Intercede Group plc

Annual Report & Accounts

2019

OUR MISSION

Intercede power certainty in digital identities for the world's large enterprises and governments through our robust credential management platform, MyID.

It is our mission to safeguard IT systems and connected devices from unauthorised access and harm.

Our ongoing success is built on:

- Developing innovative, robust cyber security technology that is shaped around the needs of our customers and their end users
- Adding value to our technology and commercial partners through a proactive, collaborative approach
- Maintaining an engaging and rewarding workplace for our people
- Delivering sustained growth for our investors

OUR VISION

It is our vision to safeguard the integrity of connected workforces, supply-chains, citizens and industrial technologies for the world's businesses and governments that will not compromise on cyber security.

Content

Company Profile

Intercede® is a cybersecurity company specialising in digital identities, derived credentials and access control, enabling digital trust in a mobile world.

Headquartered in the UK, with offices in the US, we believe in a connected world in which people and technology are free to exchange information securely, and complex insecure passwords become a thing of the past.

We have been delivering trusted solutions to high profile customers for over 20 years. Our team of experts has deployed millions of identities to governments, most of the largest aerospace and defence corporations, and major financial services and healthcare organizations, as well as leading telecommunications, cloud services and information technology firms, providing industry-leading employee and customer credential management systems.

Intercede has been quoted on the AIM section of the London Stock Exchange since January 2001.

For more information visit: intercede.com

Certainty in the identity of employees, citizens, suppliers and connected devices accessing systems, networks and data is essential as the cyber threat increases for governments and enterprises.

At Intercede our MyID platform secures the flow of people so they can simply and securely access the information they need, when and where they need it. Smart card to smartphone, together with our industry leading partners, we deliver a cyber secure identity platform for governments and large enterprises.

Digital Identities

MyID® secures more than 15 million identities worldwide for governments, enterprises, military and police. Enabling citizens, personnel and employees secure, seamless access to business critical data, systems and networks.

Workforce

Citizen

Customer

Supply-chain

Blockchain

IIoT

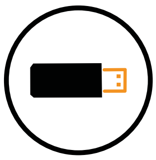
Technologies

Our software enables organisations to interoperate across multiple software and hardware. Whether you're looking to issue and manage millions of smart cards or smart phones - and the PKI technology in between - MyID is flexible at integrating and working across multiple platforms and devices.

Smart cards

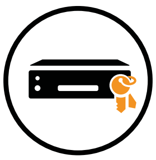
Mobile device management

Virtual smart cards



USB tokens

Certificate authorities



Hardware Security Modules

Derived credentials

Image capture

Fingerprint capture

PRODUCTS

Software and services to issue and manage millions of secure digital identities

Our products evolve digital identity from the vulnerability of passwords and usernames to a multi-factor approach that ensures each and every user is who they say they are.

Wherever data security matters Intercede and MyID software can be found. Governments and large enterprises spanning industry sectors trust MyID to issue secure digital identities that enable their people to securely flow through their lives and jobs.

MyID is a feature-rich credential management system (CMS) that enables organisations to deploy digital identities to a wide range of secure devices simply, securely and at scale.

Systems administrators use MyID to configure their certificate and device issuance policies, ensuring the right people receive the right digital identities. Built to integrate with infrastructure such as certificate authorities, directories, identity management solutions and mobile device management systems (MDMs), MyID minimises any impact on the existing environment reducing deployment times and operational costs.

Available as a commercial off-the-shelf product for employee or citizen ID solutions, MyID is also available as a platform where it is embedded to deliver digital identities as part of a wider security ecosystem.

The scalability, security and proven nature of MyID makes it well placed to capitalise on the growing need for digital identities in the Internet of Things and emerging technologies such as blockchain.

TRUSTED BY GOVERNMENT AND LARGE ENTERPRISES, WORLDWIDE

AIRBUS BOEING Handelsbanken

Chairman's Statement

For the year ended 31 March 2019

In last year's Chairman's Statement, I advised that Intercede had undergone a challenging period resulting in the Board making transformational changes to ensure a return to revenue growth and profitability.

Results

Led by Klaas van der Leest and a reorganized management team, the Group is reporting performance for the 2019 financial year ("FY19") that is ahead of market expectations. The combined impact of a 10% increase in revenues from £9.2m to £10.1m, and action taken to reduce the cost base by approximately £3.6m, has resulted in a return to profit which represents a significant turnaround from the losses incurred in recent years. It is a testament to the focus of the new leadership team that, even with the organizational change at the start of the year, the Group has returned to profit a year earlier than expected.

As I noted in the FY19 Interim Report, the Group has seen revenue growth from contract wins with new customers as well as successfully upselling to existing customers. The second half of FY19 has seen a continuation of this trend with the Group's first sale of MyID to an end customer in the region of SE Asia and the receipt of a large US Federal Government follow on order totalling $4.3m (FY18: $4.0m).

Our People

I would like to take this opportunity to thank Klaas, his management team and all Intercede staff across the Group for their hard work and dedication throughout the year. Their continued commitment and drive to ensure the business delivers the high-quality solutions that our customers require and expect, operating under tight timescales, are key factors in maintaining and enhancing the ongoing and longstanding relationships we have with our customers.

Board Changes

The founder of Intercede, Richard Parris, ceased his role as a Non-Executive Director of the Company on 14 December 2018. I would like to thank Richard for his many years of service to Intercede.

Summary

I am pleased with the healthy organic growth achieved across the Group during FY19, following a challenging FY18 and the number of substantive changes and re-tooling of the business.

North America continues to be the Group's largest market contributing 69% of revenues during FY19 with the UK, the Rest of Europe and the Rest of the World generating 3%, 17% and 11% respectively. As we look to build on the positive momentum, we recognize there are political and financial pressures in the US Federal market and that prospects for both the US and the broader global economy remain uncertain.

Intercede continues to enjoy an exceptionally strong market position within government circles and amongst some of the world's largest security sensitive organizations. MyID is a highly configurable platform that integrates with a broad range of third-party digital identity technologies and will continue to generate opportunities for growth and improving financial performance. The new leadership team will make employees, customers and shareholders their priority and I am confident of the Group's future prospects.

Chuck Pol
Chairman
5 June 2019

Chief Executive's Review

For the year ended 31 March 2019

I was appointed on 10 April 2018 with a remit to return Intercede to profit and rebuild value for shareholders. With this in mind, the business was restructured to ensure a clear focus on the core product and staff as well as customers and partners.

The restoration of value needed to start with a "back to basics" approach. Intercede has been successful for many years in following a strategy of building MyID as a highly configurable platform that integrates with a broad range of third-party technologies to make up a highly secure digital identity ecosystem. This niche focused strategy has allowed us to build market leading positions in a number of very attractive market segments where we enjoy the benefits of delivering differentiated products and services that have tangible and lasting value. This includes Aerospace & Defence contractors and governments who understand that replacing passwords with strong 2-factor authentication is the single most effective way for an organisation to protect themselves against the number one cause of data breach ie weak or compromised user credentials.

Some of our product development in recent years has attempted to expand MyID into new markets, including secure cloud services and the Internet of Things (IoT). This could have resulted in explosive growth for Intercede, but these are very competitive markets in which the end consumer is currently struggling to differentiate strong 2-factor authentication from biometric security or SMS one-time passwords. The option of trying to use marketing to educate the market was considered to be expensive and unlikely to deliver satisfactory shareholder value.

The investment in mobile ID and derived credentials, by contrast, has brought some very interesting Intellectual Property (IP) to the Group that we believe will contribute to the Group's future growth. Investment in innovation has been targeted to expand the Group's market coverage by developing a more standard variant of MyID that can be sold through Intercede's global network of authorised partners. This takes the proven core functionality of MyID and offers it as a cost-effective solution for enterprises of all sizes that need to comply with regulations for protecting customer information.

Review of Operations and Future Developments

I have been impressed with both the quality and range of solutions offered by the Group and can see we have a fundamentally strong business offering excellent solutions to attractive core markets. More than that, I have seen first-hand the commitment and determination of the team here at Intercede to deliver to its customers, shareholders and wider stakeholders. I am leading a very capable company that is now focused on delivering tangible customer and shareholder value, whilst providing a safe and stimulating working environment.

Intercede is trusted by government and large enterprises worldwide. The security, reliability and interoperability of MyID software sets it apart and is why we are proud to help many leading organisations around the world manage the secure digital identities they issue to citizens and employees.

One of the Group's key deliverables during FY19 was the MyID solution to issue mobile government identities to the citizens of a Middle Eastern country. I am pleased to report that this was delivered to plan. This solution will allow the citizen to use an app to strongly authenticate to government provided services plus potential third-party provided services such as healthcare and banking. The success of this project provides validation that Intercede's early investment in mobility is capable of generating meaningful revenue from issuing digital identities to citizens and employees on smart cards and mobile devices.

During FY19, the Group was awarded two contracts to provide existing US Federal customers with solutions to issue a derived PIV credential to a mobile device using the employee's original PIV card to authenticate the user during the self-service process. This is expected to utilise the investment Intercede has made in integrating with Mobile Device Management (MDM) systems such as AirWatch and demonstrates the market relevance of Intercede's ability to use iOS and Android smartphones as an identity device. MyID is now able to support a range of credential stores, including the device native key store (iOS and Android), MyID protected key store, and a range of MDM and Enterprise Mobility Management (EMM) systems' key stores. Intercede's technology, combined with the innovative behaviour of its employees, provides a competitive advantage to win other mobile opportunities that are currently in the pipeline for various US Federal agencies.

In the second half of FY19, the Group was pleased to announce the first sale of its MyID credential management software to a government customer in the region of SE Asia. This was received from a new Partner with offices in Singapore, Hong Kong and Malaysia, that does business throughout the region and should lead on to further business in the region in future years. Intercede utilises its global network of technology and reseller partners to provide the expertise and global footprint to locally deliver the cyber security solutions our customers need. Their experience in installing, configuring and supporting Intercede products, whilst utilising our software and services to add a higher level of security to their solutions portfolio, is extremely important.

The establishment and further development of these and other partner relationships is critical for the Group's future growth prospects. MyID is a Credential Management System (CMS) which typically forms part of a wider identity ecosystem and therefore must be futureproofed to work with the devices and technology our customers want to use. We were therefore pleased to recently announce the launch of our new derived credential solution in collaboration with Intel. This solution enables the issuance of PKI-based digital identities to a user's Intel Authenticate-enabled tablet or notebook PC, following NIST security guidelines. The user can then access networks and systems using hardware protected multi-factor authentication. This is not only secure but also provides a better user experience as the user can use a fingerprint or a face match in place of a PIN.

Technology Partners

Reseller Partners

People

Our employees remain core to our current and future business success. Without talented people, there are no further product innovations or technical solutions.

