Annual Report and Accounts 2020

Cerillion plc

Company Information

Company registration number:	09472870	**Solicitors:**	Orrick, Herrington & Sutcliffe (Europe) LLP 107 Cheapside London EC2V 6DN
Registered office:	25 Bedford Street London WC2E 9ES	**Nominated Adviser:**	Liberum Capital Limited Ropemaker Place 25 Ropemaker Street London EC2Y 9LY
Directors:	L T Hall O C R Gilchrist G J O'Connor A M Howarth M Dee	**Broker:**	Liberum Capital Limited Ropemaker Place 25 Ropemaker Street London EC2Y 9LY
Secretary:	O C R Gilchrist	**Auditor:**	PricewaterhouseCoopers LLP Registered Auditor Chartered Accountants 3 Forbury Place 23 Forbury Road Reading, Berkshire RG1 3JH
Bankers:	HSBC Jersey HSBC House St Helier Jersey JE1 1HS		

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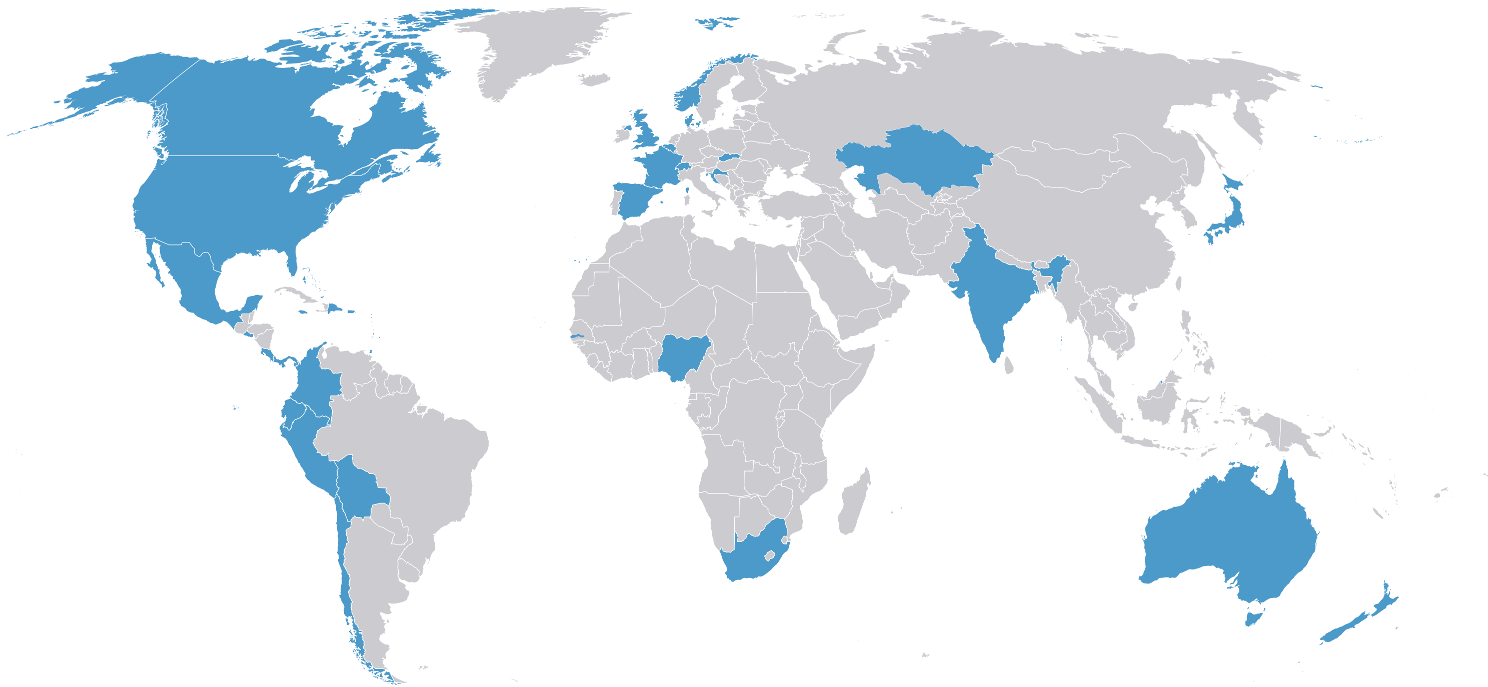
Overview
Who We Are

Cerillion provides mission-critical software for billing, charging and customer relationship managment ("CRM"), primarily to the telecoms sector.



c. 90 customers

- Headquartered in London, with a Global Solutions Centre in Pune, India, and staff based in the USA and Australia
- Global customer base c. 90 customers in c. 45 countries
- Long customer relationships – typically 10+ years

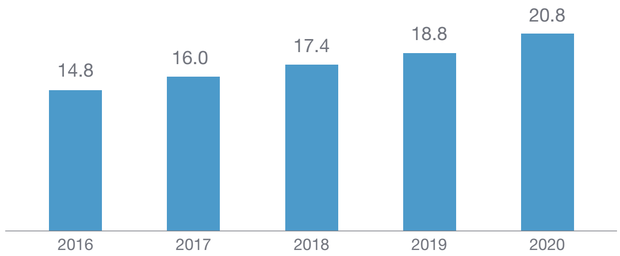
c. 45 countries

- Existing customers typically generate over 80% of annual income
- Product offering is now being recognised in global analyst reports
- Rising demand in telecoms marketplace, driven by multiple factors, including technological and regulatory change

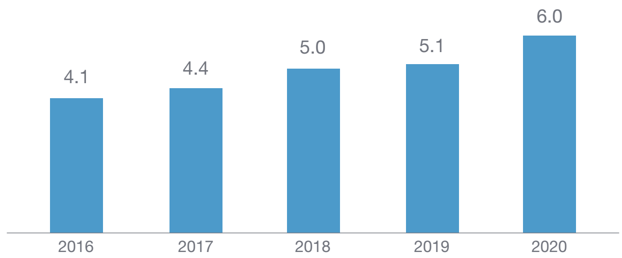
Overview
Financial Performance Highlights

Record highs across all key financial measures

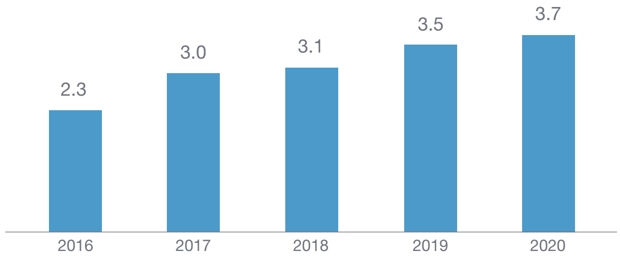
Total Revenue +11%
£'m



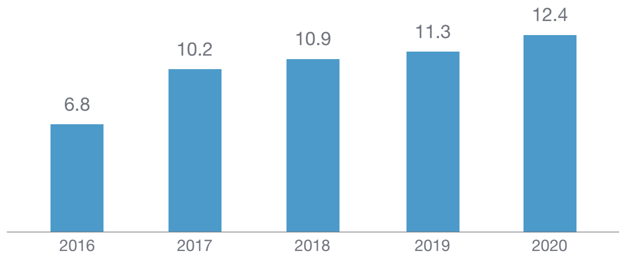
Recurring Revenue (29% of total revenue)
£'m



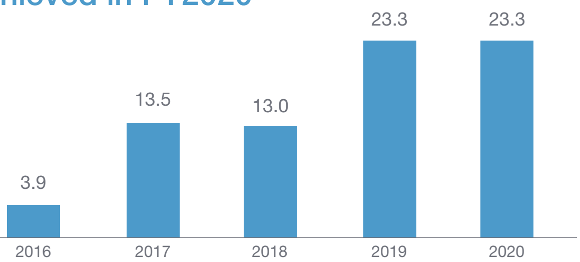
Adj. PBT +7%
£'m



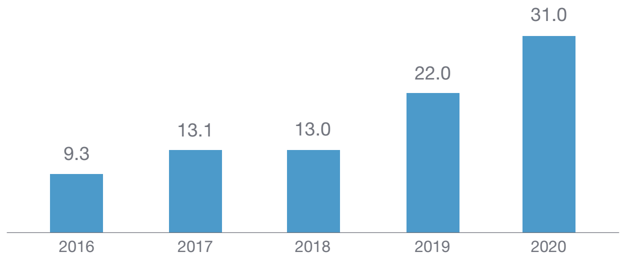
Adj. EPS +10%
p



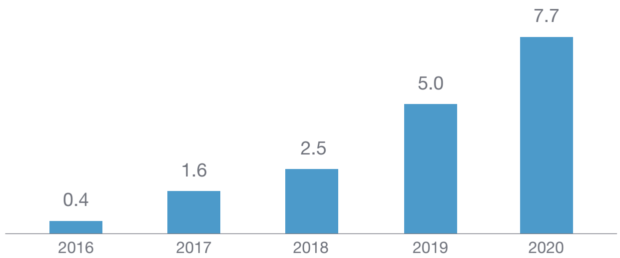
New Orders equalled record levels achieved in FY2020
£'m



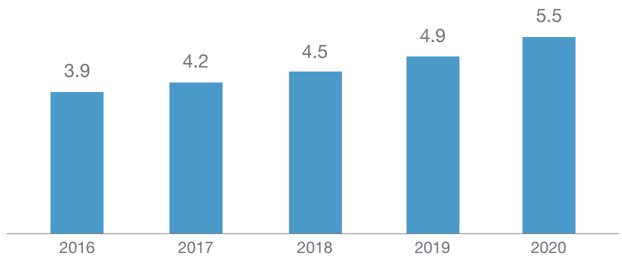
Back-order Book +41%
£'m



Net Cash +54%
£'m



Dividend (per share) +12%
p



Highlights

Cerillion plc, the billing, charging and customer relationship management software solutions provider, presents its annual results for the 12 months ended 30 September 2020.

Financial:

- All key financial performance measures reached record highs
- Revenue[1&4] rose by 11% to £20.8m (2019: £18.8m)
  - recurring revenue[5] contributed £6.0m (2019: £5.1m), 29% of total revenue
  - at the year end, on an annualised basis, recurring revenue was up 57% year-on-year to £7.9m (2019: £5.0m)
- New orders matched last year's record at £23.3m (2019: £23.3m) - consolidating 78% increase in 2019
- Back-order book[6] increased by 41% to £31.0m at the year-end (2019: £22.0m)
- Adjusted EBITDA[2] increased by 27% to £5.8m (2019: £4.6m)
  - adjusted EBITDA margin rose to 27.9% (2019: 24.3%)
- Adjusted profit before tax[3] up by 7% to £3.7m (2019: £3.5m)
- Adjusted earnings per share[7] increased by 10% to 12.4p (2019: 11.3p)
- Reported profit before tax up by 8.0% to £2.6m (2019: £2.4m)
- Reported earnings per share up 13% to 8.8p (2019: 7.8p)
- Net cash increased by 54% to £7.7m (2019: £5.0m)
- Increased final dividend of 3.75p per share proposed (2019: 3.3p), bringing the total dividend for the year to 5.5p per share (2019: 4.9p), an increase of 12%

Operational:

- Smooth adjustment to remote working in response to the coronavirus pandemic, with no significant impact to the sales processes, implementation projects or customer service
- Largest ever contract won in September 2020 (£11.2m), continuing the trend of winning bigger contracts with larger customers
- Strong pipeline of new business opportunities
- The Board believes that Cerillion is well-positioned for further progress over the new financial year

Louis Hall, CEO of Cerillion, commented:

"Cerillion has delivered an excellent performance. Revenue, pre-tax profits and the back-order book are at record levels, and we closed our largest ever contract win in the final quarter of the financial year, continuing a trend of larger wins. While the coronavirus pandemic has created severe disruption globally, it has underlined the importance of critical infrastructure and services, including telecommunications, our core market.

"The business has adapted effectively to remote working and we start the new financial year with greater revenue visibility than at the beginning of any previous financial year. We have a strong new customer pipeline and view both short and longer-term prospects very positively."

Notes

Note 1 Full analysis of the revenue streams for Cerillion plc can be found in the segmental reporting disclosure note 2.

Note 2 Adjusted earnings before interest depreciation and amortisation ("EBITDA") is calculated by taking operating profit and adding back depreciation & amortisation, share-based payment charge and exceptional items.

Note 3 Adjusted profit before tax is calculated after adding back amortisation of acquired intangible assets, share-based payment charge and exceptional items.

Note 4 Revenue derived from software licence, support and maintenance, Software-as-a-Service ("SaaS") and third-party sales.

Note 5 Recurring revenue includes annualised support and maintenance, managed service and Skyline revenue.

Note 6 Back order book consists of £25.1m of sales contracted but not yet recognised at the end of the reporting period plus £5.9m of annualised support and maintenance revenue. It is anticipated that 75% of the £25.1m of sales contracted but not yet recognised as at the end of the reporting period will be recognised within the next 12 to 18 months.

Note 7 Adjusted earnings per share is calculated by taking profit after tax and adding back amortisation of acquired intangible assets, share-based payment charge and exceptional items and is divided by the weighted average number of shares in issue during the period. There is no tax impact relating to these items.

Note 8 Gartner does not endorse any vendor, product or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings or other designation. Gartner research publications consist of the opinions of Gartner's research organization and should not be construed as statements of fact. Gartner disclaims all warranties, expressed or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose.

Chairman and Chief Executive Officer's Report

Introduction

Cerillion performed very strongly over the financial year, with revenue, profit before tax and the back-order book reaching record highs. Revenue increased by 11% year-on-year to £20.8m (2019: £18.8m), adjusted profit before tax rose by 7% to £3.7m (2019: £3.5m) and the back-order book was up by 41% to £31.0m (2019: £22.0m).

New orders at £23.3m matched last year's record (2019: £23.3m), and included the largest initial contract the Company has signed in its history. This continued the Company's trend towards bigger deal sizes with larger customers, reflecting the growing recognition in the marketplace of the quality of our solution and services.

The Company's performance was also supported by strong demand from existing customers, with sales to existing accounts up by 88% to £9.4m (2019: £5.0m).

The global coronavirus pandemic has not significantly affected the Company's operations. The transition to remote working was effected smoothly and while precautions continue to be taken regarding staff safety, our sales processes, implementation projects and customer support services are all working well.

Looking to the future, demand for billing, charging and customer relationship management ("CRM") solutions in the Company's core telecommunications market is set to continue to rise. Telecoms operators are seeing strong data traffic levels as a consequence of national lockdowns across the globe, and 5G rollouts are driving a wave of investment in both telecoms infrastructure and ancillary systems. Cerillion remains well-placed to benefit from this and to grow both in Europe and its other international markets.

With a very healthy pipeline of potential new business and implementations for new customers, we expect the Company to make further strong progress in the new financial year.

Financial Overview

Total revenue for the year to 30 September 2020 rose by 11% to £20.8m (2019: £18.8m). As is typical, existing customers (classified as those acquired before the beginning of the reporting period) accounted for a high proportion of total revenue, generating 97% of the overall result (2019: 80%).

Recurring revenue, which is derived from support and maintenance and managed service contracts, contributed £6.0m to total revenue, approximately 29% of overall Group revenue (2019: £5.1m, 27%). At 30 September 2020, recurring revenue on an annualised basis was 57% higher year-on-year at £7.9m (30 September 2019: £5.0m), boosted by a 205% increase in annualised managed service contract revenue (2019: 96%).

The Group's revenue streams are categorised in three segments: software revenue (including Software-as-a-Service); services revenue; and revenue from other activities. Software revenue principally comprises software licences and related support and maintenance sales, while services revenue is generated by software implementations and ongoing account development work. Revenue from other activities is mainly from the reselling of third-party products.

