,000)	0.90	-	-
Outstanding at the end of the year	1,354,426	0.94	-	-
Exercisable at the end of the year	-	-	-	-

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

Name of Scheme	2021 No. of options	2020 No. of options	Calendar year of grant	Exercise period	Exercise price per share
Executive Scheme	500,000	-	2020	2023	90.0p
General Employee Scheme	790,000	-	2020	2023-2025	90.0p
General Employee Scheme	64,426	-	2021	2024-2026	178.5p
	1,354,426	-			

The Company recognised a charge of £71,840 (2020: £nil) related to equity-settled share-based payment transactions in the year.

21. Related party transactions

Grabyo Limited

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

PRE-IPO TRANSACTIONS

The Company invoiced Grabyo Limited £nil during the year to 30 June 2021 (2020: £405) for Grabyo Limited's share of overhead costs. Grabyo invoiced the Company £nil (2020: £200) during the year to 30 June 2021 for the purchase of lockers.

POST-IPO TRANSACTIONS

None

At the year end, an amount of £nil (2020: nil) was due from the related party.

Everplay Limited

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

PRE-IPO TRANSACTIONS

Everplay Limited invoiced the Company £51,534 during the year to 30 June 2021 (2020: £184,332) for services and this is included in administrative expenses.

POST-IPO TRANSACTIONS

None

At the year ended 30 June 2021 an amount of £nil (2020: £nil) was due to or from the related party

Wizzard Limited

Wizzard Limited is a company in which the Directors W Neale and R Weisz have a significant influence – due to their indirect and direct shareholdings in Wizzard Limited.

The Company invoiced Wizzard Limited £25 during the year to 30 June 2021 (2020: £26) for messaging services. Wizzard Limited invoiced the Company £21,220 during the year to 30 June 2021 (2020: £29,070) for design consultancy services provided to Fonix Mobile.

At the year ended 30 June 2021 an amount of £2,000 was due to (2020: £1 due from) 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 2021 of £885,855 (2020: £2,163,409).

At the year ended 30 June 2021 an amount of £nil (2020: £nil) was due to or from the related party.

Starnevesse Limited

Starnevesse Limited is a company in which the former Director and shareholder R C Thompson, has a significant influence – due to his indirect shareholding in Starnevesse Limited.

The Company paid dividends to Starnevesse Limited during the year ended 30 June 2021 of £507,593 (2020: £1,239,629).

At the year ended 30 June 2021 an amount of £nil (2020: £nil) was due to or from the related party

Magnolia Capital Limited

Magnolia Capital Limited is a company in which the former Director and shareholder R Horner, has a significant influence – due to his indirect shareholding in Magnolia Capital Limited.

The Company paid dividends to Magnolia Capital Limited during the year ended 30 June 2021 of £57,656 (2020: £140,805).

At the year ended 30 June 2021 an amount of £nil (2020: £nil) was due to or from the related party.

22. Ultimate controlling party

There is no ultimate controlling party of the Company.

23. Adoption of IFRS

Fonix Mobile's effective IFRS transition date for the purposes of these financial statements was 30 June 2020. The effect of this transition to IFRS on the year-end balance sheet at 30 June 2020 and the income statement for the year ended 30 June 2020 are set out below:

Adoption of IFRS 16

The principal adjustment arising was to recognise a property lease (previously treated as an operating lease) as a right of use asset and corresponding lease liability as required by IFRS 16.

Revenue recognition adjustment

In addition, adjustments have been made to the revenue recognition policy of the Company. Within mobile payments, those transactions effected via SMS were previously recognised by Company as a principal and are now recognised as an agent. Previously, the revenue and cost of sales related to these transactions were recognised on a gross basis. However, as the Company is considered the agent in this revenue stream, the amounts recorded in the financial statements have been recognised on a net basis. The impact of this adjustment has resulted in the reclassification of certain revenue and cost of sales in the Statement of Comprehensive Income. There is no impact of this adjustment on the Statements of Financial Position, or Statement of Cash Flows.