During FY19, we restructured the business and made a number of strategic appointments designed to improve operational delivery and strengthen commercial focus on organic growth including:

- Mike Weston as Chief Operating Officer. Mike has extensive experience around software engineering and system integration, both for commercial off-the-shelf products as well as bespoke software solutions. In addition, he has a track record of delivering on time and to budget across different time zones. When at Logica, Mike was SVP Operations for Asia and prior to that CEO for Offshore Services. In the latter role, he grew Logica's offshore service delivery model from a fledging business into a 2,000 strong headcount. In growing these businesses, he introduced stronger discipline and focus to organisational delivery and review, thereby ensuring greater efficiency and built-in robustness into estimation and development processes.
- Jean Dignand as Chief Sales Officer. Jean has a wealth of solution sales experience in hardware, software and services, as well as cloud, with a good understanding of the wider security space. He has worked in smaller companies as well as larger corporates including Capita, MTI Technology, HP and Salesforce.com.

Annual Employee Surveys have been re-instated to provide a clear staff barometer and a platform for staff input. There is more work to be done across the business but, with an open and transparent top-down and bottom-up approach, staff motivation remains a priority.

Outlook

Following actions taken at the end of last year, and throughout the current year, the Group now has a much better framework in place for future success. We have removed unnecessary costs and restructured and refocused our management team. Whilst a number of challenges remain, I now have a much clearer view of the shape and potential of the business going forward.

As such the ‘back to basics’ approach, highlighted at the start of this section, means the coming year will see a laser focus on execution. The objectives of the business are geared towards sustainable revenue growth and profitability which, after an initial year of transformation, now appear within reach. Our focus is on organic growth through the execution of the agreed strategy which centres around colleagues, customers, channels and cash.

We need to ensure our colleagues, who have maintained an admirable focus on supporting their customers during this difficult period, continue to feel motivated and committed to Intercede. We are fortunate to have so many talented people who have chosen Intercede as their place of work, and we must make sure that commitment is consistently rewarded and maintained.

We have an excellent customer list, which has been created by delivering outstanding value. This will continue to be the number one priority for everyone in our business. There have been distractions that have interfered with this focus over the recent past, but it will be the focus of the entire Group, at all levels.

Channel partnerships are critical to the continued and enhanced growth of the business both in established markets and also in new geographies such as SE Asia. Specific investments have been and will continue to be made in terms of people, product and marketing to ensure the success of this go-to-market model.

And finally, we need to focus on cash. The Group has a good record of managing working capital but we need to drive efficiency in everything we do whilst at the same time ensuring the importance of cash is understood in all parts of the business.

We have ended this financial year in a much stronger position than we started it, with a strong leadership team and a clear focus on product and operational execution. I am confident this will continue strongly in FY20 and beyond as we deliver success.

Klaas van der Leest
Chief Executive Officer
5 June 2019

Strategic Report

For the year ended 31 March 2019

Introduction

Intercede is a cybersecurity software and services company specialising in digital trust for a hyper-connected, increasingly mobile world.

The Group's vision is a world without passwords and its mission is to provide the enabling technology and services to make this possible for people and things. Intercede's core pillars of strength can be outlined as follows:

- For over 20 years, Intercede has been providing trusted identities to people, devices and apps for some of the world's largest corporations and government agencies.
- Intercede's product innovation roadmap leverages over 1,000 man years of internal expertise and is underpinned by strong customer demand and a committed set of international partners.
- New solutions are engineered at high speed by a specialist team with longevity of employment. Product design is also informed by major customers and interoperability partners.
- Intercede's MyID software is US and UK Government accredited, which secures access to regulated markets. Traditionally it was delivered as an on-premise solution for employee ID, but it is now also deployed as a managed service for large scale transport worker and citizen programs.
- The scalability of MyID combined with its technology independence make it well positioned to capitalise on the growing demand for digital identities in the rapidly emerging markets of blockchain and the Internet of Things (IoT).

These core strengths mean that Intercede is well placed to take advantage of opportunities in the market, in particular:

- Passwords are universally recognised as being insecure and inconvenient by organisations and end users.
- A growing number of governments and industry bodies are enacting legislation to mandate enhanced levels of security by removing passwords. This increased regulation covers a wide range of activities including banking & finance, general data protection and critical national infrastructure.
- In-house cybersecurity skills are in short supply creating an increased demand for packaged security solutions.
- There is a growing demand for identity solutions to meet the scalability requirements of large end user populations, particularly in the consumer and IoT markets.

Intercede has the experience, skills and technology platform to deliver digital identity solutions across a wide range of market sectors and geographical regions, meeting the growing demand for a secure and convenient alternative to passwords.

Trading Results

Last year we outlined our confidence that the cost-cutting review and the reorganisation of the management team would provide a firm platform to drive future growth. The cost-cutting review was introduced with the aim of focusing Intercede on delivering core MyID solutions and returning the Group to profit within two years.

I am pleased to report that this confidence was well-founded as the Group has made significant progress, delivering impressive results and returning to profit a year earlier than planned. Revenues for the year ended 31 March 2019 increased by 10% to £10,108,000, whilst operating expenses were reduced by 26% to £10,068,000, both of which combined to generate an operating profit of £16,000 (2018: £4,506,000 loss) and a net profit of £528,000 (2018: £3,830,000 loss). As at 31 March 2019, gross cash balances totalled £3,228,000 (2018: £2,272,000).

Revenue Highlights:

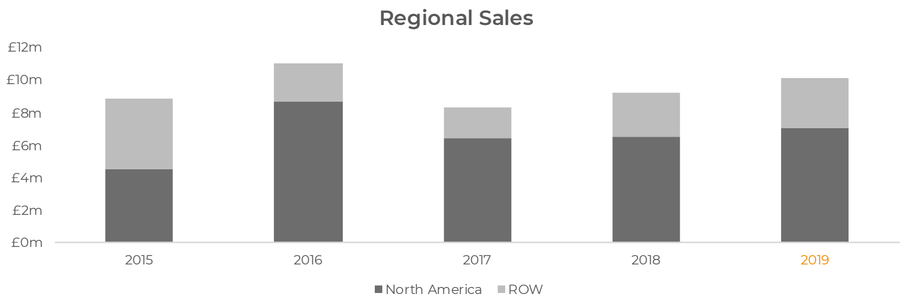
- A new award of a MyID contract from a US Federal agency tasked with intelligence and security services. Orders have been received to date for 60,000 device licenses with an expectation of further professional services orders over the next financial year.
- A new award of a MyID contract from an intergovernmental alliance organisation with the potential to roll out to other departments following a successful implementation.
- Two MyID license sales to existing US Federal customers to enable their users to issue derived PIV credentials to their mobile devices using their original PIV card.
- A new award of a MyID contract to a government in SE Asia, which represents the first MyID sale in that region.
- A new award of a MyID contract to a US Mid-Western diversified energy company to manage digital identities for 15,000 devices.
- Follow-on MyID sales for a US Federal customer (won in FY17), a US military shipbuilder (won in FY18) and a leading European telecommunications company (won in FY14) for 35,000, 20,000 and 20,000 device licenses respectively.

These orders include software licenses, associated support & maintenance and professional services, some of which will be recognised as revenue beyond the current financial year. They have contributed to a net growth in Intercede's worldwide deployments to just under 90 deployments, all of which are blue chip customers. MyID continues to be the Credential Management System (CMS) of choice for major public key infrastructure (PKI) system deployments.

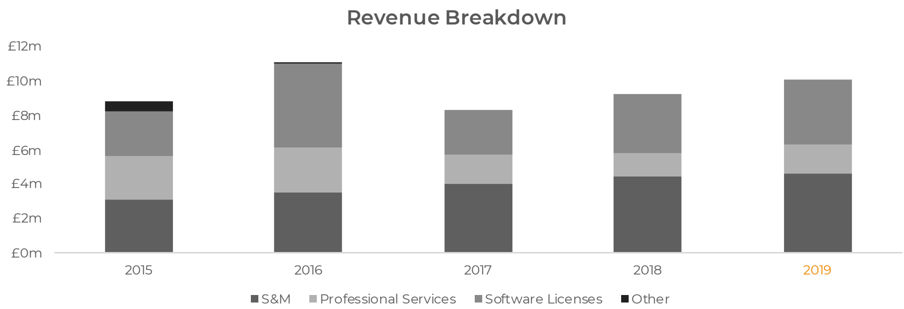
Action taken to reduce the cost base is primarily responsible for the 26% reduction in operating expenses from £13,669,000 to £10,068,000. The Group has started the new financial year with a similar operating cost run rate but will consider strategic investment to exploit new revenue opportunities.

Financial Graphs

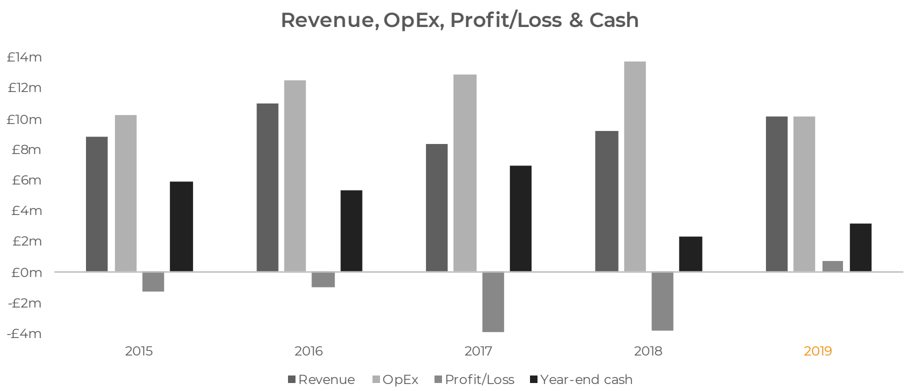
The US represents Intercede's largest market with sales to North America making up 69% of total sales during FY19 (2018: 71%)

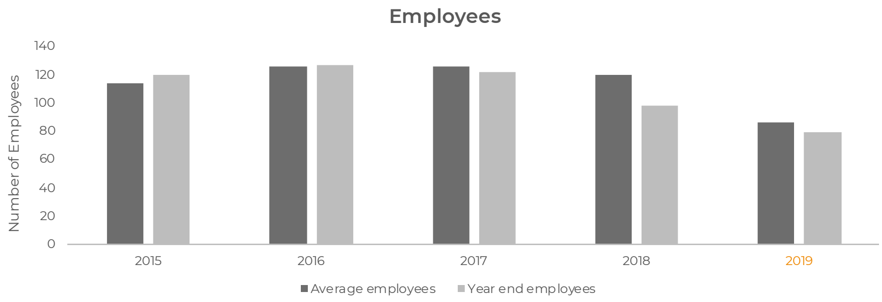


The last five years has seen progressive growth in recurring Support & Maintenance (S&M) revenues due to a steady increase in deployments. The number of new deployments (with revenues over £20,000) in FY19 is consistent with FY18 but there is an increase in Software License revenue due to higher follow-on software license sales to existing customers and the impact of higher revenue per new deployment. Professional Services revenue is also higher than FY18 partly due to implementations of large license orders received in the previous year.