- Software (including Software-as-a-Service) revenue decreased by 16% to £7.6m (2019: £9.1m). This was due to the reduction in licence sales during the year to £1.6m (2019: £3.9m). Software revenues accounted for 37% of total revenues (2019: 48%).
- Services revenue increased by 44% to £11.3m (2019: £7.9m) and comprised 54% of total revenue (2019: 42%). This was due to a significant increase in new customer implementation work, following the closure of four major new enterprise contracts during the previous financial year.
- Third-party income remained constant at £1.8m (2019: £1.8m) and comprised 9% of total revenue (2019: 10%).

Gross margin at 74% (2019: 75%) was in line with expectations.

Operating expenses increased by 9% to £12.5m (2019: £11.5m). Personnel costs of £5.8m (2019: £5.6m) accounted for 47% (2019: 48%) of operating expenses.

Adjusted EBITDA for the year increased by 27% to £5.8m (2019: £4.6m), mainly driven by higher revenues. The Board considers adjusted EBITDA to be a key performance indicator for Cerillion as it adds back exceptional items and key non-cash transactions, being share-based payments, depreciation and amortisation.

We continued to invest in our product sets, including our cloud platform, and the charge for amortisation of intangibles was £1.9m (2019: £1.7m). Expenditure on tangible fixed assets was £0.3m (2019: £0.4m). Operating profit increased by 11% to £2.8m (2019: £2.5m), with £0.1m of the increase arising on the adoption of IFRS 16.

Adjusted profit before tax rose by 7% to £3.7m (2019: £3.5m) and adjusted earnings per share increased by 10% to 12.4p (2019: 11.3p). On a statutory basis, profit before tax was £2.6m (2019: £2.4m) and earnings per share was 8.8p (2019: 7.8p).

Cash Flow and Banking

The Group continued to generate strong cash flows and closed the financial year with net cash of £7.7m, up by 54% against the same point last year (30 September 2019: £5.0m). This net position is after the payment of £1.2m of debt repayments (2019: £1.0m) and £1.5m in dividends (2019: £1.4m). Total Group cash at the year-end was £8.3m (2019: £6.8m) and total debt stood at £0.6m (2019: £1.8m). It is anticipated that the remaining debt outstanding at year-end will be repaid during FY 2021.

Dividend

The Board is pleased to propose a 14% increase in the final dividend to 3.75p per share (2019: 3.3p). Together with the interim dividend of 1.75p per share (2019: 1.6p), this brings the total dividend for the year to 5.5p per share (2019: 4.9p), an increase of 12%.

The dividend, which is subject to shareholder approval at the Company's Annual General Meeting to be held on 5 February 2021, will become payable on 9 February 2021 to those shareholders on the Company's register as at the close of business on the record date of 4 January 2021. The ex-dividend date is 31 December 2020.

Operational Overview

Whilst the COVID-19 pandemic has presented some challenges, particularly the need to move to remote working, we have adjusted well to the change in circumstances, and have successfully completed a number of implementations remotely.

This global shift to remote working has however emphasised the dependence of the world economy on state-of-the-art telecoms infrastructure. With this in mind, we expect to see increased investment in the sector in general and an acceleration of investment in 5G rollouts, with spending trickling down from core network improvements to ancillary system upgrades and replacements. Consequently, we expect demand for billing, charging and CRM software in our core telecoms market to continue to grow.

Beyond these broad sector trends we expect a number of other factors to drive demand for our specific offerings, including:

- digital transformation to put digital engagement at the forefront of the customer experience;
- the consolidation of multiple CRM, billing and charging systems onto a single platform;
- demand for real-time charging systems to enable more effective monetisation of data services; and
- demand for more agile systems to enable the more rapid introduction of new products.

Chairman and Chief Executive Officer's Report
Continued

Cerillion's ability to address the market through a range of flexible solutions remains a key strength. In addition to our proven ability to support end-to-end transformation projects, the Company can provide individual product modules, or subsets of modules, to implement point solutions to address more granular requirements. Earlier this year, we integrated our real-time charging ("CCS") and product catalogue ("EPC") modules with other legacy systems at Ignition Group, one of Africa's largest telecommunications providers. The Company's solutions are also able to support a broad range of communications service providers ("CSPs"), from traditional network operators to virtual network operators ("VNOs") to enterprise connectivity solutions providers.

The major new customer win announced in September marks an important milestone for Cerillion, as it represents the Company's largest ever initial contract value and reinforces the general trend towards signing bigger deals with larger new customers. This trend is an important contributor to driving the growth of the business, as these engagements typically involve higher recurring revenues.

The new customer wins and ongoing implementation work with existing customers create a strong platform for further growth in the new financial year. The back-order book at 30 September 2020 was up by 41% to an all-time record of £31.0m (2019: £22.0m), providing far greater visibility of revenues than at the beginning of any previous financial year. We have stepped up our delivery resources accordingly, and our offshore centre in Pune, India still retains ample capacity for further growth.

We continued to invest in R&D over the year to further improve our product set. This included the release of Cerillion 8, the next generation of our enterprise platform, which now includes:

- Cerillion Business Insights, a powerful, embedded analytics module that unlocks the full value of customer data by enabling users to easily explore, visualise and query data in real-time;
- enhanced support for B2B2X business models, including product margin analysis and a highly customisable data model, making it easy to map additional product and service attributes required for seamless integration with digital ecosystems;
- a completely redesigned user interface offering context personalisation, task-based navigation and separate microservices-based apps, all designed to increase customer service efficiency and reduce CSR training needs; and
- further improvements in putting digital engagement at the forefront of the customer experience, with streamlined navigation and communications, saving customers time and effort when reporting faults or raising queries natively within Self Service.

Our ambition is to retain our status as a 'Visionary' in Gartner's highly regarded annual report8, '*Magic Quadrant for Integrated Revenue and Customer Management (IRCM) for CSPs*', where we have been recognised for the past three consecutive years it has been published. The report assesses vendors for their "completeness of vision" and "ability to execute", as well as taking customer references.

Outlook

Cerillion is well-positioned for further growth over the new financial year. The back-order book is at a record level, and the pipeline of new prospects is strong. The Company has adapted effectively to the changes caused by the global pandemic crisis, and can benefit from the market trends it has driven. In addition, its financial position is strong, with good cash flows and growing recurring revenue.

Our increasing success in the marketplace, alongside positive market trends, supports our positive view of the Company's short and longer term prospects for growth.

A M Howarth
Non-executive Chairman
20 November 2020

L T Hall
Chief Executive Officer
20 November 2020

Strategic Report

The Directors present their strategic report for the year ended 30 September 2020.

Financial overview

Revenue for the year totalled £20,813,925 (2019: £18,751,781) and the gross profit was £15,348,215 (2019: £14,053,499). Profit after tax was £2,609,805 (2019: £2,312,767). The Group's net assets were £16,025,889 (2019: £15,544,974).

Business review

The review of the year-on-year trade relating to the Group is covered within the Chairman and Chief Executive Officer's report, along with a review of the cash flows.

Future outlook of the business

This section of the Strategic Report is covered within the Chairman and Chief Executive Officer's report.

Summary of key performance indicators

The Directors have monitored the performance of the Group with particular reference to the following key performance indicators. The key performance indicators are monitored against budget and reviewed by the Board:

		2020 £'000	2019 £'000
Revenue		**20,814**	18,752
*Key revenue streams**:			
Services		**11,326**	7,891
Software & Software-as-a-Service		**7,642**	9,067
Recurring revenues		**6,040**	5,119
New orders		**23,297**	23,276
Back order book		**30,978**	21,955
Operating profit		**2,803**	2,522
Add back:	- Depreciation and amortisation	**2,934**	2,013
	- Share-based payment charge	**69**	23
Adjusted EBITDA**		**5,806**	4,558
Profit before tax		**2,639**	2,449
Add back:	- Amortisation of acquired intangibles	**992**	993
	- Share-based payment charge	**69**	23
Adjusted profit before tax***		**3,700**	3,465
Employee numbers:	*- Onshore*	**104**	94
	- India	**131**	109
Total		**235**	203

* Full analysis of the revenue streams for Cerillion plc can be found in the segmental reporting disclosure note 2.

** Adjusted earnings before interest depreciation and amortisation ("EBITDA") is calculated by taking operating profit and adding back depreciation & amortisation, share-based payment charge and exceptional items.

*** Adjusted profit before tax is calculated after adding back amortisation of acquired intangible assets, share-based payment charge and exceptional items. The Board includes the add back of amortisation of acquired intangibles (intangibles arising from fair value adjustments) to the non-GAAP measure of adjusted profit before tax, to reflect one of the key performance measures monitored by the Board and the Group's analysts.

Strategic Report
Continued

Principal risks and uncertainties

Effectively managing risks is an integral part of Cerillion's business. The Group has identified its main risks and is taking appropriate action to manage and mitigate these risks. The Group's multinational operations expose it to financial risks that include market risk, credit risk, operational risk and liquidity risk. The Directors have split the risks into those relating to the Group and its business operations and those relating to the industry and markets where the Group operates. The Directors review and agree policies for managing each of these risks. These policies are detailed in note 19 to the accounts.

The key risk factors affecting the Group's performance are expected to include the following:

The success of the Group's business is partly dependent on key personnel.

The Group's future growth and success depends, in part, upon the leadership and performance of its management team, many of whom have significant experience in the technology sector and would be difficult to replace. In particular, the Group is highly dependent on the continued services of the Directors, the senior management team and other key employees, including technical personnel. Competition for employees with the particular skill sets the Group requires is intense. The loss of executive officers, any members of the senior management team or other key employees, the inability to recruit sufficiently qualified personnel, or the inability to replace departing employees in a timely manner could have a material adverse effect on the Group's business, financial condition and results of operations.

Mitigation:

The Group has initiated two share-based payment schemes to further incentivise and retain key personnel.

Fluctuations or devaluations in foreign currencies could adversely affect the Group's financial condition.

The Group services customers in c. 45 countries and, in the year ended 30 September 2020, 88% (2019: 88%) of the Group's revenues were generated outside of the UK, some of which were transacted in foreign currencies. To the extent that the Group's business transactions are not denominated in the same currency, the Group is exposed to foreign currency exchange rate risk. The Group continually reviews contract denominations and exchange rates and enters into hedging currency contracts, where deemed appropriate. Movements in foreign exchange rates on transactions outside of those hedged items could have an adverse effect on the Group's business, financial condition and results of operations. Uncertainties with respect to the outcome of Brexit could have an impact on fluctuations or devaluations in foreign currencies and could adversely affect the Group's financial condition.

Mitigation:

The Group continually reviews contract denominations and exchange rates and enters into hedging currency contracts, where deemed appropriate. The Group moves balances between international currency accounts to mitigate the currency risk exposure and to provide economic hedges between cash receipts and payments in foreign currencies. Advice is sought regularly from the Group's bankers with regard to foreign exchange strategy.

Changes in demands in the telecoms industry market are expected to impact the Group's customers.

The Group generates a large proportion of its revenues from the telecoms industry. Prices for many telecoms products have declined consistently in recent years, through a combination of regulatory intervention and market competition and these declining price trends are expected to continue. It is possible that the pricing environment could become more difficult than currently anticipated by the Group's customers. Consequently, the Group's customers may become less financially viable.

Any downturn in the global economy may affect the growth of the telecoms industry or result in reductions in telecoms expenditure. If economic conditions were to deteriorate, or do not materially improve, the Group's existing and potential customers may reduce their expenditure with the Group as a result of their end customer's reduction in demand for telecoms services. Any reduction in customer expenditure could have an adverse effect on the Group's business, financial condition and results of operations.

Furthermore, call volume reductions in the fixed line and mobile telephony sector have resulted from consumers being able to communicate more readily by means of the Internet. The Group has traditionally been dependent on the fixed line, mobile telecommunications, broadband and TV industries and on fixed line/mobile, broadband and TV volumes and revenues, which may fall generally in the future.

Additionally, it is expected that there will be a trend for the Group's customers to move towards managed service agreements. The Group will need to invest in further resources including staff and servers to service this demand. There is no guarantee that the Group will have the resources to respond to this demand at the time necessary.

The Group's potential inability to adapt to changing customer demands could have an adverse effect on the Group's business, financial condition and results of operations.

Mitigation:
The Group maintains good relationships with its customers to ensure that its products and services meet their needs, as evidenced by the Company's classification within the Gartner Report.

The telecommunications industry is characterised by rapid technological change and continually evolving industry standards, which could harm the Group's competitive position, render its products obsolete and cause it to incur substantial costs to replace its products or implement new technologies.

The telecommunications industry is characterised by rapid technological change and frequent new service introductions. Significant technological changes could render the Group's technology and services obsolete. If the Group does not adapt to rapid technological change, it could lose customers or market share. The Group's success depends in part on its ability to adapt to the rapidly changing market by continually improving the features, functionality, reliability and responsiveness of the Group's existing services and by successfully developing, introducing and marketing new features, services and applications to meet changing customer needs. There can be no assurance that any of the Group's technological developments will be successful. The Group may encounter delays and incur additional development and production costs and expenses, over and above those expected by the Directors, in order to develop technologies.

Additionally, the Group may require additional third-party licences to supplement new technology in order to remain competitive, and it may not be able to acquire such licences on reasonable terms or at all. The Group cannot assure any investor that it will be able to adapt to these challenges or respond successfully or in a cost-effective way to adequately meet them. The Group's failure to do so could adversely affect its ability to compete, retain customers or maintain its financial performance.

Mitigation:
The Group continues to invest heavily in research and development in order to keep pace with the changing market.

The Group is reliant on a relatively small number of customers and the loss or deterioration of business from any one of the top five customers could materially affect the Group's financial condition.

The Group is reliant on a relatively small number of customers and expects this reliance to increase in the short to medium term.

Revenue/customer concentration

Customers by size:	2020	2019	2018
Number 1	**21.5%**	19.6%	21.3%
Top 5	**57.6%**	55.4%	59.2%
Top 10	**80.2%**	74.6%	79.6%
Top 20	**96.1%**	95.1%	94.9%

Any deterioration of the Group's relationship with any one of its top five customers could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and/or the price of the Ordinary Shares.

Strategic Report
Continued

Any one of the Group's customers may experience financial difficulties and may cease to trade, may decide not to renew their support contracts or may be unable to continue to conduct business with the Group, which could materially affect the Group's business, financial condition and results of operations.

A large proportion of the Group's cash receipts are driven by project milestones (plus payment terms), resulting in volatility over any given year. Revenue is recognised alongside percentage completion to successful implementation (services and licence) or term (support), resulting in comparably low volatility across any one year. Relatively large levels of accrued income have built up in the past, whereby the Group has incurred considerable effort and expense in relation to certain projects that it is yet to receive payment for. In addition, certain customers have historically been offered longer payment terms, based on instalments over a number of years. As a result, a number of the Group's customers have in the past and are likely in the future to be in a position where they will in effect be significant debtors.

Mitigation:
The Group monitors the credit risk associated with having a small number of customers and continually monitors working capital exposures, setting credit limits, restricting access to services and appointing legal representation when deemed necessary.

Reporting on compliance with section 172 requirements

In performance of their statutory duties and in accordance with s172 (1) Companies Act 2006, the Board of Directors consider, both individually and together, that they have acted in the way 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 (having regard to the stakeholders and matters set out in s172 (1) (a-f) of the Act.) in the decisions taken during the year ended 30 September 2020.

Each year, the Board undertakes an in-depth review of the Company's strategy, including a business plan for subsequent years. Once approved by the Board, the plan and strategy form the basis for financial budgets, resource plans and investment decisions and also the future strategic direction of the Company. In making decisions concerning the business plan and future strategy, the Board has regard to a variety of matters including the interests of various stakeholders, the consequences of its decisions in the long term and its long term reputation.

Stakeholder engagement

With employees

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues with regular all company meetings, briefing groups and the distribution of the annual report.

The Company is an equal opportunities employer. Applications for employment are always fully considered irrespective of gender, ethnic origin, race, religion, sexual orientation or disability.