Impact on Statement of Comprehensive Income

The impact of the adjustments on the Statement of Comprehensive Income for the year ended 30 June 2020 is the as follows:

	FRS 102 2020 £'000	Revenue recognition adjustment £'000	IFRS 16 revision £'000	IFRS 2020 £'000
Continuing operations				
Revenue	113,341	(73,280)	-	40,061
Cost of sales	(103,353)	73,280	-	(30,073)
Gross profit	9,988	-	-	9,988
Other income	31	-	-	31
Adjusted operating expenses	(2,489)	-	126	(2,363)
Profit before interest, tax, depreciation and amortisation	7,530	-	126	7,656
Depreciation and amortisation	(324)	-	(122)	(446)
Operating profit	7,206	-	4	7,210
Finance income	49	-	-	49
Finance expense	-	-	(4)	(4)
Profit before taxation	7,255	-	-	7,255
Taxation	(1,235)	-	-	(1,235)
Total comprehensive loss for the financial year	6,020	-	-	6,020

Impact on Statement of Financial Position

The impact of adopting IFRS 16 on the Statement of Financial Position was to reflect the right of use asset and corresponding liability as follows:

	FRS 102 2020 £'000	IFRS 16 revision £'000	IFRS 2020 £'000
Non-current assets			
Intangible asset	684	-	684
Right of use asset	-	41	41
Tangible assets	33	-	33
	717	41	758
Current assets			
Trade and other receivables	21,148	-	21,148
Cash and cash equivalent	28,618	-	28,618
	49,766	-	49,766
Total assets	50,483	41	50,524
Equity and liabilities			
Equity			
Share capital	-	-	-
Share premium account	779	-	779
Retained earnings	1,654	-	1,654
	2,433	-	2,433
Liabilities			
Non-current liabilities			
Deferred tax liabilities	92	-	92
	92	-	92
Current liabilities			
Trade and other payables	47,958	-	47,958
Lease liabilities	-	41	41
	47,958	41	47,999
Total liabilities	48,050	41	48,091
Total equity and liabilities	50,483	41	50,524

Impact on Statement of Cash Flows

The IFRS 16 impact on the Statement of Cash Flows is the reallocation and re-categorisation of expenditure that does not impact on cash generated for any period. There is no impact on the Statement of Cash Flows for any period resulting from the revenue recognition adjustment.

The impact on the Statement of Cash Flows is as follows:

	FRS 102 2020 £'000	IFRS 16 revision £'000	IFRS 2020 £'000
Cash flows from operating activities			
Profit before taxation	7,254	-	7,254
Adjustments for			
Depreciation	13	-	13
Amortisation	311	122	433
Profit on disposal of tangible assets	(16)	-	(16)
Share-based payment charge	-	-	-
Finance income	(49)	-	(49)
Finance expense	-	4	4
(Increase)/decrease in trade and other receivables	(3,380)	-	(3,380)
Increase/(decrease) in trade and other payables	21,240	-	21,240
Income tax paid	(1,200)	-	(1,200)
Net cash flows from operating activities	24,174	126	24,300
Cash flows from investing activities			
Interest received	49	-	49
Payments to acquire tangible assets	(39)	-	(39)
Proceeds from sale of tangible assets	24	-	24
Payments to acquire intangible assets	(454)	-	(454)
Net cash flows from investing activities	(421)	-	(421)
Cash flows from financing activities			
Net proceeds from issue of equity	274	-	274
Dividends paid	(6,053)	-	(6,053)
Capital payments in respect of leases	-	(122)	(122)
Interest paid in respect of leases	-	(4)	(4)
Interest paid	-	-	-
Net cash flows from financing activities	(5,779)	(126)	(5,905)
Net (decrease)/increase in cash and cash equivalents for the period	17,974	-	17,974
Cash and cash equivalents at beginning of period	10,645	-	10,645
Cash and cash equivalents at end of period	28,618	-	28,618

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