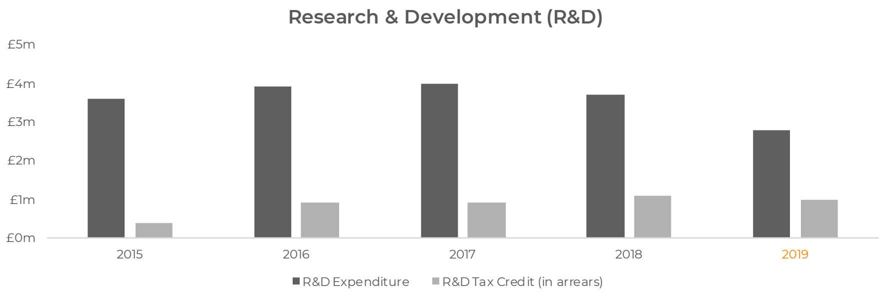


The substantial increase in operating expenses (OpEx) over the period to FY18 primarily reflects strategic investment in product development to expand MyID into emerging high-volume markets to secure mobile apps and devices, provide cloud services and protect the Internet of Things (IoT). This expenditure was reduced following the change in strategy reported in the FY18 Annual Report which, when combined with increased revenue, has enabled the Group to return to profit.





Employee numbers have been reduced back to pre-FY15 levels, ie before the commencement of strategic investment in product development to expand MyID into emerging high-volume markets.



R&D is an important part of Intercede's investment strategy. Money spent on people qualifies, in arrears, for UK government tax credits which are paid in cash in the following year.

Staff costs continue to represent the main area of expense, representing 79% of total operating expenses (2018: 76%). The average number of employees and contractors was 86, down from the previous year's average of 119. However, as a result of the cost reductions referred to above, the number of employees and contractors as at 31 March 2019 had been reduced to 79 (2018: 98).

Expenditure on research and development (R&D) activities totalled £2,854,000 (2018: £3,736,000). In accordance with the IFRS recognition criteria, the Board has continued to determine that all internal R&D costs incurred in the year are expensed. No development expenditure has been capitalised as at 31 March 2019 (2018: £nil).

A £979,000 taxation credit in the period (2018: £1,118,000 taxation credit) primarily reflects cash received following the 2018 R&D claim as a result of the investment activities outlined above. The Group is a beneficiary of the UK Government's efforts to encourage innovation by allowing 130% of qualifying R&D expenditure to be offset against taxable profits.

The net finance cost for the year was £467,000 (2018: £442,000). The increase reflects a full year of interest payable on the additional £510,000 convertible loan notes that were issued, under the same instrument, on 25 August 2017.

A profit for the year of £528,000 (2018: loss of £3,830,000) resulted in a basic profit per share of 1.0p and a fully diluted profit per share of 0.9p (2018: basic and fully diluted loss per share 7.6p).

Financial Position

The Group's cash position at 31 March 2019 was £3,228,000 (2018: £2,272,000), following a year in which cash generated from operating activities totalled £960,000 (2018: £4,978,000 used in operating activities).

The cost-cutting review has enabled the Group to exit one of its UK properties, which as at 31 March 2019 was classified as an asset held for sale at a carrying value of £373,000 (2018: £373,000). The sale of this property was completed on 5 April 2019 resulting in net proceeds of £422,000 and a profit on disposal of £50,000.

The Group has no plans to commence the payment of dividends and will do so when the Board considers this to be appropriate.

Treasury

The Group manages its treasury function as part of the finance department. Whilst the Group's operations are primarily based in the UK it has successfully exported its technology throughout the world for many years. This results in invoices being raised in currencies other than sterling; the most notable being US dollars and euros. A number of suppliers also invoice the Group in US dollars and euros. The Group's current policy is not to hedge these exposures and the exchange differences are recognised in the statement of comprehensive income in the year in which they arise.

Key Performance Indicators (KPIs)

	2015	2016	2017	2018	2019
Sales growth	(10%)	25%	(25%)	11%	10%
Export sales	85%	96%	95%	94%	97%
North American sales	51%	79%	77%	71%	69%
New deployments with revenues over £20,000	6	6	8	10	9

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Group are as follows:

- The Group operates in a complex and competitive technological environment so the business will be negatively affected if the Group does not enhance its product offerings and/or respond effectively to technological change. This risk is mitigated by ongoing investment in research and development.
- The Group operates in multiple markets, both geographically and by sector, so there is a risk that territory and global macro-economic conditions (including the impact of issues such as the US China trade dispute, Brexit and the Italian banking crisis) may result in one or more of these markets being adversely affected and the revenues of the business impacted accordingly. This risk is mitigated to an extent, both through the long term nature of customer relationships and the diversification that results from operating in multiple markets.
- Technology companies are exposed to intellectual property infringement and piracy. The Group rigorously defends its intellectual property in the primary jurisdictions within which it operates.
- The Group's performance is largely dependent on the experience and expertise of its employees. The loss or lack of key personnel is likely to adversely impact the Group's results. To mitigate this risk, the Group aims to put in place appropriate management structures and to provide competitive remuneration packages to retain and attract key personnel.

By order of the Board

Andrew Walker

Finance Director

5 June 2019

Board of Directors

Charles ("Chuck") Pol – Non-Executive Chairman

Chuck Pol recently served as Chairperson of Vodafone Americas, a role he held since 2013 and in which he led the development of applications for the Internet of Things ("IoT"). Chuck joined Vodafone Americas as President of its Global Enterprise division where he built a US-wide mobile business focused exclusively on Enterprises.

Prior to Vodafone Americas, Chuck held senior roles at BT Americas including Chief Operating Officer and President. On leaving BT in 2008, Chuck was President of BT Global Financial Services where he was responsible for BT's relationships with the top 40 global investment banks.

He was appointed a Non-Executive Director of Intercede on 1 June 2017 and has taken on the role of Non-Executive Chairman from 28 March 2018.

Klaas van der Leest – Chief Executive

Klaas van der Leest is an experienced executive with extensive sales, marketing, business development and general management experience in IT and IT services. He has significant international knowledge and experience as a result of various roles with remits across EMEA, Asia-Pac and North America.

Klaas has worked for a number of large and small, quoted and privately owned organisations in market leading and turnaround situations including CA Technologies, Intelecom UK, Amulet Hotkey, Global Crossing, Attenda and Logica. He has proven expertise in the development and execution of national and international sales growth, 'go to market' initiatives and customer focused expansion strategies.

Klaas has a master's degree from the Cranfield School of Management. He also is a Chartered Marketer as well as a Fellow of the Chartered Institute of Marketing. He was appointed Chief Executive of Intercede on 10 April 2018.

Andrew Walker – Finance Director

Andrew Walker is a finance professional with 30 years of senior management experience, during which time he has worked for a number of large international organizations. He was Group Financial Controller of The Rugby Group PLC between 1995 and 2000, and was an Executive Board member from 1997. Before this, he worked for APV plc in a variety of roles, having joined as Group Chief Accountant in 1990 and progressed to subsidiary and divisional Finance Director roles. Between 1981 and 1990, Andrew qualified and worked for Price Waterhouse with a wide range of audit clients.

Andrew has a BCom (Honours) degree in Accounting from the University of Birmingham and is a Fellow of the Institute of Chartered Accountants. He was appointed Finance Director of Intercede on 11 September 2000.

Royston Hoggarth – Non-Executive Director

Royston Hoggarth is Chair of Xchanging Insurance Services (XIS) Limited, Chair & Chief Executive of iPSL Limited, an advisor to the NEC Corporation and the Board of Northgate Public Services Limited and Chair of Cirrus Response Limited. He is also Chair of England Hockey. He has held a range of Executive and Board Director roles with Private Equity backed and Publicly listed companies including IBM, Logica PLC, Cable & Wireless PLC, BT PLC, Hays PLC, Bluefin Solutions Limited and Northgate PS Limited. He was also a Venture Partner at Wellington Partners.

He was appointed a Non-Executive Director of Intercede on 5 August 2002.

Jacques Tredoux – Non-Executive Director

Jacques Tredoux is the Chief Executive of Tredoux Capital Limited, a company authorized by the Financial Conduct Authority to provide corporate finance advisory services. Prior to establishing Tredoux Capital Limited, he was the Chief Executive Officer of the Credo Group (UK) Limited, a group of companies in London that provides wealth management services. Members of the Credo Group provided corporate finance and fundraising assistance to the Company since before its admission to AIM.

Jacques qualified as a lawyer in 1988 in South Africa, and practiced at Edward Nathan & Friedland Inc and Clifford Chance. He was appointed a Non-Executive Director of Intercede on 31 March 2006.

Directors' Report - For the year ended 31 March 2019

The Directors present their Annual Report and the audited financial statements for the year ended 31 March 2019.

Principal Activities

Intercede is a cybersecurity company specialising in identity, credential management and secure mobility to enable digital trust.

The Company

The Company is a holding company which was set up to facilitate the admission of the Group onto the AIM section of the London Stock Exchange.

Review of Operations

The review of operations and future developments is omitted from the Directors' Report as it is included in the Chief Executive's Review on pages 6 to 9.

Results and Dividends

The audited accounts for the year ended 31 March 2019 are set out on pages 28 to 51. The Group's profit for the year was £528,000 (2018: £3,830,000 loss for the year). The Directors do not recommend the payment of a dividend (2018: £nil).

Management of Financial Risk

The Group's policy for the management of financial risk is set out within note 15.

Research and Development Expenditure

The Group continues to invest in an ongoing programme of research and development. The total cost of development during the year ended 31 March 2019 was £2,854,000 (2018: £3,736,000) which has been written off as incurred.

Intellectual Property

The Group's revenues are primarily derived from licensing its proprietary MyID product. Intercede Limited owns the copyright for this product. The Group relies on trademark laws and the law of passing off, or its equivalent in non-UK countries, to protect the trademarks which it uses. Intercede Limited is the proprietor or applicant of certain trademarks in important markets. The Group also endeavours to protect its intellectual property through the filing of patent applications where appropriate.

Employees

It is the Group's policy to provide, where possible, employment opportunities for disabled people and to care for people who become disabled whilst in the Group's employment. The Group operates an equal opportunities employment policy. Employees are kept informed of the performance and objectives of the Group through a combination of regular formal and informal meetings.

Environment

The Group's policy with regard to the environment is to ensure that we understand and effectively manage the actual and potential environmental impact of our activities. Our operations are conducted such that we comply with all legal requirements relating to the environment in all areas where we carry out our business. During the year covered by this report, the Group has not incurred any fines or penalties or been investigated for any breach of environmental regulations.