With suppliers, customers, and others

From the perspective of the Board, the Board has taken the lead in carrying out the duties of a Board in respect of the Company's other stakeholders, including engaging with them, having regard to their interests and the effect of that respect. The Board of the Company has also considered relevant matters where appropriate.

We only work with suppliers and customers with an equivalent high regard for quality, ethics (including the prohibition of modern slavery and anti-bribery), rights, a consideration for the environment, and commitment to our customers.

Shareholder information

The Group's website at www.cerillion.com contains a wide range of information about its activities and visitors can download copies of the report and accounts in addition to newsletters and other articles of interest.

This report is approved by the Board on 20 November 2020 and signed on its behalf by:

L T Hall
Chief Executive Officer

Corporate Governance Report

The Company's Ordinary Shares trade on AIM and the Company has adopted the Quoted Companies Alliance Corporate Governance Code For Small and Mid-Size Quoted Companies (the "QCA Code"). The Directors recognise that it is in the best interests of the Company and its Shareholders to follow the QCA Code's principals of Corporate Governance and to have in place risk controls appropriate for a company of its size along with the NAPF Corporate Governance Policy and Voting Guidelines for AIM Companies.

Audit Committee

The audit committee comprises Alan Howarth and Mike Dee, both independent non-executive directors and is chaired by Mike Dee. In compliance with the QCA Code, Mike Dee has relevant financial experience. The audit committee normally meet not less than twice a year and has responsibility for, amongst other things, the planning and review of the Group's annual report and accounts and half yearly reports and the involvement of the Group's auditors in that process. The committee focus in particular on compliance with legal requirements, accounting standards and on ensuring that an effective system of internal financial control is maintained. The ultimate responsibility for reviewing and approving the annual report and accounts and the half yearly reports remains with the Board.

The terms of reference of the audit committee cover such issues as membership and the frequency of meetings, as mentioned above, together with the role of the secretary and the requirements of notice of and quorum for the right to attend meetings. The duties of the audit committee covered in the terms of reference are: financial reporting, internal controls and risk management systems, whistleblowing, internal audit, external audit and reporting responsibilities. The terms of reference also set out the authority of the committee to exercise its duties.

Nominations Committee

The nominations committee comprises Alan Howarth and Mike Dee, both of whom are independent non-executive directors, and is chaired by Alan Howarth. The nominations committee meet when appropriate and consider the composition of the Board, retirements and appointments of additional and replacement directors and make appropriate recommendations to the Board.

Remuneration Committee

The remuneration committee comprises Alan Howarth and Mike Dee, both of whom are independent non-executive directors, and is chaired by Alan Howarth. The remuneration committee normally meet at least once a year and has responsibility for making recommendations to the Board on the Group's policy on the remuneration of certain senior executives (including senior management), including annual bonuses, the eligibility requirements for benefits under long term incentive schemes and for the determination, within agreed terms of reference, of specific remuneration packages for each of the executive Directors, including pension rights, contracts of employment and any compensation payments.

The terms of reference of the remuneration committee cover such issues as membership and frequency of meetings, as mentioned above, together with the role of secretary and the requirements of notice of and quorum for and the right to attend meetings. The duties of the remuneration committee covered in the terms of reference relate to the following: determining and monitoring policy on and setting levels of remuneration, contracts of employment, early termination, performance related pay, pension arrangements, authorising claims for expenses from the executive directors, reporting and disclosure, and remuneration consultants. The terms of reference also set out the reporting responsibilities and the authority of the committee to exercise its duties.

Cerillion plc has a culture based on ethical values and behaviours, which are promoted by the CEO and management team. The Board seeks to maintain the highest standards of integrity and probity in the conduct of the Group's operations. These values are enshrined in the written policies and working practices adopted by all employees in the Group. The Company adopts a policy of equal opportunities and diversity in the recruitment and engagement of staff, as well as during the course of their employment. It endeavours to promote the best use of its human resources on the basis of individual skills and experience, matched against those required for the work to be performed. The Company recognises the importance of investing in its employees and, as such, it provides opportunities for training and personal development and encourages the involvement of employees in the planning and direction of their work. The Company also recognises that commercial success depends on the full commitment of all its employees, and commits to respecting their human rights, to providing them with favourable working conditions that are free from unnecessary risk, and to maintaining fair and competitive terms and conditions of service at all times. These values are applied regardless of age, race, religion, gender, sexual orientation or disability.

Board of Directors

The Group is run by its Board of Directors, which currently has five members, including two non-executive directors, and meets 11 times per year. The Non-executive Directors make a valuable contribution by bringing a breadth of business and relevant professional experience to the Board and commit half a working day per month to their roles.

The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board. It is responsible for the overall Group strategy, acquisition and divestment policy, corporate policies, approval of major capital expenditure and consideration of significant capital matters.

The Chairman considers the operation of the Board and performance of the Directors on an ongoing basis as part of his duties and will bring any areas of improvement he considers are needed to the attention of the Board. The Company has resolved to carry out a formal board performance evaluation every three years.

The Directors are encouraged to attend training and continuing professional development courses as required. Updates are given to the Board on developments in governance and regulations regularly. Oliver Gilchrist is the Company Secretary and supports the Chairman in ensuring that the Board receives the information and support it needs to carry out its roles. When new directors join the Board they will receive an induction covering topics such as the operation of the Board, Directors' responsibilities, insider dealing, AIM Rules and governance documents.

Alan Miles Howarth, Non-executive Chairman (aged 75 years)

Alan Howarth has extensive senior executive experience in a range of national and international organisations in both the public and private sector. At Ernst & Young he was one of the founding partners of the UK Management Consulting practice. For the last 18 years, he has managed a portfolio of non-executive appointments, as chairman of both public and private companies primarily in the UK and US Technology and Health sectors. He is Chairman of Essentia Trading Limited as well as a Non-executive Director of Premier Technical Services Group plc.

Louis Tancred Hall, Chief Executive Officer (aged 56 years)

Louis Hall is the CEO and founder of Cerillion, having led the management buyout of the original business from Logica in 1999. Louis has worked in the enterprise software industry for over 25 years and prior to forming Cerillion held a number of product, sales and management positions at Logica.

Oliver Campbell Radnor Gilchrist, Chief Financial Officer (aged 56 years)

Oliver Gilchrist joined Cerillion in 2001 as CFO. He has over 30 years' experience in finance, training as a chartered accountant at Coopers & Lybrand (now part of PwC). He left Coopers & Lybrand for industry in 1995, joining Parallax plc as CFO, prior to its sale to Keane Inc. in 1999 for $25m. Following this he acted as interim CFO to Apama Inc., managing a second round interim fundraise of $10 million in 2001. The company was subsequently sold to the Carlyle Group.

Guy Jason O'Connor, Business Development Director (aged 57 years)

Guy O'Connor is a co-founder of Cerillion and has led business development at Cerillion since the management buyout. Prior to joining Cerillion, Guy was Group Director for Matheson Investment International, a subsidiary of Jardine Matheson Group.

Mike Dee, Non-executive Director (aged 65 years)

Mike Dee is a qualified accountant (CIMA). Until July 2015, he was CEO of Manx Telecom plc and led its successful AIM IPO in February 2014. Before becoming CEO of Manx Telecom plc in April 2011, he was its Director of Finance and had been part of the British Telecom plc team which set up Manx Telecom plc in 1987. Prior to his 29 years at Manx Telecom plc, Mike spent four years at British Telecom plc. Before that, Mike held accounting and company secretary positions with the Dowty Group, Iloman Engineering and Castle Industries.

Board of Directors
Continued

Attendance at the relevant committees was as follows:

Committee Attendance	Board	Audit	Nominations	Remuneration
Alan Howarth	11/11	2/2	-	1/1
Mike Dee	11/11	2/2	-	1/1
Louis Hall	11/11	-	-	-
Oliver Gilchrist	11/11	-	-	-
Guy O'Connor	10/11	-	-	-

Report of the Remuneration Committee

Companies quoted on AIM are not required to provide a formal remuneration report. Therefore this report is provided for information purposes to give greater transparency to the way Directors and key management are remunerated.

Composition and role of the Remuneration Committee

The Board has established a Remuneration Committee, which currently consists of Alan Howarth, Non-executive Director, who chairs the committee and Mike Dee, Non-executive Director. The committee determines the specific remuneration packages for each of the Executive Directors and key management. No Director is involved in any decisions as to his own remuneration.

Framework and policy on Executive Directors' remuneration

The Group's remuneration policy is designed to provide competitive rewards for its Executive Directors and key management, taking into account the performance of the Group and individual Executives, together with comparisons of pay conditions throughout the markets in which the Group operates. It is the aim of the committee to attract, retain and motivate high calibre individuals with a competitive remuneration package. It is common practice in the industry for total remuneration to be influenced by bonuses and long-term incentives.

The remuneration packages are constructed to provide a balance between fixed and variable rewards. Therefore remuneration packages for Executive Directors normally include basic salary, discretionary bonuses, long-term incentive awards and benefits in kind. In agreeing the level of basic salaries and annual bonuses, the committee takes into consideration the total remuneration that Executive Directors could receive.

Basic salary

Basic salaries are reviewed on an annual basis. The committee seeks to establish a basic salary for each position, determined by individual responsibilities and performance taking into account comparable salaries for similar positions in companies of a similar size in the same market.

Incentive arrangements

Annual discretionary bonuses

These are designed to reflect the Group's performance taking into account the performance of its peers, the markets in which the Group operates and the Executive Directors' contribution to that performance.

Long-term incentive awards

The Group introduced a Save as You Earn (SAYE) share option scheme and a Long-Term Incentive Plan (LTIP) in 2017. All UK staff members were eligible to take part in the SAYE scheme whilst the LTIP was restricted to the senior management team, as disclosed in prior year accounts.

The LTIP was established to further incentivise the Senior Managers, who had limited equity in the Group, in the creation of long-term value for shareholders. The options were exercisable at the nominal value of the ordinary shares and were granted over an aggregate of 300,000 ordinary shares, representing approximately 1% of the current issued share capital of the Company. The LTIP provides for these options to vest, in full, three years from the date of the grant, subject to the achievement of targets for compound annual growth in the share price of the Company over this vesting period. The targets are as follows:

Below 8% compound annual growth:	nil vesting
8% compound annual growth:	25% vesting
15% compound annual growth:	100% vesting
Between 8% and 15% compound annual growth:	Straight-line vesting between 25% and 100%

The LTIP also contains standard provisions dealing with certain matters such as cessation of employment and change of control. No Directors of the Company are participants in the LTIP.

Report of the Remuneration Committee
Continued

Under the 2017 SAYE scheme, employees could elect to contribute a monthly amount to be saved over three years to enable the exercise of options over Ordinary Shares of 0.5 pence each in the Company. The options became available for exercise from 1 March 2020, with an exercise price of £1.132, which was a 20% discount to the closing price on 5 January 2017, the last trading date before the launch of the Plan on 6 January 2017.

In total up to 189,845 options over Ordinary Shares were awarded under the Plan, which would represent approximately 0.64 per cent. of the current issued share capital of the Company.

During 2019 the Group introduced an additional Save as You Earn (SAYE) share option scheme whereby employees could elect to contribute a monthly amount to be saved over three years to enable the exercise of options over Ordinary Shares of 0.5 pence each in the Company. The options will be available for exercise from 1 March 2022, with an exercise price of £1.092, which was a 20% discount to the closing price on the last trading date before the launch of the Plan.

In total up to 132,912 options over Ordinary Shares were awarded under the Plan, which would represent approximately 0.45 per cent. of the current issued share capital of the Company. There were no new share option schemes entered into during the year ended 30 September 2020.

There is a charge recognised in the current year financial statements of £68,727 (2019: £23,115) in total in respect of both the LTIP and SAYE schemes. The increase in the share-based payment charge compared to prior year is due to a refinement of the valuation model used for the LTIP scheme during 2019. See note 22.

In February 2020, and again in September 2020, the Company acquired some of its own shares in the market to be held as Treasury Stock to be used to satisfy the exercise of share options under the SAYE 2017 and part of the LTIP schemes respectively. 172,610 of share options relating to the SAYE 2017 were exercised in March 2020 at the exercise price of £1.132 per share. Since the year end, on 20 October 2020, 125,000 of the LTIP shares were exercised at a price of £0.05 per share.

Other benefits
Depending on the terms of their contracts, Executive Directors are entitled to contributions to pension plans, private medical insurance, permanent health insurance and life assurance.

Service contracts and notice periods
All Executive Directors have employment contracts which are subject to between three and twelve months' notice from either the Executive or the Group, given at any time.

All Non-executive Directors have a remuneration agreement for an initial period of twelve months and thereafter on a rolling basis subject to three months' notice by either the Non-executive Director or the Group, given at any time. In the event of termination of their appointment they are not entitled to any compensation.

Non-executive Directors' fees are determined by the Executive Directors having regard to the need to attract high calibre individuals with the right experience, the time and responsibilities entailed, and comparative fees paid in the market in which the Group operates. They are not eligible for pensions. They may be invited to participate in the Group's share option scheme.

Directors' emoluments

The remuneration of each Director during the years ended 30 September 2020 and 30 September 2019 are detailed in the tables below:

	Salary £	Benefits £	Bonus £	Pension contribution £	Total 2020 £
Executive					
L T Hall	301,790	5,924	271,611	9,054	**588,379**
O C R Gilchrist	178,705	6,238	80,417	21,445	**286,805**
G J O'Connor	53,145	6,231	-	1,538	**60,914**
Non-executive					
A M Howarth	25,000	-	-	-	**25,000**
M Dee	25,000	-	-	-	**25,000**
Total	**583,640**	**18,393**	**352,028**	**32,037**	**986,098**

	Salary £	Benefits £	Bonus £	Pension contribution £	Total 2019 £
Executive					
L T Hall	287,624	5,539	205,100	34,515	**532,778**
O C R Gilchrist	170,257	6,025	57,255	20,431	**253,968**
G J O'Connor	87,217	5,851	-	6,038	**99,106**
Non-executive					
A M Howarth	25,000	-	-	-	**25,000**
M Dee	25,000	-	-	-	**25,000**
Total	**595,098**	**17,415**	**262,355**	**60,984**	**935,852**

A M Howarth

Chairman of the Remuneration Committee

20 November 2020

Report of the Audit Committee

Membership and meetings of the Audit Committee

The Audit Committee is a committee of the Board and is composed entirely of Non-executive Directors, whom the Board considers to be independent. The Audit Committee invites the Executive Directors and other senior managers to attend its meetings as appropriate.

During the year the Audit Committee was chaired by Mike Dee. The Audit Committee is considered to have sufficient, recent and relevant financial experience to discharge its functions. The Audit Committee invites others, including the external auditor, to attend its meetings as appropriate.

Role, responsibilities and terms of reference

The Audit Committee's role is to assist the Board in the effective discharge of its responsibilities for financial reporting and internal control.

The Audit Committee's responsibilities include:

- reviewing the integrity of the annual and interim financial statements of the Group, ensuring they comply with legal requirements, accounting standards, the AIM Rules and any other formal announcements relating to the Group's financial performance;
- reviewing the Group's internal financial control and risk management systems;
- monitoring and reviewing the requirement for an internal audit function; and
- overseeing the relationship with the external auditor, including approval of its remuneration, reviewing the scope of the audit engagement, assessing its independence, monitoring the provision of non-audit services and considering its reports on the Group's financial statements.

Independence of external auditor

The Audit Committee keeps under review the relationship with the external auditor including:

- the independence and objectivity of the external auditor, taking into account the relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of non-audit services;
- recommending to the Board and shareholders the re-appointment or otherwise of the external auditor for the following financial period; and
- the consideration of audit fees and any fees for non-audit services.

The Audit Committee develops and recommends to the Board the Company's policy in relation to the provision of non-audit services by the auditor and ensures that the provision of such services does not impair the external auditor's independence.

M Dee
Chairman of the Audit Committee
20 November 2020

Directors' Report

The Directors present their report, the strategic report and the audited financial statements of the Group for the year ended 30 September 2020.

Directors

The present membership of the Board is set out below. All Directors served throughout the year unless indicated:

L T Hall
G J O'Connor
O C R Gilchrist
A M Howarth
M Dee

Directors' Responsibilities Statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and the Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). 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 Group and Company and of the profit or loss of the Group and Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs for Group and Company have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all 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 auditors are aware of that information.

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

Directors' Report
Continued

Going concern
The Directors have assessed the current financial position of the Group and the Company, along with future cash flow requirements for a period in excess of 12 months from the date of signing the financial statements, to determine if the Group and the Company has the financial resources to continue as a going concern for the foreseeable future. Despite the challenges of the current pandemic, as set out in the strategic report, the Group continues to grow revenues, profits and cash flows and has a strong balance sheet and cash position. In respect of downside sensitivity, the Board has considered the effect of a material reduction in new sales made and delays in currently contracted receipts. The consequential forecasts still show sufficient headroom to meet all its liabilities as they fall due.

The conclusion of this assessment is that it is appropriate that the Group and the Company be considered a going concern, based on forecast profitability and positive cash inflows. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Financial risk management
Information relating to the Group's financial risk management is detailed in note 19 to the financial statements.

Research and development activities
Qualifying research and development expenditure incurred on the Group's suite of products has been capitalised in line with the Group's accounting policy in the relevant period. Research and development comprises analysis, design, programming and testing of software solutions. The Group will continue to invest in solutions to address new customer requirements as they arise and to take advantage of technological advances in the underlying software platforms. Amounts not capitalised have been expensed to the consolidated statement of comprehensive income.

The Group has expensed £341,834 (2019: £465,920) through the consolidated statement of comprehensive income during the year and has capitalised software development costs of £1,088,365 (2019: £833,781).

Strategic report
Information in respect of the Business Review, Future Outlook of the Business and Principal Risks and Uncertainties are not shown in the Report of the Directors because they are presented in the Strategic Report in accordance with s414c(ii) of the Companies Act 2006.

Subsequent events
There are no subsequent events requiring adjustment or disclosure within the financial statements.

Auditors
PricewaterhouseCoopers LLP have expressed willingness to continue in office. In accordance with section 489(4) of the Companies Act 2006, a resolution proposing the reappointment of PricewaterhouseCoopers LLP will be put to the members at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD

L T Hall
Director
20 November 2020

Independent Auditors' Report to the members of Cerillion plc

Report on the audit of the financial statements

Opinion

In our opinion, Cerillion plc's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 30 September 2020 and of the group's profit and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 30 September 2020; the consolidated statement of comprehensive income, the consolidated and company statements of cash flows, and the consolidated and company statements of changes in equity for the year then ended; the Principal Accounting Policies; and the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Independent Auditors' Report to the members of Cerillion plc

Report on the audit of the financial statements

Continued

Our audit approach

Overview

- Overall group materiality: £208,000 (2019: £188,000), based on 1% of revenue.
- Overall company materiality: £204,000 (2019: £169,000), based on 1% of assets.

- Full scope audit procedures were performed over Cerillion plc and its wholly owned subsidiary Cerillion Technologies Limited
- Analytical procedures were performed over Cerillion Technologies (India) Private Limited, a wholly owned subsidiary of Cerillion Technologies Limited

- Software licence revenue recognition
- Capitalised development costs
- Impact of COVID-19

The scope of our 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. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, 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 by our audit.

Key audit matter	How our audit addressed the key audit matter
Software licence revenue recognition Software licence revenue includes the licensed product and related services (see note 2 of the financial statements). Software revenue recognition is considered a significant audit risk as there can be significant judgement required in determining the performance obligations within a contract and whether these performance obligations are considered distinct for purposes of revenue recognition. The conclusions on whether performance obligations are distinct impacts whether revenue for core licensed product is recognised at a point in time or over time based on the percentage of completion method. This method relies on the Group's internal measure of progress compared to total effort to complete the performance obligations and involves a high degree of estimation uncertainty. The judgement and estimates involved in determining distinct performance obligations and assessing the percentage of contract completion could materially affect the timing and quantum of revenue and profit recognised in each period.	Our audit response included the following: • Reviewing key contracts and assessing the determination of distinct vs. non-distinct performance obligations for those contracts contributing the highest amount of contract revenue during the year • Performing substantive tests of details, including agreeing elements to evidence of delivery and cash receipt, as applicable • Assessing management's historical ability to estimate using the percentage of completion method by performing a retrospective review • Considering the transparency and sufficiency of disclosures in the annual report Based on the work performed, as summarised above, we have concluded that software licence revenue recognition is appropriate.
Capitalised development costs The Group capitalises eligible employment costs of its software developers, which are incurred on the development of its software products. In order to determine the amount of cost that should be capitalised, the Group must assess whether the cost meets the capitalisation criteria set out in the relevant accounting standards. Given the significant judgment involved in determining the amount to be capitalised and the value of amounts capitalised, this financial line item is susceptible to error and has been identified as a key audit matter. Total development costs capitalised during fiscal 2020 were £1.1m and amortisation expense incurred during the year was £700k (see note 11 of the financial statements).	Our audit response included the following: • Discussing ongoing projects directly with the development team to understand the status of the projects • Considering whether expected revenue to be generated supports the total costs to be capitalised • Determining whether projects met the criteria for recognition of internally developed intangible assets in accordance with IAS 38 • Performing tests of details on a sample basis, recalculating and agreeing amounts capitalised from the time and expenses system to payroll records Based on the work performed, as summarised above, we have concluded that amounts capitalised by the Group are materially appropriate.

Independent Auditors' Report to the members of Cerillion plc

Report on the audit of the financial statements
Continued

Key audit matter	How our audit addressed the key audit matter
Impact of COVID-19 The outbreak of the COVID-19 pandemic in early 2020 has affected individuals and businesses across the world in unprecedented ways. Given the unprecedented nature of the pandemic, its impact remains an uncertainty in both the short and longer term; the directors have considered the Group's financial performance since the pandemic and the potential impact on future cashflows. They have performed a detailed going concern assessment, covering a period of at least twelve months from the date of approval of these financial statements, which includes a plausible but severe downside scenario and consideration of potential breaches of covenant compliance. The directors concluded that based on these forecasts and sensitivities, there were no issues identified regarding the going concern of the Group. As a result of the unprecedented uncertainty surrounding the pandemic, we have determined the impact of COVID-19 to be a key audit matter.	Our audit response included the following: • Re-evaluating our initial risk assessment to determine whether the uncertainties associated with COVID-19 required additional audit procedures • Assessing the extent to which the Group's future cash flows might be adversely affected by COVID-19, including the Group's ability to collect payment on core customer contracts and its ability to comply with the financial covenants on its debt facilities • Considering the adequacy of the disclosures in the Annual Report and Accounts, particularly in the Strategic report and Principal Accounting Policies. • Considering the Group's available financing and maturity profile to assess liquidity throughout the assessment period in the context of the downside cashflow scenarios considered. Based on the work performed, as summarised above, we concur with management's conclusion that there are no material uncertainties that may cast significant doubt about the Group's ability to continue as a going concern and the disclosures of the impact of COVID-19 are appropriate.

We determined that there were no key audit matters applicable to the company to communicate in our report.

How we tailored the audit scope

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 the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£208,000 (2019: £188,000).	£204,000 (2019: £169,000).
How we determined it	1% of revenue.	1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used by the group and in the annual report, revenue is the primary measure used by shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.	Total assets is considered most appropriate as the parent entity has minimal trading activity and primarily holds debt on behalf of the group and investments in the group's subsidiaries.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £204,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £10,400 (Group audit) (2019: £9,400) and £9,200 (Company audit) (2019: £9,400) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Independent Auditors' Report to the members of Cerillion plc

Report on the audit of the financial statements
Continued

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Alex Hookway (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
20 November 2020

Principal Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

Basis of preparation

The Company is a public limited company, which was incorporated in England and Wales on 5 March 2015. The address of its registered office is 25 Bedford Street, London, WC2E 9ES. The principal activity of the Group is the supply and development of telecommunication software solutions and equipment. These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs") and IFRIC interpretations endorsed by the European Union ("EU"). The financial statements have been prepared under the historical cost convention, except for derivative financial instruments which are held at fair value. There is no material difference between the fair value of financial assets and liabilities and their carrying amount.

The Company's Directors are responsible for the preparation of the financial statements.

The preparation of the financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Further details regarding areas requiring significant assumptions and estimates are provided in Note 1 to the financial statements.

The functional and presentational currency is UK Sterling. Amounts in the financial statements have been rounded to the nearest pound.

Going concern

The Directors have assessed the current financial position of the Group and the Company, along with future cash flow requirements for a period in excess of 12 months from the date of signing the financial statements, to determine if the Group and the Company has the financial resources to continue as a going concern for the foreseeable future. Despite the challenges of the current pandemic, as set out in the strategic report, the Group continues to grow revenues, profits and cash flows and has a strong balance sheet and cash position. In respect of downside sensitivity, the Board has considered the effect of a material reduction in new sales made and delays in currently contracted receipts. The consequential forecasts still show sufficient headroom to meet all its liabilities as they fall due.

The conclusion of this assessment is that it is appropriate that the Group and the Company be considered a going concern, based on forecast profitability and positive cash inflows. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiaries as of 30 September 2020. All subsidiaries have a reporting date of 30 September with the exception of the Indian subsidiary, which has a mandatory reporting date of 31 March. The Indian subsidiary is consolidated using its management accounts through to 30 September.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary or a business is the fair values of the assets transferred, the liabilities incurred to former owners of the acquiree and the equity interests issued to the Group. The consideration transferred includes the fair values of any asset or liability resulting from a contingent consideration arrangement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values on the acquisition date. Acquisition-related costs are expensed as incurred.

Intercompany transactions, unrealised gains and losses on intragroup transactions and balances between Group companies are eliminated on consolidation.

New and Revised Standards

IFRS in issue but not applied in the current financial statements

The following IFRS and IFRIC Interpretations have been issued but have not been applied by the Company in preparing these financial statements as they are not as yet effective. The Company intends to adopt these Standards and Interpretations when they become effective, rather than adopt them early.

- IFRS 17, 'Insurance Contracts', effective date 1 January 2021
- Definition of material – amendments to IAS 1 and IAS 8 (effective: 1 January 2020)
- Definition of a Business – amendments to IFRS 3 (effective: 1 January 2020)

The above standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

IFRS applied for the first time in the current financial statements

IFRS 16, 'Leases',

This section explains the impact of the adoption of IFRS 16 "Leases" on the Group's financial statements.

The Group has adopted IFRS 16 "Leases" retrospectively from 1 October 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 October 2019. The new accounting policies are disclosed within the "Leases" policy below.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 October 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 October 2019 was 3.0%. There were no leases previously classified as finance leases.

(i) Practical expedients applied

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

- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 October 2019; and
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 October 2019 as short-term leases

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

Principal Accounting Policies

Continued

(ii) Measurement of lease liabilities	Group 30 Sep 2019 £
Operating lease commitments disclosed as at 30 September 2019	6,099,366
Discounted using the lessee's incremental borrowing rate at the date of initial application	6,002,352
Less: low value/short-term leases recognised on a straight-line basis as expense	(12,221)
Lease liability recognised as at 1 October 2019	**5,990,131**
Of which are:	
Current lease liabilities	582,127
Non-current lease liabilities	5,408,004
	5,990,131

The Parent Company recognised a lease liability of £4,966,000 as at 1 October 2019, which was split £365,500 as current and £4,600,500 as non-current.

(iii) Measurement of right-of-use assets

The associated right-of-use assets were measured on a retrospective basis as if the new rules had always been applied. The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 September 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(iv) Adjustments recognised in the statement of financial position on 1 October 2019

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

- Right-of-use assets – increased by £5,097,287 (Parent Company: £4,173,943)
- Accruals – decreased by £892,844 (Parent Company: £792,057)
- Lease liabilities – increased by £5,990,131 (Parent Company: £4,966,000).

The net impact on retained earnings on 1 October 2019 was £nil (Parent Company: £nil).

Segmental reporting

In accordance with IFRS 8, segmental information is presented based on the way in which financial information is reported internally to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board who makes strategic decisions.

During the years ended 30 September 2020 and 30 September 2019, the Group was organised into four main business segments for revenue purposes:

- Services: relates to revenue from providing services to customers on new implementation projects and enhancements (see revenue recognition policy (i) and (iii) on pages 32 & 33).
- Software: relates to support and maintenance revenue derived from people using the software as well as the licences to use the software (see revenue recognition policy (i) and (ii) on pages 32 & 33).
- Software-as-a-Service: relates to monthly subscriptions for a managed service or to use products on a right to use basis (see revenue recognition policy (i) on page 32).
- Third-Party: relates to revenue derived from third-party services or licences, re-billable expenses and pass through of selling on hardware (see revenue recognition policy (iv) on page 33).

Assets are used across all segments and therefore are not split between segments.

Foreign currency translation

(i) Functional and presentation currency

Items included in the Financial Statements are measured using the currency of the primary economic environment in which entities operate ('the functional currency'). The Financial Statements are presented in Sterling, which is the Parent Company's functional and presentation currency. There has been no change in the functional currency during the current or preceding period.

(ii) Transactions and balances

Transactions in foreign currencies are translated into Sterling using monthly average exchange rates. This is permissible in this case as there are no significant fluctuations between the currencies with which the entity operates. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date and any exchange differences arising are taken to profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

(iii) Foreign operations

In the Group's Financial Statements, all assets, liabilities and transactions of Group entities with a functional currency other than the GBP are translated into GBP upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into GBP at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into GBP at the closing rate. Income and expenses have been translated into GBP at the average rate over the reporting period. Exchange differences arising from significant foreign subsidiaries are charged or credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

Revenue recognition

The Group enters into revenue arrangements with customers to provide standard licensed products (including installation, implementation, maintenance and support fees), additional licenses, on-going account development work, and third-party time and materials, either individually or as part of an integrated offering of multiple services.

Contract existence and term

Certain criteria must be satisfied to recognise an arrangement as a revenue generating contract. Judgement arises when determining if an enforceable contract is in place. Where services are offered on a trial basis or the customer's ability and intention to pay are in doubt, no revenue arrangement is deemed to exist and any monies received will be recognised as a liability (deferred income). Revenue is recognised in accordance with policy when such time as a binding contract is in force or we have completed our obligations and no amounts received are refundable.

Promises to a customer

At inception of the contract, the Group assesses the products and services promised in its contracts with customers and identifies a performance obligation for each promise to transfer to the customer a product or service (or bundle of products and services) that is distinct.

Judgement is required when determining which promises are distinct and which are not. Generally, the Group's products and services sold follow a prescribed treatment and are consistent across customers. However, this can vary by customer contract depending on the terms and conditions of the contract and requires evaluation of performance obligations for every contract.

Principal Accounting Policies

Continued

Revenue to recognise: 'The transaction price'

Revenue is measured at the fair value of the consideration received or receivable net of sales related taxes. When a contract includes a significant financing component as a result of payments made in arrears (i.e. typically milestone payments made after one-year from contract inception), the accounting effect of the adjustment for the financing component decreases the amount of revenue recognised with a corresponding increase to finance income as the Group has provided financing to the customer. The Group's contracts do not typically include variable consideration.

Allocation of revenue

Once the Group has determined the transaction price, the total transaction price is allocated to each performance obligation using a standalone selling price ('SSP') methodology. The standalone selling price is the observable price at which the Group sells a promised good or service separately to a customer, or the estimated standalone selling price where sufficient standalone sales do not exist. The standalone selling price is estimated using all information that is reasonably available and maximising observable inputs with approaches including historical pricing, industry practice or using a residual approach.

Recognising revenue

The Group recognises revenue when, or as, it satisfies a performance obligation by transferring control of the good or service to a customer. The judgement of when to recognise revenue is intrinsically linked to the performance obligation assessment because revenue can only be recognised when or as the distinct performance obligation is satisfied.