Directors and their Interests

Details of the present Directors are provided on pages 16 and 17. Klaas van der Leest was appointed as Chief Executive on 10 April 2018. Richard Parris ceased his role as a non-executive director of the Company on 14 December 2018.

In accordance with the Company's Articles of Association, Chuck Pol and Andrew Walker will offer themselves for re-election at the forthcoming Annual General Meeting.

The interests of the Directors serving at the end of their year, and their immediate families, in the shares of the Company are set out below:

	Ordinary Shares 31 March 2019	Ordinary Shares 31 March 2018
R Hoggarth	168,721	168,721
C Pol	133,037	70,537
J Tredoux	13,315,756	11,813,888
K van der Leest	—	N/A
A Walker	1,531,270	1,531,270

Jacques Tredoux is interested in 1,463,216 shares which are registered in the name of Pershing Nominees Limited which is a nominee of Angus Investment Holdings Limited ("Angus"). Angus is controlled by The South Hills Trust. As at 31 March 2019, Jacques Tredoux was also interested in 11,852,540 shares indirectly held by The Azalia Trust. Jacques Tredoux and/or his wife and children are members of the class of discretionary beneficiaries of The South Hills Trust and The Azalia Trust.

On 28 December 2016, the Company announced a fundraising that resulted in the subsequent issue of convertible loan notes ("CLNs") totalling £4,495,000 on 30 January 2017 (see note 13). The interests of the Directors, and their immediate families, that were included in this issue are £1,000,000 and £50,000 for Jacques Tredoux and Andrew Walker respectively. None of the Directors participated in a further issue of CLNs totalling £510,000 on 25 August 2017

None of the Directors had any material interest in any other contract or arrangement made by the Company during the year with the exception of those referred to in note 18.

Directors' Indemnity

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also maintains insurance cover for the Directors and key personnel against liabilities which may be incurred by them while carrying out their duties.

Substantial Shareholders

As at 10 May 2019, the following had notified the Company of disclosable interests in 3% or more of the Company's issued share capital:

	Ordinary Shares Number	%
The Azalia Trust	11,852,540	23.5
R Parris	5,389,138	10.7
Anjar International Limited	3,241,631	6.4
Palm Ltd.	3,147,436	6.2
Liontrust Asset Management	2,353,275	4.7
Herald Investment Management	2,050,266	4.1
Link Market Services Trustees Nominees	2,006,292	4.0
A Walker	1,531,270	3.0

The Link Market Services Trustees Nominees Limited shareholding relates to the Intercede Share Incentive Plan ("SIP") which has been set up for UK employees (including directors). The A Walker shareholding includes 40,043 shares that are also included within the Link Market Services Trustees Nominees Limited shareholding.

Purchase of own Shares to be held in Treasury

As at 31 March 2019, the Company had 41,645 ordinary shares held in treasury (2018: 41,645). There were no purchases or transfers of shares to or from treasury during the year.

Statement of Directors' Responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors of the ultimate parent company are responsible for the maintenance and integrity of the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

Annual General Meeting

The nineteenth Annual General Meeting of the Company will be held on Wednesday 18 September 2019. The Notice of the Annual General Meeting will be sent out to shareholders prior to the meeting.

Independent Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Andrew Walker
Company Secretary
5 June 2019

Corporate Governance Report

The business of the Group is ultimately managed by the Board of Directors of Intercede Group plc, who are responsible for running the Group for the benefit of its shareholders in accordance with their fiduciary and statutory duties. The Board is cognizant of the important responsibilities they have in respect of Corporate Governance and shaping the culture to be consistent with the objectives, strategy and business model outlined in the Chief Executive's Review and Strategic Report on pages 6 to 15.

Intercede is committed to conducting its business fairly, impartially, in an ethical and proper manner, and in full compliance with all laws and regulations. In conducting the business, integrity is the foundation of all company relationships, including those with employees, customers, suppliers and communities.

The Group has adopted the Quoted Companies Alliance (QCA) Corporate Governance Code for small and mid-size quoted companies (revised in April 2018 to meet the new requirements of AIM Rule 26). A detailed statement of the Group's compliance against the code is provided on Intercede's website: https://www.intercede.com/company/investor-relations/investor-info/corporate-governance/.

The Board of Directors

The Board is led by the Chairman, Chuck Pol, who is responsible for the Group's corporate governance arrangements and who ensures that all members of the Board are able to contribute to Board discussions and decision-making. All Directors acknowledge their collective responsibility and legal obligation to promote the best interests of the Group.

The effectiveness of the Board is kept under review by the Chairman who regularly solicits feedback on Board effectiveness from institutional and other shareholders. Feedback from such meetings is that investors remain generally supportive of the Group's strategy and approach. The Company gives high priority to communications with current and potential future shareholders by means of an active investor relations programme. The principal communication with private investors is through the website (intercede.com) and the provision of Annual and Interim Reports. All shareholders will receive at least 21 clear days' notice of the Annual General Meeting at which the Directors will be present and available for questions.

The Board has two Executive Directors and three Non-Executive Directors, one of whom is considered to be independent. All of the Directors have extensive business experience and submit themselves for re-election at least every three years. Details of the breadth of their skills and experience can be found in the Board of Directors section on pages 16 to 17.

In discharging its duties, the Board has established three committees: the Audit Committee, the Remuneration Committee and the Nominations Committee. The structure of the Board Committees is as follows:

Audit Committee – Royston Hoggarth is the Chairman of the Audit Committee given his "recent and relevant" financial experience in a variety of Chairman, Chief Executive and non-executive director roles and given his prior experience as Chairman of the Axon Group plc Audit Committee. Chuck Pol is also a member of the Audit Committee.

Remuneration Committee – Chuck Pol is the Chairman of the Remuneration Committee which also comprises Royston Hoggarth.

Nominations Committee – Chuck Pol is the Chairman of the Nominations Committee which also comprises Royston Hoggarth, Jacques Tredoux, Klaas van der Leest and Andrew Walker.

The performance of the Board is evaluated on a regular basis to achieve continuous improvement. Following a challenging period in the previous financial years, the Board agreed to make a number of changes including appointing a new Chief Executive and reorganising the senior management team. The impact of these changes can be seen in the year ended 31 March 2019, in which the Group is reporting performance that is ahead of plan. The combined impact of increased revenues and action taken to reduce the cost base has resulted in a return to profit, which represents a significant turnaround from the losses incurred in recent years.

Risk Management Review

Group-wide risk management is ultimately the responsibility of the Board (supported by the Audit Committee) and is overseen operationally by the Chief Operating Officer.

Operational risk management is embedded in the Group's business processes, which are set down in writing in the policies and procedures that make up the Group's quality management system (QMS) and are periodically reviewed by external quality compliance auditors.

The Group's key risks (operational and otherwise) are recorded in a Group Risk Register and those risks together with their respective mitigants, controls and corrective actions are reviewed regularly by the Board. Risk is a standing agenda item for the Board and senior managers are required to review, identify and report risks on an ongoing basis. Key risks to the Group are set out in the Strategic Report on pages 10 to 15.

Group Organisation and Culture

The Board meets regularly, and is responsible for the overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the key business risks and reviews the strategic direction of the Group, its codes of conduct, forward projections and progress towards their achievement.

The day-to-day running of the Group's business is delegated by the Board to the Executive Directors led by the Chief Executive. The Executive Directors have established a management and reporting framework across the Group, supported by an Executive Management Team (EMT). The

EMT comprises the Executive Directors together with the Chief Operating Officer, the Chief Sales Officer and the Chief Technology Officer.

Clear channels are in place for information and proposals to flow up from the Group's various operating units to the EMT and the Board and for information and decisions to flow back down. Key Performance indicators are reported monthly, providing visibility and accountability across the business leading to better software and services for customers, allowing effective risk management, and ensuring the Group retains its quality accreditations.

Financial Reporting

The Board has overall responsibility for the Group's system of internal financial control and for reviewing its effectiveness. The purpose of the system of control is to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against misstatement or loss.

There is a comprehensive planning system, including regular periodic forecasts which are presented to and approved by the Board. The performance of the Group is reported monthly and compared to the latest forecast and the prior year.

Going Concern

The Directors, after having made appropriate enquiries, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. This expectation follows a review of the approved operating plan for the year ended 31 March 2020 and forecasts for the year ended 31 March 2021, which show that the Group is expected to generate sufficient cash to enable it to meet its liabilities, as and when they fall due. This follows a cost reduction exercise and the receipt of cash from orders made by major customers in the last two months of the financial year ended 31 March 2019. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Chuck Pol
Chairman
5 June 2019

Report of the Audit Committee

During the year the Audit Committee discharged its responsibilities by reviewing and monitoring the following areas:

- the integrity of the financial statements of the Group;
- announcements relating to financial performance;
- whether the Group has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditors;
- the clarity of disclosure in the Group's Annual Report and the audited consolidated financial statements;
- delegated power from the Board to agree fees for external auditors.
- the need to satisfy itself on the independence and objectivity of the external auditors.

For the year ended 31 March 2019, there were two Audit Committee meetings attended by Royston Hoggarth and Chuck Pol. Many of the Audit Committee matters listed above are addressed at quarterly board meetings, particularly around the review of risks and controls. A particular focus for the Committee was the Group's approach to the adoption of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. Further information on the adoption of IFRS 15 and IFRS 9 is provided in note 1 to the consolidated financial statements.

There are also a number of new standards in issue but not yet effective, including IFRS 16 Leases, in respect of which the Committee is assessing the likely impact of adoption.

The Committee has reviewed all significant issues concerning the consolidated financial statements. The principal matter considered for the year ended 2019 was the assessment of going concern. As part of this assessment, the Board approved operating plan for the year ended 2020 was reviewed along with the forecast for the year ended 2021.

Royston Hoggarth
Chairman
Audit Committee
5 June 2019

Report of the Remuneration Committee

As a company listed on AIM, Intercede Group plc is not required to present a Report of the Remuneration Committee. A number of voluntary disclosures have been made which are not subject to audit. The matters set out below are nevertheless relevant to understanding the activities of the Remuneration Committee and remuneration of the Company's Directors.

The Remuneration Committee is composed entirely of non-executive directors. None of the Committee members has any personal interest in the matters to be decided. The Chief Executive is invited to attend committee meetings but is not present during discussions relating to his own remuneration.

Remuneration Policy

The remuneration packages for executive directors are intended to incentivise them to meet the financial and strategic objectives of the Group. The policy is to pay individual directors a salary at market levels for comparable jobs recognising the size of the Group and the business sector in which it operates. The main components are base salary, an annual bonus plan, pension contributions and share options. Note 4 to the financial statements provides details of the remuneration paid and payable in respect of the year ended 31 March 2019.