(i) Sale of standard licensed products

Revenue from standard licensed products comprises three elements, being:

- Initial licence and implementation fees ("inception fees")
- Ongoing maintenance and support fees
- Software-as-a-Service

The determination of whether initial license and implementation fees represent distinct promises to customers is complex and requires consideration of whether the licensed product requires significant customer modification and whether the implementation process is complex. The Group does not typically provide upgrades or enhancements that are considered critical to the functionality of the licensed product over the initial term.

Where a licensed product is not modified to meet the specific requirements of each customer and follows a straightforward implementation profile, revenue is recognised at the point in time at which the customer has the ability and right to use all licences.

Where a licenced product requires significant customer modifications and implementation is complex, revenue is recognised over time, based on the percentage of completion method. This method relies on the Group's internal measure of progress compared to total effort to complete the modifications and implementation. Estimates are based on the total number of days performed on the project compared to the total number of days expected to complete the project. The estimate of the total number of days to complete a project is inherently judgemental and depends upon the complexity of the work being undertaken, the customisation being made to software and the customer environment being interfaced to. The scope of projects frequently change and most frequently in agreement with customer modifications. Consequently, the judgement of total estimate at completion is subjected to a high level of review at all stages in a project life cycle. Provision is made for any losses on the contract as soon as they are foreseen.

Revenue from ongoing maintenance and support fees are recognised on a pro-rated basis over the duration of the contract.

Revenue earned from Software-as-a-Service arrangements for providing a licence and/or service usually on a monthly rolling basis. Revenue is recognised over time based on the duration of the contract and the service time provided to date.

(ii) Sale of additional licences

Revenue from the sale of additional licences is recognised when the additional licences are delivered to the customer.

(iii) Ongoing account development work

Ongoing account development work is generally provided on a fixed price basis and as such revenue is recognised based on the percentage of completion method or upon delivery of the relevant project, in accordance with the identification of the distinct performance obligations within the arrangement. Where percentage of completion method is used, the estimate of the percentage completed is calculated in a consistent manner with estimates for bundled licensed arrangements. Provision is made for any losses as soon as they are foreseen.

(iv) Third-party time, material works and re-billable expenses

Revenue on contracted third-party time and material works is recognised on a time basis using pre agreed day rates.

Revenue on re-billable expenses is recognised as incurred. In the case of third-party time, material works and re-billable expenses the Group is considered to be acting as principal as it is the primary obligor in the sales transaction, the Group can select the supplier of the service and the Group holds the credit risk in the transaction.

The excess of amounts invoiced over revenue recognised are included in deferred income. If the amount of revenue recognised exceeds the amount invoiced the excess is included within accrued income.

Existence of a significant financing component

When a contract includes a significant financing component as a result of payments to be made in arrears, the accounting effect of the financing component decreases the amount of revenue recognised with a corresponding increase to interest income as Cerillion is providing financing to the customer.

Contract costs

Incremental costs of obtaining a contract, principally sales commissions and agent fees, are capitalised if they are expected to be recovered. Incremental costs include only those costs that would not have been incurred if the contract had not been obtained. Contract costs are amortised over a period that is consistent with the pattern of transfer of the good or service to which the asset relates. Costs to fulfil a contract include professional services internal and external costs and any licence inputs purchased from third parties. These costs are capitalised where they relate to an identified specific contract, generate an asset for the Group and they will be recovered over the course of the contract.

Cost of sales

Costs considered to be directly related to revenue are accounted for as cost of sales. All direct production costs and overheads, including indirect overheads that can reasonably be allocated, have been classified as cost of sales.

Taxation and deferred taxation

The income tax expense or income for the period is the tax payable on the current period's taxable income. This is based on the national income tax rate enacted or substantively enacted for each jurisdiction with any adjustment relating to tax payable in previous years and changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. Current tax credits arise from the UK legislation regarding the treatment of certain qualifying research and development costs, allowing for the surrender of tax losses attributable to such costs in return for a tax rebate.

Principal Accounting Policies

Continued

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applicable when the asset or liability crystallises based on current tax rates and laws that have been enacted or substantively enacted by the reporting date. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of temporary differences can be deducted. The carrying amount of deferred tax assets are reviewed at each reporting date.

Deferred tax liabilities are generally recognised in full, although IAS 12 'Income Taxes' specifies limited exemptions. As a result of these exemptions, the Group does not recognise deferred tax on temporary differences relating to goodwill, or to its investments in subsidiaries. Temporary differences associated with investments in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

Leases

As described in the "New and Revised Standards" section above, the Group has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means that comparative information is still reported under IAS 17 and IFRIC 4.

Accounting policy applicable from 1 October 2019

For any new contracts entered into on or after 1 October 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

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

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

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third-party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by Cerillion, which does not have recent third-party financing, and
- makes adjustments specific to the lease, eg term, country, currency and security.

Where the Group is exposed to potential future increases in variable lease payments based on an index or rate, these are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Subsequent to initial measurement, lease payments are allocated between principal, which reduces the liability, and finance cost. The finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The Group also assesses the right-of-use asset for impairment when such indicators exist.

The Group has elected to account for short-term leases and leases of low value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

The right-of-use assets and lease liabilities have been disclosed separately on the face of the Statement of Financial Position, within Non-current assets and across Current & Non-current liabilities respectively.

Principal Accounting Policies
Continued

Accounting policy applicable before 1 October 2019
Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. These are the only types of lease utilised by the entity. Operating lease payments for assets leased from third parties are charged to the statement of comprehensive income on a straight-line basis over the period of the lease, on an accrued basis.

Impairment
Goodwill and assets that are subject to amortisation are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Financial instruments
Recognition, initial measurement and derecognition
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs that are directly attributable to the acquisition of the financial asset. Subsequent measurement of financial assets and financial liabilities is described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets
For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

Trade and other receivables
Trade and other receivables are recognised initially at fair value, which is generally the original invoice amount, and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less.

Classification and subsequent measurement of financial liabilities
The Group's financial liabilities include trade and certain other payables. Financial liabilities are measured subsequently at amortised cost using the effective interest method.

Trade payables
Trade payables are recognised initially at fair value, which is generally the original invoice value, and subsequently measured at amortised cost using the effective interest method. These amounts represent liabilities for goods and services provided to Cerillion prior to the end of the financial period which are unpaid.

Interest-bearing loans and other borrowings
Interest-bearing loans and other borrowings are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. Amortised cost is calculated by taking into account any issue costs, discount or premium. The difference between the proceeds (net of directly attributable transactions costs) and the redemption value is recognised in finance costs over the period of the borrowings.

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Equity

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs.

The share premium account represents premiums received on the initial issuing of the share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

The ordinary share capital account represents the amount subscribed for shares at nominal value.

Where any Group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of Cerillion plc, as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transactions costs and the related income tax effects, is included in equity attributable to the owners of Cerillion plc.

Retained earnings include all results as disclosed in the statement of comprehensive income.

Foreign exchange reserve – comprises foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities into Sterling.

Provisions

Provisions are recognised when Cerillion has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are the best estimate of the expenditure required to settle the obligation at the current reporting date.

Property, plant and equipment ("PPE")

PPE is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Cerillion and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Leasehold improvements — Life of lease
- Fixtures and fittings — 3 – 4 years
- Computer equipment — 3 years

Principal Accounting Policies
Continued

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

Intangible assets and amortisation

(i) Software (development expenditure & external software licences)

Expenditure on research is written off in the period in which it is incurred. Development expenditure incurred on specific projects is capitalised where the Board is satisfied that the following criteria have been met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

External software licence cost includes expenditure that is directly attributable to the acquisition of the items.

Computer software development expenditure and external software licences recognised as assets are amortised on a straight-line basis over their estimated useful lives, which does not exceed 5 years.

(ii) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the assets and liabilities assumed at the date of acquisition. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment testing is carried out by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

(iii) Purchased customer contracts

Purchased customer contracts acquired as part of a business combination are recognised at fair value if they are project specific and there is a level of certainty that there will be future recovery. Customer contracts are amortised over the perceived period that they will generate economic benefits. This is calculated using in depth analysis of future revenue from cash flow forecasts.

The customer contracts acquired as part of the acquisition of Cerillion Technologies Limited are to be amortised on a straight-line basis over a period of 7 years.

(iv) Intellectual property rights

Intellectual property rights acquired as part of a business combination are recognised at fair value based on an estimate of future profits. Intellectual property rights are amortised over the perceived period that they will generate economic benefits. This is calculated using in depth analysis of future revenue from cash flow forecasts.

The intellectual property rights acquired as part of the acquisition of Cerillion Technologies Limited are to be amortised on a straight-line basis over a period of 7 years.

Investments in subsidiaries

Investments in subsidiaries are recorded at cost less any provision for permanent diminution in value.

Interest

Interest income and expense are recognised using the effective interest method and comprise amounts receivable and payable on bank deposits and bank borrowings respectively.

Post-retirement benefits

Defined contribution schemes

The defined contribution schemes provide benefits based on the value of contributions made. The amounts charged as expenditure for the defined contribution scheme represents the contributions payable by Cerillion for the accounting years in respect of the schemes.

Exceptional items

Exceptional items are those significant items, and are irregular items, that are separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance.

Share-based employee remuneration

The Company operates equity-settled share-based remuneration plans for its employees. None of the Company's plans are cash-settled.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values.

Where employees are rewarded using share-based payments, the fair value of employees' services is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions). The fair value is determined by using the Black-Scholes method.

All share-based remuneration is ultimately recognised as an expense in the statement of comprehensive income with a corresponding credit to share option reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any adjustment to cumulative share-based compensation resulting from a revision is recognised in the current period. The number of vested options ultimately exercised by holders does not impact the expense recorded in any period.

Upon exercise of share options, the proceeds received, net of any directly attributable transaction costs, are allocated to share capital up to the nominal (or par) value of the shares issued with any excess being recorded as share premium.

Consolidated Statement of Comprehensive Income

For the year ended 30 September 2020

	Notes	Year to 30 September 2020 £	Year to 30 September 2019 £
Revenue	2	**20,813,925**	18,751,781
Cost of sales		**(5,465,710)**	(4,698,282)
Gross profit		**15,348,215**	14,053,499
Operating expenses		**(12,545,475)**	(11,531,711)
Adjusted EBITDA*		**5,805,645**	4,557,915
Depreciation and amortisation		**(2,934,178)**	(2,013,012)
Share-based payment charge	22	**(68,727)**	(23,115)
Operating profit	3	**2,802,740**	2,521,788
Finance income	5	**49,990**	6,375
Finance costs	6	**(214,142)**	(79,506)
Profit before taxation		**2,638,588**	2,448,657
Taxation	7	**(28,783)**	(135,890)
Profit for the year		**2,609,805**	2,312,767
Other comprehensive income			
Items that will or may be reclassified to profit or loss:			
Exchange difference on translating foreign operations		**(165,075)**	130,807
Total comprehensive income for the year		**2,444,730**	2,443,574
Earnings per share			
Basic earnings per share – continuing and total operations	10	**8.8 pence**	7.8 pence
Diluted earnings per share – continuing and total operations		**8.8 pence**	7.8 pence

All transactions are attributable to the owners of the parent.

The Group has no other recognised gains or losses for the current year.

* Adjusted earnings before interest depreciation and amortisation ("EBITDA") is calculated by taking operating profit and adding back depreciation & amortisation, share-based payment charge and exceptional items.

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Statement of Financial Position

For the year ended 30 September 2020

	Notes	2020 £	2019 £
ASSETS			
Non-current assets			
Goodwill	11	2,053,141	2,053,141
Other intangible assets	11	4,475,236	5,210,766
Property, plant and equipment	12	787,885	853,206
Right-of-use assets	13	4,389,175	-
Trade and other receivables	16	2,439,119	2,376,478
Deferred tax assets	15	145,060	133,578
		14,289,616	10,627,169
Current assets			
Trade and other receivables	16	9,516,568	8,166,271
Cash and cash equivalents	19	8,311,867	6,771,406
		17,828,435	14,937,677
TOTAL ASSETS		32,118,051	25,564,846
LIABILITIES			
Non-current liabilities			
Borrowings	18	-	(570,946)
Lease liabilities	13	(4,655,772)	-
Deferred tax liabilities	15	(883,823)	(955,569)
		(5,539,595)	(1,526,515)
Current liabilities			
Trade and other payables	17	(9,020,502)	(7,293,357)
Lease liabilities	13	(922,706)	-
Borrowings	18	(609,359)	(1,200,000)
		(10,552,567)	(8,493,357)
TOTAL LIABILITIES		(16,092,162)	(10,019,872)
NET ASSETS		16,025,889	15,544,974
EQUITY ATTRIBUTABLE TO SHAREHOLDERS			
Share capital	21	147,567	147,567
Share premium account		13,318,725	13,318,725
Treasury stock	21	(375,025)	-
Share option reserve		151,619	158,515
Foreign exchange reserve		(46,981)	118,094
Retained earnings		2,829,984	1,802,073
TOTAL EQUITY		**16,025,889**	**15,544,974**

The financial statements on pages 28 to 67 were approved and authorised for issue by the Board of Directors on 20 November 2020.
Signed on behalf of the Board of Directors by:

L T Hall
Director
Company Number 09472870

The accompanying accounting policies and notes form an integral part of these financial statements.

Company Statement of Financial Position

For the year ended 30 September 2020

	Notes	2020 £	2019 £
ASSETS			
Non-current assets			
Right-of-use assets	13	**3,668,011**	-
Investments in subsidiaries	14	**14,651,571**	14,651,571
		18,319,582	14,651,571
Current assets			
Trade and other receivables	16	**1,948,226**	1,723,123
Cash and cash equivalents		**114,129**	169,163
		2,062,355	1,892,286
TOTAL ASSETS		**20,381,937**	16,543,857
LIABILITIES			
Non-current liabilities			
Lease liabilities	13	**(4,012,028)**	-
Borrowings	18	**-**	(570,946)
		(4,012,028)	(570,946)
Current liabilities			
Trade and other payables	17	**(120,619)**	(900,165)
Lease liabilities	13	**(731,000)**	-
Borrowings	18	**(609,359)**	(1,200,000)
		(1,460,978)	(2,100,165)
TOTAL LIABILITIES		**(5,473,006)**	(2,671,111)
NET ASSETS		**14,908,931**	13,872,746
EQUITY ATTRIBUTABLE TO SHAREHOLDERS			
Share capital	21	**147,567**	147,567
Share premium account		**13,318,725**	13,318,725
Treasury stock	21	**(375,025)**	-
Share option reserve		**151,619**	158,515
Retained earnings		**1,666,045**	247,939
TOTAL EQUITY		**14,908,931**	13,872,746

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act and not presented the statement of comprehensive income for the Parent Company. The total comprehensive income for the year was £3,000,000 (2019: £nil).

The financial statements on pages 28 to 67 were approved and authorised for issue by the Board of Directors on 20 November 2020. Signed on behalf of the Board of Directors by:

L T Hall
Director
Company Number 09472870

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 September 2020

	2020 £	2019 £
Cash flows from operating activities		
Profit for the year	**2,609,805**	2,312,767
Adjustments for:		
Taxation	**28,783**	135,890
Finance income	**(49,990)**	(6,375)
Finance costs	**214,142**	79,506
Share option charge	**68,727**	23,115
Depreciation	**1,058,169**	311,363
Amortisation	**1,876,009**	1,701,649
	5,805,645	4,557,915
Increase in trade and other receivables	**(1,412,938)**	(1,606,038)
Increase in trade and other payables	**2,501,200**	2,333,695
Cash generated from operations	**6,893,907**	5,285,572
Finance costs	**(214,142)**	(79,506)
Finance income	**49,990**	6,375
Tax paid	**(123,171)**	(112,879)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**6,606,584**	5,099,562
Cash flows from investing activities		
Capitalisation of intangible assets	**(1,108,473)**	(833,781)
Purchase of property, plant and equipment	**(330,098)**	(394,789)
NET CASH USED IN INVESTING ACTIVITIES	**(1,438,571)**	(1,228,570)
Cash flows from financing activities		
Borrowings repaid	**(1,161,587)**	(1,022,124)
Purchase of treasury stock	**(737,506)**	-
Receipts from exercise of share options	**195,395**	-
Principal elements of finance leases	**(411,653)**	-
Dividends paid	**(1,490,431)**	(1,357,620)
NET CASH USED IN FINANCING ACTIVITIES	**(3,605,782)**	(2,379,744)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,562,231**	1,491,248
Translation differences	**(21,770)**	25,856
Cash and cash equivalents at beginning of year	**6,771,406**	5,254,302
CASH AND CASH EQUIVALENTS AT END OF YEAR	**8,311,867**	6,771,406

The accompanying accounting policies and notes form an integral part of these financial statements.