Service Contracts

The executive directors have service contracts that are terminable by either party giving 12 months' notice to the other. The non-executive directors' service contracts are terminable on one month's notice by either party with the exception of R Hoggarth whose service contract is terminable on three months' notice by either party.

Pension Arrangements

The Group makes pension contributions to money purchase schemes in respect of both of the executive directors.

Share Options

The Company introduced a new Share Option Plan for senior executives on 22 July 2011 and options were granted later that year. The awards made to directors on 16 August 2011 have now all lapsed or been forfeited. The awards made to senior managers on 26 July and 20 December 2011 vested during the year ended 31 March 2016. No options were exercised during the year.

Further options were granted to senior managers and directors on 7 November 2014 in accordance with the resolution that was approved by shareholders at the Company's AGM on 17 September 2014. These options will vest and become exercisable subject to the Company's share price reaching 400p over 30 consecutive dealing days in the period between the 3rd and 7th anniversary of the date of grant.

During the year, a senior manager left the Company resulting in the forfeiture of 181,818 options that had been granted on 29 September 2017.

During the year, options were granted to the new Chief Executive and the Finance Director. These options will vest and become exercisable subject to the Company's share price reaching the following prices for a period of 30 consecutive trading days in the period up to and ending 19 October 2021, being three years from the date of the grant (the "Performance Criteria"):

- 69p per Ordinary Share ("Tranche 1");
- 119p per Ordinary Share ("Tranche 2"); and
- 169p per Ordinary Share ("Tranche 3").

Dependent on the Performance Criteria above being achieved, the number of options that will vest and become exercisable is as follows:

Director	Tranche 1	Tranche 2	Tranche 3
Klaas van der Leest	500,000 Options	250,000 Options	250,000 Options
Andrew Walker	350,000 Options	150,000 Options	150,000 Options

Further options were granted to senior managers on 24 October 2018 and 27 March 2019 in similar tranches ie 50% 25% 25%. These options will vest and become exercisable subject to the Performance Criteria above (Tranche 1 - 69p; Tranche 2 - 119p; Tranche 3 - 169p) being achieved for a period of 30 consecutive trading days in the period up to and ending 24 October 2021.

The following options were outstanding as at 31 March 2019:

Plan	Date of Grant	No. of Shares	Exercise Price	Dates Exercisable
EMI	26 July 2011	152,500	1.0p	26 July 2014 to 25 July 2021
EMI	20 December 2011	50,000	1.0p	20 December 2014 to 19 December 2021
EMI	7 November 2014	210,000	127.5p	7 November 2017 to 6 November 2024
EMI	19 October 2018	1,575,925	27.0p	19 October 2021 to 18 October 2028
Unapproved	19 October 2018	74,075	27.0p	19 October 2021 to 18 October 2028
EMI	24 October 2018	600,000	24.5p	24 October 2021 to 23 October 2028
EMI	27 March 2019	150,000	17.0p	27 March 2022 to 26 March 2029

The interests of the Directors that are included within the options outlined above are as follows:

Klaas van der Leest – 1,000,000 options were granted on 19 October 2018 (74,075 of which are unapproved).

Andrew Walker – 50,000 options were granted on 7 November 2014 and 650,000 options were granted on 19 October 2018.

On 24 October 2017, a free unit award equivalent to 70,537 ordinary shares of 1 pence each in the capital of the Company ("Free Units") was granted to C Pol, a non-executive Director of Intercede Group plc. This award will vest and become exercisable on 24 October 2020 subject to the achievement of performance targets based upon 50% growth on FY2017 revenues in FY2018, a doubling of FY2017 revenues in FY2019 and a tripling of FY2017 revenues in FY2020. The award was made under the existing Intercede MyID Inc. Unit Incentive Plan, further details of which are provided in note 17.

Share Incentive Plan (SIP)

Following the introduction of a Share Incentive Plan for all UK employees during the year ended 31 March 2014, a similar plan was introduced for all US employees during the year ended 31 March 2015. Full details are provided in note 17.

Share Price

As at 31 March 2019, the market value of the shares of the Company was 16.25p (mid-market price). The share price fluctuated between a high of 41.0p and a low of 16.25p during the year ended 31 March 2019.

Chuck Pol
Chairman
Remuneration Committee
5 June 2019

Independent Auditors' Report to the Members of Intercede Group plc

Report on the audit of the financial statements

Opinion:

In our opinion:

- Intercede Group 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 31 March 2019 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements 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 balance sheets as at 31 March 2019; the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

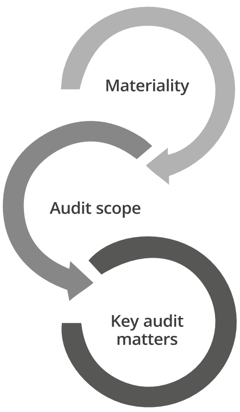
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit 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.

Our audit approach

Overview



- Overall group materiality: £123,000 (2018: £124,000), based on 3.75% of 3 year average loss before tax (2018: 2.5% of loss before tax).
- Overall company materiality: £103,000 (2018: £98,590), based on 1% of total assets.

- 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.
- The Group financial statements are a consolidation of a number of entities. In establishing our overall approach, we identified two entities which in our view, require an audit of their complete financial information both due to their size and risk characteristics: Intercede Limited and Intercede Group plc (the Company).
- The audit work performed on these two entities, together with additional procedures performed on the consolidation of Intercede Group plc, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

- Going Concern Assessment (Group and parent).

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
Going Concern assessment Refer to the notes to the financial statements on page 32 of the Group financial statements and page 48 of the Company financial statements for the going concern assessment. The preparation of the financial statements on the going concern basis requires the directors to consider future forecasts of cash flows to determine whether the Group and Company will be able to meet their liabilities as and when they fall due for a period of at least 12 months from the date on which the financial statements are signed.	As part of our audit, we have reviewed the Board approved operating plan for the year ended 31 March 2020 and forecasts for the year ended 31 March 2021 and in particular; • we have reviewed the historical track record of the business in terms of generating revenue and the pipeline of orders as at 31 March 2019; • we have reviewed the impact of the cost reduction exercise and, in particular, note the reduced operating costs in the period since this exercise was undertaken; • we have reviewed the movements in cash and cash equivalents in the period since 31 March 2019; • we have reviewed the assumptions in respect of cash receipts from the disposal of assets held for sale and tax credits in relation to research and development expenditure; and • we have also considered the key sensitivities within the operating plan and forecasts and the expected cash headroom over the next 12 months. Based on the work undertaken, we believe that the Directors have a reasonable basis on which to conclude that it is appropriate to prepare the accounts on the going concern basis.

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.

The Group financial statements are a consolidation of a number of entities. In establishing our overall approach, we identified two entities which in our view, require an audit of their complete financial information both due to their size and risk characteristics: Intercede Limited and Intercede Group plc (the Company).

The audit work performed on these two entities, together with additional procedures performed on the consolidation of Intercede Group plc, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

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	£123,000 (2018: £124,000).	£103,000 (2018: £98,590).
How we determined it	3.75% of 3 year average loss before tax.	1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report and Accounts, loss before tax is the primary measure used by the shareholders in assessing the performance of the Group, and given the reduction in loss in the year it is considered appropriate to use three years average loss before tax as a benchmark. This is a generally accepted auditing benchmark.	Given the company holds the investments of the Group, a total assets benchmark is considered to be appropriate to use. This is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall Group materiality. The level of materiality remains consistent across the Group consolidation and its components.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £6,125 (Group audit) (2018: £6,200) and £5,150 (Company audit) (2018: £4,930) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- 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 12 months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.

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.

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 31 March 2019 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 Statement of Directors' Responsibilities in respect of the financial statements set out on page 19, 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.

Gillian Hinks (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
5 June 2019

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2019

	Notes	2019 £'000	2018 £'000
Continuing operations			
Revenue	2	**10,108**	9,204
Cost of sales		**(24)**	(41)
Gross profit		**10,084**	9,163
Operating expenses		**(10,068)**	(13,669)
Operating profit / (loss)	3	**16**	(4,506)
Finance income	5	**11**	10
Finance costs	5	**(478)**	(452)
Loss before tax		**(451)**	(4,948)
Taxation	6	**979**	1,118
Profit / (loss) for the year		**528**	(3,830)
Total comprehensive income / (expense) attributable to owners of the parent company		**528**	(3,830)
Profit / (loss) per share (pence)	7		
- basic		**1.0p**	(7.6)p
- diluted		**0.9p**	(7.6)p

The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheet

At 31 March 2019

	Notes	2019 £'000	2018 £'000
Non-current assets			
Property, plant and equipment	8	154	195
Current assets			
Assets held for sale	10	373	373
Trade and other receivables	11	4,797	4,709
Cash and cash equivalents		3,228	2,272
		8,398	7,354
Total assets		8,552	7,549
Equity			
Share capital	12	505	505
Share premium		673	673
Equity reserve		66	66
Merger reserve		1,508	1,508
Accumulated deficit		(4,898)	(5,719)
Total equity		(2,146)	(2,967)
Non-current liabilities			
Convertible loan notes	13	4,747	4,670
Deferred revenue		166	324
		4,913	4,994
Current liabilities			
Trade and other payables	14	1,899	1,857
Deferred revenue		3,886	3,665
		5,785	5,522
Total liabilities		10,698	10,516
Total equity and liabilities		8,552	7,549

The financial statements on pages 28 to 45 were authorised for issue by the Board of Directors on 5 June 2019 and were signed on its behalf by:

K van der Leest **Director**
A Walker **Director**

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2019

	Share capital £'000	Share premium £'000	Equity reserve £'000	Merger reserve £'000	Accumulated deficit £'000	Total equity £'000
As at 1 April 2017	499	673	60	1,508	(2,354)	386
Purchase of own shares	—	—	—	—	(147)	(147)
Employee share option plan credit (note 17)	—	—	—	—	(19)	(19)
Employee share incentive plan charge (note 17)	—	—	—	—	493	493
Issue of new shares	6	—	—	—	—	6
Re-issuance of treasury shares	—	—	—	—	138	138
Equity component of convertible loan notes	—	—	6	—	—	6
Loss for the year and total comprehensive expense	—	—	—	—	(3,830)	(3,830)
As at 31 March 2018	505	673	66	1,508	(5,719)	(2,967)
Proceeds from recycling of own shares	—	—	—	—	**27**	**27**
Employee share option plan charge (note 17)	—	—	—	—	**17**	**17**
Employee share incentive plan charge (note 17)	—	—	—	—	**249**	**249**
Profit for the year and total comprehensive income	—	—	—	—	**528**	**528**
As at 31 March 2019	**505**	**673**	**66**	**1,508**	**(4,898)**	**(2,146)**

All amounts included in the table above are attributable to owners of the parent company.