Company Statement of Cash Flows

For the year ended 30 September 2020

	2020 £	2019 £
Cash flows from operating activities		
Profit for the year	**3,000,000**	-
Adjustments for:		
Depreciation	**505,932**	-
Finance costs	**184,945**	77,973
Share option recharge to subsidiary	**68,727**	23,115
	3,759,604	101,088
(Increase)/(decrease) in trade and other receivables	**(225,103)**	2,382,062
Increase in trade and other payables	**12,511**	118,065
Cash generated from operations	**3,547,012**	2,601,215
Finance costs	**(184,945)**	(77,973)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**3,362,067**	2,523,242
Cash flows from financing activities		
Borrowings repaid	**(1,161,587)**	(1,022,124)
Purchase of treasury stock	**(737,506)**	-
Receipts from exercise of share options	**195,395**	-
Principal elements of finance leases	**(222,972)**	-
Dividends paid	**(1,490,431)**	(1,357,620)
NET CASH USED IN FINANCING ACTIVITIES	**(3,417,101)**	(2,379,744)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(55,034)**	143,498
Cash and cash equivalents at beginning of year	**169,163**	25,665
CASH AND CASH EQUIVALENTS AT END OF YEAR	**114,129**	169,163

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 September 2020

	Ordinary share capital £	Share premium £	Treasury stock £	Share option reserve £	Foreign exchange reserve £	Retained earnings £	Total £
Balance at 1 October 2018	**147,567**	**13,318,725**	**-**	**135,400**	**(12,713)**	**846,926**	**14,435,905**
Profit for the year	-	-	-	-	-	2,312,767	2,312,767
Other comprehensive income:							
Exchange differences on translating foreign operations	-	-	-	-	130,807	-	130,807
Total comprehensive income	-	-	-	-	130,807	2,312,767	2,443,574
Transactions with owners:							
Share option charge	-	-	-	23,115	-	-	23,115
Dividends	-	-	-	-	-	(1,357,620)	(1,357,620)
Total transactions with owners	-	-	-	23,115	-	(1,357,620)	(1,334,505)
Balance as at 30 September 2019	**147,567**	**13,318,725**	**-**	**158,515**	**118,094**	**1,802,073**	**15,544,974**

	Ordinary share capital £	Share premium £	Treasury stock £	Share option reserve £	Foreign exchange reserve £	Retained earnings £	Total £
Balance at 1 October 2019	**147,567**	**13,318,725**	**-**	**158,515**	**118,094**	**1,802,073**	**15,544,974**
Profit for the year	-	-	-	-	-	2,609,805	2,609,805
Other comprehensive income:							
Exchange differences on translating foreign operations	-	-	-	-	(165,075)	-	(165,075)
Total comprehensive income	-	-	-	-	(165,075)	2,609,805	2,444,730
Transactions with owners:							
Share option charge	-	-	-	68,727	-	-	68,727
Purchase of treasury stock	-	-	(737,506)	-	-	-	(737,506)
Exercise of share options	-	-	362,481	(75,623)	-	(91,463)	195,395
Dividends	-	-	-	-	-	(1,490,431)	(1,490,431)
Total transactions with owners	-	-	(375,025)	(6,896)	-	(1,581,894)	(1,963,815)
Balance as at 30 September 2020	**147,567**	**13,318,725**	**(375,025)**	**151,619**	**(46,981)**	**2,829,984**	**16,025,889**

The accompanying accounting policies and notes form an integral part of these financial statements.

Company Statement of Changes in Equity

For the year ended 30 September 2020

	Ordinary share capital £	Share premium £	Treasury Stock £	Share option reserve £	Retained earnings £	Total £
Balance at 1 October 2018	**147,567**	**13,318,725**	**135,400**	**135,400**	**1,605,559**	**15,207,251**
Profit for the year	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	-
Transactions with owners:						
Share option charge	-	-	23,115	23,115	-	23,115
Dividends	-	-	-	-	(1,357,620)	(1,357,620)
Total transactions with owners	-	-	23,115	23,115	(1,357,620)	(1,334,505)
Balance as at 30 September 2019	**147,567**	**13,318,725**	**158,515**	**158,515**	**247,939**	**13,872,746**

	Ordinary share capital £	Share premium £	Treasury Stock £	Share option reserve £	Retained earnings £	Total £
Balance at 1 October 2019	**147,567**	**13,318,725**	**-**	**158,515**	**247,939**	**13,872,746**
Profit for the year	-	-	-	-	3,000,000	3,000,000
Total comprehensive income	-	-	-	-	3,000,000	3,000,000
Transactions with owners:						
Share option charge	-	-	-	68,727	-	68,727
Purchase of treasury stock			(737,506)	-	-	(737,506)
Exercise of share options			362,481	(75,623)	(91,463)	195,395
Dividends	-	-	-	-	(1,490,431)	(1,490,431)
Total transactions with owners	-	-	(375,025)	(6,896)	(1,581,894)	(1,963,815)
Balance as at 30 September 2020	**147,567**	**13,318,725**	**(375,025)**	**151,619**	**1,666,045**	**14,908,931**

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 30 September 2020

1. Critical accounting estimates and judgements and other sources of estimation uncertainty

1 (a) Critical accounting estimates and judgements

The preparation of Financial Statements under IFRS requires the use of certain critical accounting assumptions, and requires management to exercise its judgement and to make estimates in the process of applying Cerillion's accounting policies.

Judgements

(i) Capitalisation of development costs

Development costs are capitalised only after the technical and commercial feasibility of the asset for sale or use have been established. This is determined by our intention to complete and/or use the intangible asset. The future economic benefits of the asset are reviewed using detailed cash flow projections. The key judgement is whether there will be a market for the products once they are available for sale.

(ii) Revenue recognition

The Group assesses the products and services promised in its contracts with customers and identifies a performance obligation for each promise to transfer to the customer a product or service (or bundle of products and services) that is distinct. This assessment is performed on a contract by contract basis and involves significant judgement. The determination of whether performance obligations are distinct or not affects the timing and quantum of revenue and profit recognised in each period.

Estimates

(i) Revenue recognition

For contracts where goods or services are transferred over time, revenue is recognised in line with the percentage completed in terms of effort to date as a percentage of total forecast effort. Total forecast is prepared by project managers on a monthly basis and reviewed by the project office and senior management team on a monthly basis. The forecast requires management to be able to accurately estimate the effort required to complete the project and affects the timing and quantum of revenue and profit recognised on these contracts in each period.

(ii) Impairment of non-financial assets

All non-current assets are tested for impairment whenever events or circumstances indicate that their carrying value may be impaired. Additionally, goodwill is subject to an annual impairment test. An impairment loss is recognised in the Group statement of comprehensive income to the extent that an asset's carrying value exceeds its recoverable amount, which represents the higher of the asset's net realisable value and its value in use.

(iii) Depreciation and amortisation

Depreciation and amortisation rates are based on estimates of the useful economic lives and residual values of the assets involved. The assessment of these useful economic lives is made by projecting the economic lifecycle of the asset. The key judgement is estimating the useful economic life of the development costs capitalised, a review is conducted annually by project. Depreciation and amortisation rates are changed where economic lives are re-assessed and technically obsolete items written off where necessary. Refer to notes 11 and 12.

(iv) Calculation of future minimum lease payments

The calculation of lease liabilities requires the Group to determine an incremental borrowing rate ("IBR") to discount future minimum lease payments. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

1 (b) Other sources of estimation uncertainty

(i) Recoverability of trade debtors and accrued income

Management use their judgement when determining whether trade debtors and accrued income are considered recoverable or where a provision for impairment is considered necessary. The assessment of recoverability will include consideration of whether the balance is with a long-standing client, whether the customer is experiencing financial difficulties, the fact that balances are recognised under contract and that the products sold are mission-critical to the customer's business. Refer to notes 16 and 19.

2. Segment information

During the year ended 30 September 2020, the Group was organised into four main business segments for revenue purposes.

Under IFRS 8 there is a requirement to show the profit or loss for each reportable segment and the total assets and total liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision-maker.

In respect of the profit or loss for each reportable segment the expenses are not reported by segment and cannot be allocated on a reasonable basis and, as a result, the analysis is limited to the Group revenue.

Assets and liabilities are used or incurred across all segments and therefore are not split between segments.

	2020 £	2019 £
Revenue		
Services	**11,326,196**	7,891,085
Software	**6,657,289**	8,161,818
Software-as-a-Service	**984,518**	905,175
Third-party	**1,845,922**	1,793,703
Total revenue	**20,813,925**	18,751,781

The following table provides a reconciliation of the revenue by segment to the revenue recognition accounting policy as outlined on pages 32 and 33. Revenue recognised on performance obligations partially satisfied in previous periods was £12,994,913 (2019: £8,965,033).

		Accounting policies				
Year ended 30 September 2020	£	(i) £	(ii) £	(iii) £	(iv) £	Total £
Services	**11,326,196**					
implementation fees		7,528,326	-	-	-	7,528,326
ongoing account development work		-	-	3,797,870	-	3,797,870
Software	**6,657,289**					
initial licence fees		1,449,647	-	-	-	1,449,647
sale of additional licences		-	151,752	-	-	151,752
ongoing maintenance and support fees		5,055,890	-	-	-	5,055,890
Software-as-a-Service	**984,518**	984,518	-	-	-	984,518
Third-Party	**1,845,922**	-	-	-	1,845,922	1,845,922
Total	**20,813,925**	15,018,381	151,752	3,797,870	1,845,922	20,813,925

Year ended 30 September 2019	£	(i) £	Accounting policies (ii) £	(iii) £	(iv) £	Total £
Services	**7,891,085**					
implementation fees		5,071,013	-	-	-	5,071,013
ongoing account development work		-	-	2,820,072	-	2,820,072
Software	**8,161,818**					
initial licence fees		2,978,091	-	-	-	2,978,091
sale of additional licences		-	969,478	-	-	969,478
ongoing maintenance and support fees		4,214,249	-	-	-	4,214,249
Software-as-a-Service	**905,175**	905,175	-	-	-	905,175
Third-Party	**1,793,703**	-	-	-	1,793,703	1,793,703
Total	**18,751,781**	13,168,528	969,478	2,820,072	1,793,703	18,751,781

(a) Geographical information

As noted above, the internal reporting of the Group's performance does not require that the statement of financial position information is gathered on the basis of the business streams. However, the Group operates within discrete geographical markets such that capital expenditure, total assets and net assets of the Group are split between these locations as follows:

	Europe £	MEA £	Americas £	Asia Pacific £
Year ended 30 September 2020				
Revenue – by customer location	13,478,228	508,667	3,283,377	3,543,653
Capital expenditure	1,417,080	-	-	21,491
Non-current assets	13,301,609	-	-	988,007
Total assets	30,552,219	-	-	1,565,832
Net assets	15,789,432	-	-	236,457

	Europe £	MEA £	Americas £	Asia Pacific £
Year ended 30 September 2019				
Revenue – by customer location	10,369,113	29,667	6,059,644	2,293,357
Capital expenditure	1,049,536	-	-	179,034
Non-current assets	10,324,666	-	-	302,503
Total assets	24,729,262	-	-	835,584
Net assets	15,243,658	-	-	301,316

All revenue is contracted within the UK subsidiary Cerillion Technologies Limited and therefore all revenue is domiciled in the Europe segment.

Cerillion receives greater than 10% of revenue from individual customers in the following geographical regions:

	Operating segment	2020 £	2019 £
Customer			
No. 1	Europe	4,483,638	503,440
No. 2	Asia Pacific	2,822,605	1,443,528
No. 3	Americas	1,659,425	3,674,824
No. 4	Europe	560,618	2,214,981

3. Operating profit

	2020 £	2019 £
Operating profit is stated after (crediting)/charging:		
Employee benefits expenses (note 4)	**11,923,335**	10,196,561
Depreciation	**1,058,169**	311,363
Amortisation of intangibles	**1,876,009**	1,701,649
Research and development costs	**341,834**	465,920
Bad debt expense /(credit)	**178,983**	(32,941)
Foreign exchange losses	**323,083**	40,169
Operating leases*	**126,265**	846,187
Fees payable to Cerillion's principal auditor:		
- Audit of Cerillion plc's annual accounts	**8,400**	8,000
- Audit of subsidiaries	**62,600**	59,500
- Non-audit services – tax services	**20,000**	9,400
Fees payable to associates of principal auditor:		
- Audit of subsidiaries	**7,500**	-
Other costs	**2,085,007**	2,624,185
Total cost of sales and operating expenses	**18,011,185**	**16,229,993**

* The Group has adopted IFRS 16 in the year ended 30 September 2020 and the disclosure of leases has changed accordingly, see Accounting Policies and Note 13 for further information.

4. Directors and employees

Group	2020 £	2019 £
Employee costs (including Directors):		
Wages and salaries	**10,759,392**	9,172,282
Social security costs	**782,035**	678,506
Share-based payments	**68,727**	23,115
Payments into defined contribution pension schemes	**313,181**	322,658
	11,923,335	10,196,561

	2020 Number	2019 Number
The average number of employees (including Directors) during the year was made up as follows:		
Management and administration	**28**	24
Sales and marketing	**18**	18
Support and development staff	**184**	156
Executive Directors	**3**	3
Non-executive Directors	**2**	2
	235	203

The Company's employees comprise the five Directors only (2019: 5). For details of Directors' remuneration, refer to the Remuneration report on pages 15 to 17. Key management personnel is covered in note 24.

5. Finance income

	2020 £	2019 £
Finance income:		
Bank interest receivable	5,949	6,375
Unwinding discount of contracts with significant financing component	44,041	-
	49,990	6,375

6. Finance costs

	2020 £	2019 £
Finance costs:		
Interest payable in respect of loans	(38,414)	(77,973)
Interest and finance charges for lease liabilities	(174,476)	-
Other interest payable	(1,252)	(1,533)
	(214,142)	(79,506)

7. Taxation

(a) Analysis of tax charge for the year

The tax charge for the Group is based on the profit for the year and represents:

	2020 £	2019 £
Current tax credit - UK	-	-
Current tax expense - overseas	123,170	112,879
Current tax expense - total	123,170	112,879
Deferred tax credit	(56,323)	(16,757)
Deferred tax - adjustment in respect of prior year	(38,064)	39,768
Deferred tax (credit) /charge – total	(94,387)	23,011
Total tax charge	28,783	135,890

(b) Factors affecting total tax for the year

The tax assessed for the year differs from the standard rate of corporation tax in the United Kingdom 19.0% (2019: 19.0%). The differences are explained as follows:

Profit on ordinary activities before tax	2,638,588	2,448,657
Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 19.0% (2019: 19.0%)	501,333	465,245
Effect of:		
Expenses not deductible for tax purposes	353,342	364,591
Non-taxable income for tax purposes	(386,800)	(373,624)
Difference in tax rates	107,942	60,217
Other temporary differences	-	3,876
Prior year tax adjustment	(38,064)	39,768
Other permanent differences – relating to share options	(97,054)	-
Enhanced relief for research and development	(411,916)	(424,183)
Total tax charge	28,783	135,890

There are currently no recognised or unrecognised deferred tax assets or liabilities within the Parent Company accounts.

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8. Profit attributable to Cerillion plc
The profit for the financial year of the Parent Company, Cerillion plc was £3,000,000 (2019: £nil). As permitted by section 408 of the Companies Act 2006, no separate income statement is presented in respect of the Parent Company.

9. Dividends
(a) Dividends paid during the reporting period
The Board paid the final dividend in respect of 2019 of 2.8p per share and declared and paid an interim 2020 dividend of 1.75p (2019: 1.6p) per share. Total dividends paid during the reporting period were £1,490,431 (2019: £1,357,620).

(b) Dividends not recognised at the end of the reporting period
Since the year end the Directors have proposed the payment of a dividend in respect of the full financial year of 3.75p per fully paid Ordinary Share (2019: 3.3p). The aggregate amount of the proposed dividend expected to be paid out of retained earnings at 30 September 2020, but not recognised as a liability at the year end is £1,106,756 (2019: £973,945). Since the year end the Directors of Cerillion Technologies Limited have approved a £3.0 million dividend to Cerillion plc.

10. Earnings per share
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of Ordinary Shares in issue during the year.

	2020	2019
Profit attributable to equity holders of the Company (£)	**2,609,805**	2,312,767
Weighted average number of Ordinary Shares in issue (number)	**29,513,486**	29,513,486
Less weighted average number of shares held in Treasury	**(9,911)**	-
Weighted average number of Ordinary Shares in issue (number)	**29,503,575**	29,513,486
Effect of share options in issue	**309,223**	267,700
Weighted average shares for diluted earnings per share	**29,812,798**	29,781,186
Basic earnings per share (pence per share)	**8.8**	7.8
Diluted earnings per share (pence per share)	**8.8**	7.8

11. Intangible assets

Group	Goodwill £	Purchased customer contracts £	Intellectual property rights £	Software development costs £	External software licences £	Total £
Cost						
At 1 October 2018	2,053,141	4,382,654	2,567,160	2,383,646	-	11,386,601
Additions	-	-	-	833,781	-	833,781
At 30 September 2019	2,053,141	4,382,654	2,567,160	3,217,427	-	12,220,382
Additions	-	-	-	1,088,365	20,108	1,108,473
Reclassification*	-	-	-	-	210,345	210,345
At 30 September 2020	**2,053,141**	**4,382,654**	**2,567,160**	**4,305,792**	**230,453**	**13,539,200**
Amortisation						
At 1 October 2018	-	1,565,233	916,843	772,750	-	3,254,826
Provided in the year	-	626,093	366,737	708,819	-	1,701,649
At 30 September 2019	-	2,191,326	1,283,580	1,481,569	-	4,956,475
Provided in the year	-	626,093	366,737	864,960	18,219	1,876,009
Reclassification*	-	-	-	-	178,339	178,339
At 30 September 2020	**-**	**2,817,419**	**1,650,317**	**2,346,529**	**196,558**	**7,010,823**
Net book amount at 30 September 2020	**2,053,141**	**1,565,235**	**916,843**	**1,959,263**	**33,895**	**6,528,377**
Net book amount at 30 September 2019	2,053,141	2,191,328	1,283,580	1,735,858	-	7,263,907

Amortisation has been included in operating expenses in the consolidated statement of comprehensive income.

The carrying value of goodwill included within the Cerillion plc consolidated statement of financial position is £2,053,141, which is allocated to the cash-generating unit ("CGU") of Cerillion Technologies Limited Group. The CGU's recoverable amount has been determined based on its fair value less costs to sell. As Cerillion plc was established to purchase the CTL Group the fair value less costs to sell has been calculated based on the market capitalisation of Cerillion plc less the estimated costs to sell the CTL Group.

Using an average market share price of Cerillion plc for the year ended 30 September 2020, less an estimate of costs to sell, there is significant headroom above the carrying value of the cash-generating unit and therefore no impairment exists. The calculations show that a reasonably possible change, as assessed by the Directors, would not cause the carrying amount of the CGU to exceed its recoverable amount.

* The Company's external software licences were previously presented as tangible assets in the balance sheet. However, management has assessed that these assets are not closely linked to underlying hardware and can be used independently, the cost and accumulated amortisation of those was reclassified to intangible assets.

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12. Property plant and equipment

Group	Leasehold improvements £	Computer equipment £	Fixtures and fittings £	Total £
Cost				
At 1 October 2018	585,745	1,201,147	270,553	2,057,445
Additions	138,062	232,284	24,443	394,789
Disposals	-	-	-	-
Exchange difference	15,056	12,887	9,336	37,279
At 30 September 2019	738,863	1,446,318	304,332	2,489,513
Additions	-	326,954	3,144	330,098
Disposals	-	(91,053)	(3,141)	(94,194)
Reclassification*	-	(210,345)	-	(210,345)
Exchange difference	(26,115)	(15,496)	(9,684)	(51,295)
At 30 September 2020	**712,748**	**1,456,378**	**294,651**	**2,463,777**
Depreciation				
At 1 October 2018	198,484	941,779	148,729	1,288,992
Provided in the year	53,085	193,602	64,676	311,363
Disposals	-	-	-	-
Exchange difference	15,476	11,603	8,873	35,952
At 30 September 2019	267,045	1,146,984	222,278	1,636,307
Provided in the year	67,509	224,572	57,977	350,058
Disposals	-	(91,053)	(3,140)	(94,193)
Reclassification*	-	(178,339)	-	(178,339)
Exchange difference	(16,011)	(12,907)	(9,023)	(37,941)
At 30 September 2020	**318,543**	**1,089,257**	**268,092**	**1,675,892**
Net book amount at 30 September 2020	**394,205**	**367,121**	**26,559**	**787,885**
Net book amount at 30 September 2019	471,818	299,334	82,054	853,206

All depreciation charges are included within operating expenses and no impairment has been charged.

As referred to in note 18 the Group's loan is secured over all the assets of the Group.

There were no property, plant and equipment assets owned by the Parent Company.

* The reclassification is explained in note 11.

13. Leases

Group

This note provides information for leases where the Group is a lessee. The Group leases offices in London and India, along with some IT equipment.

(i). amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

	Group		Company	
Right-of-use assets	30 September 2020 £	1 October 2019 £	30 September 2020 £	1 October 2019 £
Properties	4,383,327	5,060,934	3,668,011	4,173,943
IT Equipment	5,848	36,353	-	-
	4,389,175	**5,097,287**	**3,668,011**	**4,173,943**

	Group		Company	
Lease liabilities	30 September 2020 £	1 October 2019 £	30 September 2020 £	1 October 2019 £
Current	922,706	582,127	731,000	365,500
Non-current	4,655,772	5,408,004	4,012,028	4,600,500
	5,578,478	**5,990,131**	**4,743,028**	**4,966,000**

Additions to the right-of-use assets during the 2020 financial year were £nil.

(ii). amounts recognised in the consolidated statement of comprehensive income

The consolidated statement of comprehensive income shows the following amounts relating to leases:

Depreciation charge of right-of-use assets	30 September 2020 £	30 September 2019 £
Properties	677,606	-
IT Equipment	30,505	-
	708,111	**-**
Interest expense (included in finance cost)	174,476	-
Expense relating to short-term leases (included in operating expenses)	120,797	-
Expenses relating to low value assets that are not shown above as short-term leases (included in operating expenses)	5,468	-

The total cash outflow for leases in 2020 was £586,132.

The property within the Company had a depreciation charge for the year of £505,932 (2019: £nil).

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For the year ended 30 September 2020

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14. Investments in subsidiaries

At 30 September 2020 the Company's subsidiary undertakings, all of which have been included in the Group financial statements, were:

Name	Country of incorporation	Percentage and class of shares held	Year end	Nature of Business
Cerillion Technologies Limited*	UK	100% - ordinary	30 September	Software services
Cerillion Inc	USA	100% - ordinary	30 September	Software services
Cerillion Technologies India Private Limited	India	100%** - ordinary	31 March***	Software services

* Cerillion Technologies Limited is the only subsidiary owned directly by Cerillion plc. Cerillion Technologies Limited is the parent for the other two subsidiaries. Its registered office is the same as the Parent Company, being 25 Bedford Street, London, England, WC2E 9ES.

** includes holdings held indirectly through Cerillion Inc

*** For the purpose of the Group financial statements for the year ended 30 September 2020, management accounts have been drawn up to 30 September 2020.

Cerillion Inc's registered office is: c/o Cohen &Grigsby, 625 Liberty Avenue, Pittsburgh, PA 15222-3152, USA. Cerillion Technologies India Private Limited's registered office is: Tower V, Wing 2B, Cyber City, Magarpatta City, Hadapsar, Pune 411013, India.

The Company	Investments in subsidiary undertakings £
Cost and net book value:	
As at 1 October 2018	14,651,571
Additions	-
As at 30 September 2019	14,651,571
Additions	-
As at 30 September 2020	**14,651,571**

15. Deferred tax

Deferred tax asset

Group	Accelerated capital allowances £	Other temporary differences £	Total £
1 October 2018	46,842	122,251	169,093
Foreign exchange movement on opening deferred tax asset	-	11,428	11,428
Debited to statement of comprehensive income	(25,789)	(21,154)	(46,943)
30 September 2019	**21,053**	**112,525**	**133,578**

Group	Accelerated capital allowances £	Other temporary differences £	Total £
1 October 2019	21,053	112,525	133,578
Foreign exchange movement on opening deferred tax asset	(3,273)	(7,887)	(11,160)
Credited to statement of comprehensive income	622	22,020	22,642
30 September 2020	**18,402**	**126,658**	**145,060**

Deferred tax liability

Group

The deferred tax liability arose in respect of the fair value uplift of intangible assets, with £1,320,465 arising on the acquisition of Cerillion Technologies Limited in March 2016 and £70,660 relating to the acquisition of "Net Solutions Services" by Cerillion Technologies Limited in 2015.

	2020 £	2019 £
At 1 October	**955,569**	979,501
Debited to statement of comprehensive income in respect of net ACAs & other temporary differences	**47,394**	159,166
Credited to statement of comprehensive income in respect of acquisitions	**(119,140)**	(183,098)
As at 30 September	**883,823**	955,569

There are no deferred tax assets or deferred tax liabilities recognised within the Parent Company as at 30 September 2020 (2019: £nil).

16. Trade and other receivables and other contract balances

Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	Group	
	2020 £	2019 £
Trade receivables	**2,687,472**	2,805,864
Contract assets	**8,494,767**	7,107,393
Contract liabilities	**5,084,999**	3,557,283

Contract assets, which are included in 'Accrued income' within trade and other receivables and are composed of the current and non-current balances. Contract liabilities, which are included in 'Deferred income' within trade and other payables.

Payment terms and conditions in customer contracts may vary. In some cases, customers pay in advance of the delivery of solutions or services; in other cases, payment is due as services are performed or in arrears following the delivery of the solutions or services. Differences in timing between revenue recognition and invoicing result in trade receivables, contract assets or contract liabilities in the statement of financial position.

Contract assets refer to accrued income and arise when revenue is recognised, but invoicing is contingent on performance of other performance obligations or on completion of contractual milestones. Contract assets are transferred to receivables when the rights become unconditional, typically upon invoicing of the related performance obligations in the contract or upon achieving the requisite project milestone.

Contract liabilities refer to deferred income and result from customer payments in advance of the satisfaction of the associated performance obligations and relate primarily to prepaid support or other recurring services. Deferred income is released as revenue is recognised.

Significant changes in the contract assets and contract liabilities balances during the period are driven by the timing of income recognition and when associated invoices are raised. Specifically, revenue recognised in the year in relation to deferred income brought forward from prior year of £3,003,462 (2019: £1,585,275).

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When certain costs to acquire a contract meet defined criteria, those costs are deferred as contract assets. The total amount of deferred contract assets (commission fees recognised in prepaid assets) are £86,599 (2019: £48,944). The total amount of accrued costs to acquire a contract are £203,629 (2019: £184,745).

The total amount of revenue allocated to unsatisfied performance obligations is £25,102,075 (2019: £17,587,772). It is estimated that 75% will be recognised over the next 18 months, the remainder over the following year thereafter.

There are no contract balances within the Parent Company (2019: £nil).

	Group		Company	
Current receivables	2020 £	2019 £	2020 £	2019 £
Trade receivables	**2,687,472**	2,805,864	**-**	-
Accrued income	**6,055,648**	4,730,915	**-**	-
Amounts owed by Group undertakings	**-**	-	**1,908,131**	1,719,497
Other receivables	**366,875**	390,524	**32,029**	-
Prepayments	**406,573**	238,968	**8,066**	3,626
	9,516,568	8,166,271	**1,948,226**	1,723,123

	Group		Company	
Non-current receivables	2020 £	2019 £	2020 £	2019 £
Accrued income	**2,439,119**	2,376,478	**-**	-

The amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

Credit quality of receivables

A detailed review of the credit quality of each client is completed before an engagement commences.

The credit risk relating to trade receivables is analysed as follows:

Group	2020 £	2019 £
Trade receivables	**3,015,131**	2,951,383
ECL reserve	**(327,659)**	(145,519)
	2,687,472	2,805,864

The Parent Company had no trade receivables in either period.

The other classes of assets within trade and other receivables do not contain impaired assets.

The net carrying value is judged to be a reasonable approximation of fair value.

The following is an ageing analysis of those trade receivables that were not past due and those that were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

Group	2020 £	2019 £
Not past due	2,065,185	2,660,707
Up to 3 months	395,178	132,681
3 to 6 months	51,771	-
Older than 6 months	175,338	12,476
	2,687,472	2,805,864

Of the trade debt older than 6 months as at 30 September 2020, being £175,338 (2019: £12,476), cash of £122,471 (2019: £nil) has been received since the year end.

The following is an ageing analysis of those trade receivables that were individually considered to be impaired:

Group	2020 £	2019 £
Not past due	-	-
Up to 3 months	98,324	390
3 to 6 months	39,682	-
Older than 6 months	189,653	145,129
	327,659	145,519

17. Trade and other payables

	Group		Company	
	2020 £	2019 £	2020 £	2019 £
Trade payables	736,157	505,559	53,539	46,777
Taxation	-	-	-	-
Other taxation and social security	551,990	181,508	-	10,961
Pension contributions	42,232	42,188	-	-
Other payables	481,391	555,556	250	-
Accruals	2,123,733	2,451,263	66,830	842,427
Deferred income	5,084,999	3,557,283	-	-
	9,020,502	7,293,357	120,619	900,165

The Directors consider that the carrying amount of trade and other payables approximates to their fair values.

18. Borrowings and financial liabilities

	Group		Company	
	2020 £	2019 £	2020 £	2019 £
Current liabilities:				
Secured loans	609,359	1,200,000	609,359	1,200,000
Lease liabilities	922,706	-	731,000	-
Non-current liabilities:				
Secured loans	-	570,946	-	570,946
Lease liabilities	4,655,772	-	4,012,028	-
	6,187,837	1,770,946	5,352,387	1,770,946

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18a Terms and repayment schedule

The Facility Agreement between the Company and HSBC Bank plc made available a loan of up to £5 million (the "Loan") for the purpose of assisting with the payment of the cash element of the acquisition of Cerillion Technologies Limited.

The Loan is secured over the assets of the Group and was drawn down in full in March 2016. The terms and conditions of outstanding loans are as follows:

a. it bears interest at the rate of 2.5 per cent. per annum over the Bank of England Base Rate as published from time to time;
b. is repayable by the Company by quarterly repayments in the amount of £250,000 inclusive of interest, for the first three years of the term, and thereafter in an amount of £300,000 inclusive of interest, in accordance with an agreed repayment schedule;
c. is terminable on a change of control of the Company and repayable following an event of default; and
d. is for a term of five years from the date of first drawdown.