Share capital: Nominal value of shares issued.
Share premium: Amount subscribed for share capital in excess of the nominal value.
Equity reserve: Amount recorded as equity on the initial fair value measurement of issued convertible loan notes.
Merger reserve: Created on the issue of shares on acquisition of its subsidiary accounted for in line with merger accounting principles.
Accumulated deficit: All other net losses not recognised elsewhere.

The accompanying notes are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2019

	2019 £'000	2018 £'000
Cash flows from operating activities		
Operating profit / (loss)	16	(4,506)
Depreciation	116	156
Employee share option plan charge / (credit)	17	(19)
Employee share incentive plan charge	249	493
Employee unit incentive plan charge	5	2
Employee unit incentive plan payment	(7)	(8)
Increase in trade and other receivables	(131)	(3,340)
Increase in trade and other payables	44	434
Increase in deferred revenue	63	1,023
Cash generated from / (used in) operations	372	(5,765)
Finance income	9	13
Finance costs on convertible loan notes	(400)	(344)
Taxation	979	1,118
Net cash generated from / (used in) operating activities	960	(4,978)
Investing activities		
Purchases of property, plant and equipment	(75)	(29)
Cash used in investing activities	(75)	(29)
Financing activities		
Proceeds from recycling / (purchase) of own shares	27	(141)
Proceeds from re-issuance of treasury shares	—	138
Proceeds from issue of convertible loan notes	—	510
Convertible loan note issue costs	—	(27)
Cash generated from financing activities	27	480
Net increase / (decrease) in cash and cash equivalents	912	(4,527)
Cash and cash equivalents at the beginning of the year	2,272	6,891
Exchange gains / (losses) on cash and cash equivalents	44	(92)
Cash and cash equivalents at the end of the year	3,228	2,272

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

1 Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all of the years presented, unless otherwise stated.

General Information

Intercede Group plc ('the Company') and its subsidiaries (together 'the Group') is a leading independent developer and supplier of identity and credential management software. The Company is a public limited company which is listed on the AIM section of the London Stock Exchange and is incorporated and domiciled in the UK. The address of its registered office is Lutterworth Hall, St. Mary's Road, Lutterworth, Leicestershire, LE17 4PS. The registered number of the company is 04101977.

Basis of preparation

The consolidated financial statements of Intercede Group plc have been prepared in accordance with European Union endorsed International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the EU and the Companies Act 2006 applicable to companies reporting under IFRS.

Going concern assessment

Although the Group has reported a profit for the year ended 31 March 2019 of £528,000 (2018: £3,830,000 loss), it has net liabilities of £2,146,000 as at 31 March 2019 (2018: £2,967,000). However, it should be noted that the Group's net liabilities include £4,747,000 (2018: £4,670,000) in respect of convertible loan notes which are not due for repayment until 29 December 2021. The Group has net current assets of £2,613,000 (2018: £1,832,000) and therefore has sufficient current assets on hand to meet current obligations.

The Group initiated a cost reduction exercise in the prior financial year and this, combined with an increase in revenue, has positively impacted the Cash Flow Statement for the year ended 31 March 2019, which discloses an increase in cash and cash equivalents of £912,000 (2018: decrease of £4,527,000). The Balance Sheet discloses cash and cash equivalents of £3,228,000 as at 31 March 2019 (2018: £2,272,000).

The Directors have reviewed the approved operating plan for the year ended 31 March 2020 and forecasts for the year ended 31 March 2021 and have concluded that the Group is expected to generate sufficient cash to enable it to meet its liabilities, as and when they fall due, for a period of at least 12 months from the date of signing these financial statements. Accordingly they believe it is appropriate to prepare the financial statements on a going concern basis under the historical cost convention.

Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The accounting estimates that have the most risk of causing a material adjustment to the amounts recognised in the financial statements are the judgements and estimates relating to:

Judgements:

- Research & Development (R&D) costs – in accordance with the IFRS recognition criteria outlined elsewhere within this note, the Board has determined that all internal R&D costs incurred in the year are expensed. No development expenditure has been capitalised as at 31 March 2019 (2018: £nil).
- The Group is a beneficiary of the UK Government's efforts to encourage innovation by allowing a percentage of qualifying R&D to be paid as tax credits. The annual R&D tax credit claims are recognised in arrears, ie the period during which a claim is submitted and cash is received.

Estimates:

- Deferred tax asset – a deferred tax asset has not been recognised against the backdrop of substantial strategic investment leading to reported losses and unused tax losses brought forward.
- Share-based payments – the estimation of fair values for share-based payments is dependent on a number of assumptions (outlined in note 17) including expected volatility and the expected life of the option.

The Company has elected to prepare its entity financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and these are separately presented on pages 46 to 51.

Basis of consolidation

The Group financial statements include the results of the Company and its subsidiary undertakings. The results of subsidiaries acquired or disposed of during the year are included from the date of acquisition or disposal respectively.

The financial statements of the Company and its subsidiary undertakings are prepared for the same reporting year as the Group, using consistent accounting policies and in accordance with local Generally Accepted Accounting Principles. All intercompany balances and transactions, including unrealised profits arising from inter-group transactions, have been eliminated in full.

Foreign currencies

The consolidated financial statements are presented in pounds sterling, which is the Group's functional and presentational currency.

Transactions in foreign currencies by individual entities are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the statement of comprehensive income.

Revenue recognition

Revenue, which excludes sales between Group companies and trade discounts, represents the invoiced value of goods and services net of value added tax. The Group's revenue recognition polices are detailed below:

Software licence sales (goods) – Revenue is recognised at a point in time once the license is ready for transfer to the customer. This is on the basis that the customer cannot return the license or ask for it to be transferred to another party and the Group is under no obligation to provide a refund.

Software as a Service (SaaS) sales – Revenue associated with the license element is recognised at a point in time as opposed to the period over which the service is provided. This applies to new SaaS sales in the first year, for which the enforceable contract term is typically twelve months. Any renewal of a SaaS sale (after the enforceable contract term) will result in revenue being recognised evenly over the period during which the service is provided.

Consulting and development services – Revenue is recognised on a time and materials basis as costs are incurred.

Support and maintenance services – Fees are invoiced at the beginning of the period to which they relate and are initially recorded as deferred revenue. Revenue is then recognised evenly over the maintenance period.

Segmental reporting

A geographical segment is engaged in providing products or services within a particular economic environment and may be subject to risks and returns that are different from those of segments operating in other economic environments. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

All of the Group's revenue, operating losses and net liabilities originate from operations in the UK. The Directors consider that the activities of the Group across all areas of revenue constitute a single business segment. This conclusion is consistent with the nature of information that is presented to the Board of Directors of the Company, which is considered to be the Chief Operating Decision Maker (CODM) for the purposes of IFRS 8.

Research and development costs

Expenditure incurred on research and product development and testing is charged to the statement of comprehensive income in the period in which it is incurred, unless the development expenditure meets the criteria for capitalisation. Where the development expenditure meets the criteria for capitalisation, development costs are capitalised and amortised over the period of expected future sales of the related projects with impairment reviews being carried out at least annually. The asset is carried at cost less any accumulated amortisation and impairment losses.

In general, the Group's research and development activities are closely interrelated and it is not until the technical feasibility of a product can be determined with reasonable certainty that development costs are considered for capitalisation. In addition, intangible assets are not recognised unless it is reasonably certain that the resultant products will generate future economic benefits in excess of the amounts capitalised.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes all expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the costs provide enhancement, it is probable that future economic benefits associated from the item will flow to the Group and the cost of the enhancement can be measured reliably. All other repair and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is provided to write off the cost less the estimated residual value of property (excluding freehold land), plant and equipment over their estimated useful economic lives by equal annual instalments using the following rates:

Freehold buildings	2% pa
Leasehold improvements	Remaining period of the lease
Fixtures and fittings	15% pa
Computer and office equipment	25% pa

Assets held for sale

Assets are categorised as held for sale when the value of the asset will be recovered through a sale transaction rather than continuing use. The condition is met when the sale is highly probable, the asset is available for immediate sale in its present condition and is being actively marketed. Assets held for sale are valued at the lower of carrying value and fair value less costs to sell and are no longer depreciated. Any gain or loss on derecognition is recognised in the statement of comprehensive income.

Leased assets

Leases under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Operating lease payments are charged to the statement of comprehensive income on a straight-line basis.

Trade and other receivables

Trade and other receivables are initially recognised at amortised cost. The amortised cost of trade receivables is calculated as original invoice amount adjusted over time for foreign exchange adjustments and any loss allowance. Following adoption of IFRS 9 the Group measures loss allowances for Expected Credit Losses (ECL) on trade receivables measured at amortised cost. When determining whether the credit risk of a trade receivable has increased significantly since initial recognition, and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience.

Cash and cash equivalents

Cash and cash equivalents are classified as loans and receivables under IFRS 7 and are held with highly rated financial institutions. These comprise cash at bank and in hand and short-term deposits.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2019

Convertible loan notes

The proceeds received from the issue of the convertible loan notes are allocated between their financial liability and equity components. The financial liability is initially recognised at fair value (being the discounted cash flows using a market rate of interest that would be payable on a similar instrument that does not include an option to convert). The equity component is assigned to the residual amount after deducting this fair value liability from the fair value of the financial instrument as a whole. It is recognised in the 'Equity reserve' within shareholders' equity. More information is provided in note 13.

The financial liability is subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. The difference between the interest expense and the coupon payable is added to the carrying amount of the liability in the balance sheet.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based upon their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

Pension costs

The Group operates a money purchase pension scheme via an independent provider. Contributions are charged to the statement of comprehensive income as incurred.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair values requires determination of the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in note 17.

Where share options are awarded to employees, the fair value of share-based compensation at the date of grant for equity-settled plans granted to employees after 7 November 2002 is charged to the statement of comprehensive income over the expected vesting period with a corresponding amount recognised as an increase in equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

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

The Group operates a Unit Incentive Plan to provide similar benefits for all US employees. The plan provides phantom shares or units, equivalent in value to shares in the Company, and the plan is cash-settled.

Taxation

The tax expense represents the sum of the current tax and deferred tax. UK corporation tax is provided at amounts expected to be paid (or recovered) and the current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax is recognised using the balance sheet liability method for all temporary differences, unless specifically exempt, at the tax rates that have been enacted or substantively enacted at the balance sheet date.

A deferred tax asset represents the amount of income taxes recoverable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses and the carry forward of unused tax credits. Deferred tax assets are only recognised to the extent that it is more likely than not that taxable profits will be available against which deductible temporary differences can be utilised.

Adoption of new accounting standards

New standards that are effective for the first time during the year ended 31 March 2019 are IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. Adoption of these standards has had an impact on the Group's financial statements for the year ended 31 March 2019 as explained below.

- **IFRS 9 Financial Instruments**

  IFRS 9 addresses the classification, measurement and impairment of financial instruments, along with hedge accounting, and is effective for accounting periods commencing on or after 1 January 2018. This standard introduced new requirements for the classification and measurement of financial assets, general hedge accounting and the impairment of financial assets. The classification and measurement of financial liabilities in accordance with IFRS 9 Financial Instruments remains largely unchanged from IAS 39 Financial Instruments: Recognition and Measurement. The impact of the application of IFRS 9 did not result in any change to the classification and measurement of financial assets held by Group as the only assets are short-term receivables that continue to be carried at amortised cost. This is on the basis that these short-term receivables are held within a business model whose objective is to hold assets in order to collect contractual cash flows. The Group has no complex financial instruments and does not apply hedge accounting. As a result, the relevant changes in IFRS 9 have not impacted the Group. The standard also applies a new prospective impairment model to trade receivables in which expected credit losses are recognised based on historical observed default rates. Based on all information available (including current and forward-looking information), the Group has recognised a credit loss allowance.

- **IFRS 15 Revenue from Contracts with Customers**

  IFRS 15 sets out to clarify the principles of revenue recognition and also requires enhanced disclosures. The standard is effective for accounting periods beginning or after 1 January 2018. The impact of the application of IFRS 15 did not result in any change to the way revenue is recognised, with the exception of Software as a Service (SaaS) sales. The Group already recognises the separate performance obligations in any contract, as stated in the Revenue Recognition policy, and each obligation has a clear transaction price. For SaaS sales, the license element of these sales provides customers with a right to use the intellectual property of the license at a point in time. Therefore the revenue associated with the license element should be recognised at a point in time as opposed to the period over which the service is provided. This change will only impact new SaaS sales in the first year (typically the enforceable contract term is 12 months) and is likely to result in the acceleration of recognition of the revenue associated with the software element. Any renewal of SaaS sales (after the enforceable contract term) will result in revenue being recognised evenly over the period during which the service is provided, which matches the recognition policy prior to the adoption of IFRS 15. As there were no new SaaS sales in this financial year, or the previous financial year, there was no impact on the revenue recognised.

A number of new amendments to IFRS 1, IFRS 2, IFRS 4, IAS 28 and IAS 40 are also effective for the first time for periods beginning on 1 April 2018 and have been adopted in these financial statements. None of the amendments impacted on the Group's financial statements.

At the balance sheet date there are a number of new standards and amendments to existing standards in issue but not effective. The Group intends to adopt these standards when they become effective, rather than adopt them early. Information on these new standards that is expected to be relevant to the Group's financial statements is provided below.

- **IFRS 16 Leases**

  IFRS 16 sets out the principles for recognition, measurement, presentation and disclosure of leases and will replace IAS 17 Leases. Adoption of IFRS 16 will result in the Group recognising right of use assets and lease liabilities for all contracts that are, or contain, a lease. Instead of recognising an operating expense for its operating lease payments, the Group will instead recognise interest on its lease liabilities and depreciation on its right-of-use assets. The standard is effective for accounting periods beginning on or after 1 January 2019. The Group anticipates that adopting this standard will create a right-of-use asset in the range of £1,200,000 to £1,500,000 and a liability on the balance sheet, based on the minimum future lease payments, in the range of £1,500,000 to £1,800,000. While there is no net impact on the statement of comprehensive income over the life of the lease, there is likely to be an impact from applying the effective interest method, resulting in a decreasing total lease expense throughout the lease term. The Group estimates that the impact on profit for the year ending 31 March 2020 will be immaterial.

- **IFRS 17 Insurance Contracts**

  IFRS 17 Insurance Contracts establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and is effective for accounting periods beginning on or after 1 January 2021. The Company does not issue insurance contracts or hold reinsurance contracts and therefore is not impacted by adopting this standard.

There are no other new standards, amendments to existing standards or interpretations that would be expected to have a material impact on the Group.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2019

2 Revenue

All of the Group's revenue, operating profits / (losses) and net liabilities originate from operations in the UK. The Directors consider that the activities of the Group constitute a single business segment.

The split of revenue by geographical destination of the end customer can be analysed as follows:

	2019 £'000	2018 £'000
UK	331	533
Rest of Europe	1,738	963
North America	6,981	6,506
Rest of World	1,058	1,202
	10,108	9,204

Revenue of £3,004,000 (2018: £2,852,000) is derived from the only end customer that individually represents over 10% of the Group's revenues.

3 Operating profit / (loss)

Operating profit / (loss) is stated after charging / (crediting):

	2019 £'000	2018 £'000
Staff costs (note 4)	7,994	9,868
Settlement Agreement costs (note 4)	—	190
Compensation for loss of office paid to Executive Directors and key management (note 4)	—	334
Foreign exchange (gain) / loss	(25)	155
Depreciation of property, plant and equipment (note 8)	116	156
Operating lease rentals	364	397
Cost of sales	24	41
Other expenses	1,619	2,569
	10,092	13,710

Included in the costs above is research and development expenditure totalling £2,854,000 (2018: £3,736,000).

The analysis of auditors' remuneration is as follows:

	2019 £'000	2018 £'000
Fees payable for the audit of the parent company and consolidated financial statements	43	42
Fees payable for the audit of the Company's subsidiaries, pursuant to legislation	5	5
	48	47

4 Staff costs

The average monthly number of employees and contractors of the Group (including Executive Directors) was:

	2019 Number	2018 Number
Technical	66	91
Sales and marketing	10	17
Administration	10	11
	86	119

Their aggregate remuneration comprised:

	2019 £'000	2018 £'000
Wages and salaries	6,782	8,669
Social security costs	693	927
Other pension costs	248	320
Employee share option plan charge / (credit) (note 17)	17	(19)
Employee share and unit incentive plan (note 17)	254	495
	7,994	10,392

Pension contributions totalling £40,000 (2018: £59,000) are included within year end trade and other payables.

The figures above include Settlement Agreement costs totalling £nil (2018: £190,000) and the remuneration of the Directors and key management, which includes compensation for loss of office totalling £nil (2018: £334,000).

Directors' remuneration

The aggregate remuneration of the Executive Directors and key management was as follows:

	2019 £'000	2018 £'000
Emoluments	668	488
Compensation for loss of office	—	334
Company contributions to money purchase pension scheme	19	49
	687	871

Directors' emoluments

	Salary and fees 2019 £'000	Bonus 2019 £'000	Benefits in kind 2019 £'000	Total 2019 £'000	Total 2018 £'000	Pension contributions 2019 £'000	Pension contributions 2018 £'000
Executive Directors							
R Parris [1]	—	—	—	—	416	—	29
K van der Leest [2]	194	200	—	394	—	11	—
A Walker	152	121	1	274	153	8	8
Non-Executive Directors							
C Pol	92	—	—	92	43	—	—
B Drury [3]	—	—	—	—	13	—	—
R Hoggarth	25	—	—	25	25	—	—
R Parris [1]	20	—	—	20	—	—	—
	483	321	1	805	650	19	37
Fees paid to third parties	25	—	—	25	25	—	—

[1] Ceased to be an Executive Director and appointed as a Non-Executive Director on 28 March 2018.
Ceased to be a Non-Executive Director on 14 December 2018.

[2] Appointed 10 April 2018.

[3] Resigned 13 September 2017.

Fees paid to third parties comprise amounts paid to Tredoux Capital Limited under an arrangement to provide the Group with the services of J Tredoux as a Non-Executive Director. J Tredoux is a Director of Tredoux Capital Limited.

Details of the Directors' share options are set out in the Report of the Remuneration Committee on page 22.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2019

5 Finance income and costs

	2019 £'000	2018 £'000
Finance income		
Interest income on short term bank deposits	11	10

Finance costs		
Convertible loan notes	(478)	(452)

Finance costs represent interest payable totalling £400,000 (2018: £383,000) in respect of the convertible loan notes plus £78,000 (2018: £69,000) representing an effective interest rate adjustment (note 13).

6 Taxation

The tax credit comprises:

	2019 £'000	2018 £'000
Current year – UK corporation tax	—	—
Current year – US corporation tax	(31)	(30)
Research and development tax credits relating to prior years	1,010	1,148
Taxation	979	1,118

The difference between the tax credit shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

	2019 £'000	2018 £'000
Loss before tax	(451)	(4,948)
Loss before tax at UK corporation tax rate of 19% (2018: 19%)	86	940
Research and development claim	374	850
Research and development tax credits relating to prior years	1,010	1,148
Depreciation in excess of capital allowances	(6)	(23)
Expenses not deductible for tax purposes	(1)	(8)
Other temporary differences	4	(2)
Employee share option plan credit / (charge)	(3)	4
Employee share incentive plan charge	(47)	(94)
Employee unit incentive plan credit	—	1
Purchase of shares for employee share incentive plan	—	98
US corporation tax	(3)	(16)
Losses brought forward utilised	11	13
Losses carried forward	(446)	(1,793)
Tax credit for the year	979	1,118

The Group has unused tax losses of £8,710,000 (2018: £13,854,000) and unrecognised deferred tax assets of £1,481,000 (2018: £2,355,000) calculated at 17% (2018: 17%), the corporation tax rate that will be effective from 1 April 2020.

7 Earnings / (loss) per share

The calculations of earnings / (loss) per ordinary share are based on the profit / (loss) for the financial year and the weighted average number of ordinary shares in issue during each year. Basic and diluted loss per share are the same as potential dilution cannot be applied to a loss making year.

		2019 £'000	2018 £'000
Profit / (loss) for the year		528	(3,830)

		Number	Number
Weighted average number of shares	– basic	50,482,281	50,212,714
	– diluted	59,214,607	50,212,714

		Pence	Pence
Profit / (loss) per share	– basic	1.0p	(7.6)p
	– diluted	0.9p	(7.6)p

The weighted average number of shares used in the calculation of basic and diluted earnings per share for each year were calculated as follows:

	2019 Number	2018 Number
Issued ordinary shares at start of year	50,523,926	49,903,143
Effect of treasury shares	(41,645)	(115,623)
Effect of issue of ordinary share capital	—	425,194
Weighted average number of shares - basic	50,482,281	50,212,714
Add back effect of treasury shares	41,645	N/A
Effect of share options in issue	1,417,294	N/A
Effect of convertible loan notes in issue	7,273,387	N/A
Weighted average number of shares – diluted	59,214,607	50,212,714

8 Property, plant and equipment

	Freehold land and buildings £'000	Leasehold improvements £'000	Fixtures and fittings £'000	Computer and office equipment £'000	Total £'000
Cost					
At 1 April 2017	422	70	132	945	1,569
Additions	—	—	2	27	29
Reclassification to assets held for sale (note 10)	(422)	—	—	—	(422)
Disposals	—	—	(8)	(7)	(15)
At 1 April 2018	—	70	126	965	1,161
Additions	—	—	—	75	75
Disposals	—	—	(19)	(28)	(47)
At 31 March 2019	—	70	107	1,012	1,189
Accumulated depreciation					
At 1 April 2017	42	18	68	746	874
Charge for the year	7	16	18	115	156
Reclassification to assets held for sale (note 10)	(49)	—	—	—	(49)
On disposals	—	—	(8)	(7)	(15)
At 1 April 2018	—	34	78	854	966
Charge for the year	—	16	12	88	116
On disposals	—	—	(19)	(28)	(47)
At 31 March 2019	—	50	71	914	1,035
Net book amount					
At 31 March 2019	—	20	36	98	154
At 31 March 2018	—	36	48	111	195

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2019

9 Subsidiaries

The Company's subsidiaries, all of which have been consolidated in the Group's financial statements at 31 March 2019, are as follows:

	Country of incorporation	Class of shares	% held	Principal activity
Intercede Limited	England and Wales	Ordinary	100	Software developer
Intercede 2000 Limited	England and Wales	Ordinary	100	Dormant
Intercede MyID Inc.	USA	Common	100	Service provider

Intercede Limited and Intercede 2000 Limited are registered at Lutterworth Hall, St. Mary's Rd, Leicestershire, LE17 4PS, UK. Intercede MyID Inc. is registered at 2711 Centerville Rd, Suite 400, Wilmington, New Castle, DE 19808, USA.