Group and Company	Non-current Borrowings £	Current Borrowings £	Total £
1 October 2019	570,946	1,200,000	1,770,946
Cash-flows:			
Repayment	-	(1,161,587)	(1,161,587)
Non-cash:			
Reclassification	(570,946)	570,946	-
30 September 2020	**-**	**609,359**	**609,359**

Group and Company	Non-current Borrowings £	Current Borrowings £	Total £
1 October 2018	1,793,070	1,000,000	2,793,070
Cash-flows:			
Repayment	-	(1,022,124)	(1,022,124)
Non-cash:			
Reclassification	(1,222,124)	1,222,124	-
30 September 2019	**570,946**	**1,200,000**	**1,770,946**

Group	Non-current Lease liabilities £	Current Lease liabilities £	Total £
1 October 2019	-	-	-
Recognised on adoption of IFRS 16	5,408,004	582,127	5,990,131
1 October 2019 post adoption of IFRS 16	5,408,004	582,127	5,990,131
Cash-flows:			
Repayment	-	(586,132)	(586,132)
Accrued interest	-	174,479	174,479
Non-cash:			
Reclassification	(752,232)	752,232	-
30 September 2020	**4,655,772**	**922,706**	**5,578,478**

Company	Non-current Lease liabilities £	Current Lease liabilities £	Total £
1 October 2019	-	-	-
Recognised on adoption of IFRS 16	4,600,500	365,500	4,966,000
1 October 2019 post adoption of IFRS 16	4,600,500	365,500	4,966,000
Cash-flows:			
Repayment	-	(369,504)	(369,504)
Accrued interest	-	146,532	146,532
Non-cash:			
Reclassification	(588,472)	588,472	-
30 September 2020	**4,012,028**	**731,000**	**4,743,028**

19. Financial instruments and risk management

Group Financial instruments by category	2020 £	2019 £
Financial assets - loans and receivables		
Non-current		
Accrued income	**2,439,119**	2,376,478
Current		
Trade and other receivables	**3,054,347**	3,196,388
Accrued income	**6,055,648**	4,730,915
Cash and cash equivalents	**8,311,867**	6,771,406
	17,421,862	14,698,709

Prepayments are excluded, as this analysis is required only for financial instruments.

Financial liabilities - held at amortised cost	2020 £	2019 £
Non-current		
Borrowings	**-**	570,946
Lease liabilities	**4,655,772**	-
	4,655,772	570,946
Current		
Current borrowings	**609,359**	1,200,000
Lease liabilities	**922,706**	-
Trade and other payables	**1,217,548**	1,061,115
Pension costs	**42,232**	42,188
Accruals	**2,123,733**	2,451,263
	4,915,578	4,754,566

Statutory liabilities and deferred income are excluded from the trade payables balance, as this analysis is required only for financial instruments.

Company Financial instruments by category	2020 £	2019 £
Financial assets - loans and receivables		
Current		
Amounts owed by Group undertakings & other receivables	**1,940,160**	1,719,497
Cash and cash equivalents	**114,129**	169,163
	2,054,289	1,888,660

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Financial liabilities - held at amortised cost	2020 £	2019 £
Non-current		
Borrowings	-	570,946
Lease liabilities	**4,012,028**	-
	4,012,028	570,946
Current		
Current borrowings	**609,359**	1,200,000
Lease liabilities	**731,000**	-
Trade and other payables	**53,789**	46,777
Accruals	**66,830**	842,427
	1,460,978	2,089,204

There is no material difference between the book value and the fair value of the financial assets and financial liabilities disclosed above for either the Group or Parent Company.

There were no derivative financial instruments in existence as at 30 September 2020 (2019: £nil).

The Group's multinational operations expose it to financial risks that include market risk, credit risk, foreign currency risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

Credit quality of financial assets

The credit quality of financial assets can be assessed by reference to external credit ratings (S&P) (if available) or to historical information about counterparty default rates:

	2020 £	2019 £
Trade receivables		
Group 1	**295,153**	1,849,871
Group 2	**2,274,277**	707,722
Group 3	**118,042**	248,271
	2,687,472	2,805,864

Group 1 – new customers (less than 6 months).
Group 2 – existing customers (more than 6 months) with no defaults in the past.
Group 3 – existing customers (more than 6 months) with some defaults in the past.

At the year end there are 6 customers (2019: 2 customers) with trade receivable balances each representing in excess of 5% of the total trade receivables of £2,687,472 (2019: 2,805,864). Of these customers, 1 is categorised within Group 1 representing 11% of total trade receivables (2019: nil), 5 are within Group 2 representing 53% of total trade receivables (2019: 1 customer), with none in Group 3 (2019: 1 customer).

There are no trade receivables within the Parent Company.

	2020 £	2019 £
Cash at bank and short-term deposits		
A1	**8,309,074**	6,768,218
Not rated	**2,793**	3,188
	8,311,867	6,771,406

A1 rating means that the risk of default for the investors and the policy holder is deemed to be very low.

Not rated balances relate to petty cash amounts. All cash within the Parent Company is within the A1 category.

Market risk – foreign exchange risk

Exposure to currency exchange rates arise from the Group's overseas sales and purchases, which are primarily denominated in US Dollars (USD), Australian Dollars (AUD) and Euros (EUR). There is no foreign exchange exposure within the Parent Company.

To mitigate the Group's exposure to foreign currency risk, non-GBP cash flows are monitored and forward exchange contracts are entered into in accordance with the Group's risk management policies. Generally, the Group's risk management procedures distinguish short-term foreign currency cash flows (due within 6 months) from longer-term cash flows (due after 6 months). Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further hedging activity is undertaken. Forward exchange contracts are mainly entered into for significant long-term foreign currency exposures that are not expected to be offset by other same-currency transactions.

As at 30 September 2020 the Group had no forward foreign exchange contracts in place (2019: none) to mitigate exchange rate exposure arising from forecast income in US Dollars, Australian Dollars and Euros.

Foreign currency denominated financial assets and liabilities which expose the Group to currency risk are disclosed below. The amounts shown are those reported to key management translated into GBP at the closing rate:

	AUD	USD	EUR	INR	DKK	BND
30 September 2020						
Financial assets	374,834	3,117,456	2,202,588	722,885	2,845,424	729,482
Financial liabilities	-	(101,187)	(40,063)	(509,071)	-	-
Total exposure	**374,834**	**3,016,269**	**2,162,525**	**213,814**	**2,845,424**	**729,482**

	AUD	USD	EUR	INR	DKK	BND
30 September 2019						
Financial assets	298,452	5,025,829	2,697,106	665,743	229,950	2,232,614
Financial liabilities	-	(148,032)	(23,227)	(535,533)	-	-
Total exposure	**298,452**	**4,877,797**	**2,673,879**	**130,210**	**229,950**	**2,232,614**

The following table illustrates the sensitivity of profit and equity in regards to the Group's financial assets and financial liabilities and the US Dollar, Australian Dollar, Euro, Indian Rupee, Danish Krone and Brunei Dollar to GBP exchange rate 'all other things being equal'. It assumes a +/- 10% change to each of the foreign currency to GBP exchange rates. These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting date and also takes into account forward exchange contracts that offset effects from changes in currency exchange rates.

If the GBP had strengthened against the foreign currencies by 10% then this would have had the following impact:

30 September 2020	AUD	USD	EUR	INR	DKK	BND
Loss for the year	**(34,076)**	**(274,206)**	**(196,593)**	**(19,438)**	**(258,675)**	**(66,317)**
Equity total	**(34,076)**	**(274,206)**	**(196,593)**	**(19,438)**	**(258,675)**	**(66,317)**

30 September 2019	AUD	USD	EUR	INR	DKK	BND
Loss for the year	(27,132)	(443,436)	(243,080)	(11,837)	(20,869)	(202,965)
Equity total	(27,132)	(443,436)	(243,080)	(11,837)	(20,869)	(202,965)

Notes to the Financial Statements

For the year ended 30 September 2020

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If the GBP had weakened against the foreign currencies by 10% then this would have had the following impact:

30 September 2020	AUD	USD	EUR	INR	DKK	BND
Gain for the year	**41,648**	**335,141**	**240,281**	**23,757**	**316,158**	**81,054**
Equity total	**41,648**	**335,141**	**240,281**	**23,757**	**316,158**	**81,054**

30 September 2019	AUD	USD	EUR	INR	DKK	BND
Gain for the year	33,161	541,977	297,098	14,468	25,507	248,068
Equity total	33,161	541,977	297,098	14,468	25,507	248,068

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

Market risk – cash flow interest rate risk

Cerillion had outstanding borrowing within the Group and Company, as disclosed in note 18.

These were loans taken out with HSBC to facilitate the purchase of shares prior to the Admission on AIM.

The Group's policy is to minimise interest rate cash flow risk exposures on long-term financing. Longer-term borrowings are therefore usually at fixed rates. At 30 September 2020, the Group is exposed to changes in market interest rates through bank borrowings at variable interest rates. Other borrowings are at fixed interest rates. The exposure to interest rates for the Group's cash at bank and short-term deposits is considered immaterial.

The following table illustrates the sensitivity of profit and equity to a reasonably possible change in interest rates of +/- 1%. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

	Profit for the year		Equity	
	+1%	-1%	+1%	-1%
30 September 2020	**(11,621)**	**13,101**	**(11,621)**	**13,101**
30 September 2019	(21,928)	21,761	(21,928)	21,761

Liquidity risk

Cerillion actively maintains cash that is designed to ensure Cerillion has sufficient available funds for operations and planned expansions. The table below analyses Cerillion's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
30 September 2020				
Borrowings	614,793	-	-	-
Lease liabilities	913,473	936,879	2,651,816	1,644,750
Trade and other payables	3,935,503	-	-	-
30 September 2019				
Borrowings	1,242,252	626,914	-	-
Trade and other payables	3,736,074	-	-	-

Capital risk management

The Group manages its capital to ensure it will be able to continue as a going concern while maximising the return to shareholders through optimising the debt and equity balance. In the short-term this means generating sufficient cash to repay the existing loans, whilst maintaining the dividend policy and investment in research and development.

The Group monitors cash balances and prepares regular forecasts, which are reviewed by the Board. Since the year end the Directors have proposed the payment of a dividend. In order to maintain or adjust the capital structure, the Group may, in the future, adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Parent Company has the same approach to capital risk management, with the additional focus of monitoring dividends up from Group companies to ensure that sufficient reserves are in place to maintain the dividend policy.

20. Fair value measurement of financial instruments

Financial assets and financial liabilities measured at fair value are required to be grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: unobservable inputs for the asset or liability.

There were no derivative financial instruments in existence nor any other financial instruments measured at fair value on a recurring basis at 30 September 2020 (2019: £nil).

There were no transfers between Level 1 and Level 2 in 2020 or 2019 and no derivative financial instruments within the Group.

Measurement of fair value of financial instruments

The Group's finance team performs valuations of financial items for financial reporting purposes, with valuation techniques selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. When the Group enters into foreign currency forward contracts (Level 2) as they are not traded in active markets, they would be fair valued using observable forward exchange rates corresponding to the maturity of the contract. The effects of non-observable inputs are not expected to be significant should the Group enter into foreign currency forward contracts.

21. Share capital

	2020 £	2019 £
Issued, allotted, called up and fully paid:		
29,513,486 (2019: 29,513,486) Ordinary Shares of 0.5 pence	147,567	147,567

The Ordinary Shares have been classified as Equity. The Ordinary Shares have attached to them full voting and capital distribution rights. The Company does not have an authorised share capital.

In February 2020, the Company acquired 172,622 of its own shares in the market, at £2.10 per share, to be held as Treasury Stock to be used to satisfy the exercise of share options. In March 2020 172,610 of these shares were issued on the exercise of share options. In September 2020, the Company acquired 125,000 of its own shares in the market, at £3.00 per share, all 125,000 shares were held as Treasury Shares at the year end. At the year end there were 125,012 shares remaining in Treasury Stock at an average cost of £3.00 per share.

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For the year ended 30 September 2020

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22 Share-based payments

The Group introduced a Save as You Earn ("SAYE") share option scheme and a Long-Term Incentive Plan ("LTIP") in 2017. The Group is required to reflect the effects of share-based payment transactions in its statement of comprehensive income and statement of financial position. For the purposes of calculating the fair value of share options granted, the Black Scholes Pricing Model has been used by the Group in respect of the SAYE schemes, the LTIP has been fair valued using a Monte-Carlo Simulation Model. Fair values have been calculated on the date of grant.

A new Save as You Earn ("SAYE") share option scheme was introduced in 2019. A charge of £68,727 (2019: £23,115) has been reflected in the consolidated statement of comprehensive income, with the corresponding entry recognised within the share option reserve.

The fair value of options granted in the current year and the assumptions used in the calculation are shown below:

Year of grant Scheme	2017 SAYE	2017 LTIP	2019 SAYE
Exercise price (£)	1.132	0.05	1.092
Number of options granted	189,845	300,000	132,917
Vesting period (years)	3 years	3 to 3.5 years	3 years
Option life (years)	3.5 years	5 to 5.5 years	3.5 years
Risk free rate	0.50%	0.49%	0.50%
Volatility	41%	41%	41%
Dividend yield	3.00%	3.33%	3.00%
Fair value (£)	0.44	0.53	0.43

The share option schemes are issued by the Parent Company, therefore the disclosures within this note cover the Group and Parent Company, the share-based payment expense is recharged to Cerillion Technologies Limited as this is where the option holders are employed.

Share options relating to the SAYE 2017 were exercised during the year ended 30 September 2020, with Treasury Shares being used to settle the options exercised. Since the year end, 20 October 2020, half of the LTIP share options were exercised, being options over 125,000 shares.

During the year options were granted as summarised in the table below:

	2020 Number of Options	2020 Weighted average exercise price £	2019 Number of Options	2019 Weighted average exercise price £
Outstanding at start of year	555,522	0.62	439,845	0.49
Granted	-	-	132,912	1.09
Expired	-	-	(17,235)	1.13
Exercised	(172,610)	(1.13)	-	-
Outstanding at 30 September	382,912	0.38	555,522	0.62
Exercisable at 30 September	-	-	-	-

23. Retirement benefits

The Group operates a group personal contribution pension scheme for the benefit of the employees. The pension cost charge for the year represents contributions payable by the Group to the fund and amounted to £313,181 (2019: £322,658). At the year end the contributions payable to the scheme were £42,232 (2019: £42,188).

24. Related party transactions

(i) Remuneration of Key Management Personnel

The Group and Company consider that the Directors are their key management personnel and further detail of their remuneration is disclosed in the Remuneration report for 2020.

No key personnel other than the Directors have been identified in relation to the year ended 30 September 2020 (2019: none).

(ii) Related party transactions

The aggregate dividends paid to Directors during the year were £610,310 (2019: £555,926).

No other related party transactions took place during the year (2019: none).

25. Future lease payments

From 1 October 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low value leases, see Accounting Policies and Note 13 for further information. In the prior year, the Group had commitments under non-cancellable operating leases in respect of land and buildings and plant and machinery. The Group's future minimum operating lease payments were as follows:

Group	2020 £	2019 £
Within one year	-	570,839
Between one and five years	-	3,152,777
After five years	-	2,375,750
	-	6,099,366

There are no lease commitments within the Parent Company.

26. Charge over assets

In providing the Group with banking, credit card and forward currency facilities, the Group's bankers HSBC plc hold:

- a fixed charge over all present freehold and leasehold property;
- a first charge over book and other debts, chattels, goodwill and uncalled capital, both present and future; and
- a first floating charge over all assets, both present and future.

27. Contingent assets / liabilities

The Group has no contingent assets or liabilities as at 30 September 2020 (2019: nil).

28. Subsequent events

There have been no subsequent events requiring adjustment or disclosure within the financial statements.

29. Ultimate controlling party

In the opinion of the Directors, there was no ultimate controlling party at 30 September 2020 or 30 September 2019.

Notes

Notes

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