10 Assets held for sale

An office based in the UK is presented as an asset held for sale following the commitment of the Group, on 23 February 2018, to a plan to sell the property. The asset has been reclassified from Property, plant and equipment into Current assets at its carrying value of £373,000 (2018: £373,000). This is estimated to be lower than its fair value less costs to sell, so no impairment loss is required.

The sale of this property was completed on 5 April 2019 resulting in net proceeds of £422,000 and a profit on disposal of £50,000.

11 Trade and other receivables

	2019 £'000	2018 £'000
Trade receivables	4,993	4,589
Less: credit loss allowance	(380)	—
Prepayments and accrued income	138	120
Other debtors	46	—
	4,797	4,709

The amount written off as irrecoverable during the year was £nil (2018: £nil) and it has been necessary to recognise a credit loss allowance of £380,000 (2018: £nil).

Included within trade receivables are receivables with a carrying amount of £1,453,000 (2018: £390,000) which are past due. The level of trade receivables over 60 days old was £531,000 (2018: £2,000). The average age of the Group's trade receivables is 93 days (2018: 41 days).

12 Share capital

	2019 £'000	2018 £'000
Authorised		
481,861,616 ordinary shares of 1p each (2018: 481,861,616)	4,819	4,819
Issued and fully paid		
50,523,926 ordinary shares of 1p each (2018: 50,523,926)	505	505

As at 31 March 2019, the Company had 41,645 ordinary shares held in treasury (2018: 41,645).

13 Convertible loan notes

	2019 £'000	2018 £'000
Non-current		
8% Convertible loan notes (29 December 2021)	4,747	4,670

Borrowings are repayable as follows:

	2019 £'000	2018 £'000
Between two and five years	4,747	4,670

The maturity of the debt and interest payments is as follows:

	2019 Debt £'000	2019 Interest £'000	2019 Total £'000	2018 Debt £'000	2018 Interest £'000	2018 Total £'000
Due within one year	—	400	400	—	400	400
Due between one and two years	—	400	400	—	400	400
Due between two and five years	5,005	399	5,404	5,005	799	5,804
	5,005	1,199	6,204	5,005	1,599	6,604

The table above shows the contractual, undiscounted cash flows due in future periods to settle the debt and interest payments. The total amount of debt payable shown above differs from the total book value of debt of £4,747,000 (2018: £4,670,000) as the book value of debt includes unamortised fees and is net of the value ascribed to the equity element of the convertible loan note.

On 30 January 2017, the Company issued £4,495,000 convertible loan notes that carry an interest coupon of 8.0% pa payable quarterly. The Company has granted security by way of a composite guarantee and debenture in favour of Welbeck Capital Partners LLP to secure the repayment of principal and interest due on the convertible loan notes to the holders. Holders of the convertible loan notes may convert into ordinary shares, at a conversion price of 68.8125 pence per ordinary share, at any time until the final redemption date of 29 December 2021.

On 25 August 2017, the Company issued £510,000 convertible loan notes under the same convertible loan note instrument.

The amount recognised in the balance sheet in relation to the convertible loan notes is as follows:

	2019 £'000	2018 £'000
Nominal value of convertible loan note issue	5,005	5,005
Issue costs	(348)	(348)
Equity component at date of issue	(66)	(66)
Liability component at date of issue	4,591	4,591
Effective interest rate adjustment from date of issue	156	79
Liability component at 31 March	4,747	4,670

14 Trade and other payables

	2019 £'000	2018 £'000
Trade payables	293	397
Taxation and social security	146	166
Accruals	1,460	1,294
	1,899	1,857

Included within accruals is £8,000 (2018: £10,000) relating to the Employee Unit Incentive Plan (note 17).

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2019

15 Financial instruments

The numerical disclosures in this note deal with financial assets and financial liabilities. There is no material difference between the fair value and the book values disclosed. Short term trade receivables and payables have been excluded from the disclosures, with the exception of the currency disclosures.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, purchase existing shares, issue new shares, or sell assets to reduce debt.

The Group's financial instruments have historically comprised convertible loan notes, cash and cash equivalents, and various items such as trade receivables and payables which arise directly from its operations. The main purpose of these financial instruments has been to fund the Group's operations. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken. The Group has no derivative financial instruments.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk. The Board has reviewed these risks on an ongoing basis throughout the year. The policy for their management is summarised below:

Interest rate risk

The Group has financed its operations to date through a variety of sources of external finance primarily including equity and convertible loan notes. The convertible loan notes, which are denominated in sterling, bear interest at fixed rates.

Liquidity risk

The Group's policy has been to ensure continuity of funding throughout the year through continued review of cash flow forecasts.

Credit risk

The Group's business model is to license its technology and sell its products via partners who are typically major IT security industry players. Furthermore, at this stage in the development of the market for identity and credential management software, end user customers tend to be large corporates or government departments. As such, the inherent credit risk is relatively low.

Foreign currency risk

A number of suppliers invoice the Group in US dollars and euros. The Group has also entered into a number of agreements to license its technology and sell its products via other international organisations. This results in invoices being raised in currencies such as US dollars and euros. The Group's current policy is not to hedge these exposures. The exchange differences are recognised in the statement of comprehensive income in the year in which they arise (note 3).

Interest rate profile

The Group has cash deposits of £3,228,000 (2018: £2,272,000) at the year end. This includes US dollar deposits of £985,000 (2018: £589,000) and euro deposits of £97,000 (2018: £34,000). Interest rates on cash deposits are based on LIBOR.

Maturity of financial liabilities

The maturity of the Group's external borrowings are disclosed in note 13. The only other financial liabilities are short term trade and other payables as outlined within note 14.

Borrowing facilities

The Group has no undrawn committed borrowing facilities (2018: £nil).

Currency exposures

The table below shows the Group's currency exposures; in other words, those transactional exposures that give rise to the net currency gains and losses recognised in the statement of comprehensive income. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or "functional") currency of the Group (sterling). These exposures were as follows:

	Net foreign currency monetary assets		
	US dollar £'000	Euro £'000	Total £'000
At 31 March 2019	**5,753**	**270**	**6,023**
At 31 March 2018	4,428	132	4,560

16 Financial commitments

a) *Capital commitments*

The Group had no capital commitments at the year end (2018: £nil).

b) *Operating leases*

Future aggregate commitments under non-cancellable operating leases are as follows:

	2019 £'000	2018 £'000
Due within one year	**391**	355
Due between one and two years	**324**	355
Due between two and five years	**723**	748
Due beyond five years	**—**	97
	1,438	1,555

The operating lease commitments outlined above relate to rent payable for the Group's UK and US offices.

17 Share based payments

The Company introduced a new Share Option Plan for senior executives on 22 July 2011 and options were granted later that year. The contractual life of an option is 10 years and exercise of an option is subject to achievement of performance targets, a 3 year vesting period and continued employment. The fair value of the options granted during 2011 was determined using a Black-Scholes valuation model.

Further options were granted on 7 November 2014 in accordance with the resolution that was approved by shareholders at the Company's AGM on 17 September 2014. The fair value of the options granted was determined using a Monte Carlo valuation model and includes a share price target of 400p, as disclosed in the Report of the Remuneration Committee.

The fair value per option granted and the assumptions used in the calculations were as follows:

Grant date	26 July 2011	20 Dec 2011	7 Nov 2014
Share price at grant date	69.0p	64.0p	127.5p
Exercise price	1.0p	1.0p	127.5p
Number of employees granted options	4	1	8
Number of shares originally under option	200,000	50,000	500,000
Expected vesting period (years)	3	3	6
Expected option life (years)	7	7	7
Expected volatility	57.53%	42.54%	39.03%
Risk free rate	2.29%	1.24%	1.93%
Expected dividends expressed as a dividend yield	2.90%	3.13%	3.00%
Fair value per option	55.0p	50.0p	27.0p

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2019

17 Share based payments continued

Further options were granted on 19 October 2018, 24 October 2018 and 27 March 2019 with a contractual life of 10 years. The fair value of the options granted was determined using a Monte Carlo valuation model and includes share price targets, as disclosed in the Report of the Remuneration Committee on page 22.

The fair value per option granted and the assumptions used in the calculations were as follows:

Grant date	19 Oct 2018	19 Oct 2018	19 Oct 2018	24 Oct 2018	24 Oct 2018	24 Oct 2018	27 Mar 2019	27 Mar 2019	27 Mar 2019
Share price at grant date	27.0p	27.0p	27.0p	24.5p	24.5p	24.5p	17.0p	17.0p	17.0p
Exercise price	27.0p	27.0p	27.0p	24.5p	24.5p	24.5p	17.0p	17.0p	17.0p
Number of employees granted options	2	2	2	2	2	2	1	1	1
Number of shares originally under option	850,000	400,000	400,000	300,000	150,000	150,000	75,000	37,500	37,500
Expected vesting period (years)	3	3	3	3	3	3	3	3	3
Expected option life (years)	7	7	7	7	7	7	7	7	7
Expected volatility	58.68%	58.68%	58.68%	58.73%	58.73%	58.73%	61.00%	61.00%	61.00%
Risk free rate	1.23%	1.23%	1.23%	1.11%	1.11%	1.11%	0.70%	0.70%	0.70%
Expected dividends expressed as a dividend yield	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Fair value per option	12.0p	9.0p	8.0p	10.0p	8.0p	7.0p	7.0p	5.0p	4.0p

The expected volatility is based on historical volatility over the three year period through to the date of grant. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

Details of outstanding options are disclosed in the Report of the Remuneration Committee.

The total charge for the year relating to employee share options was £17,000 (2018: £19,000 credit). Share options outstanding at the year end have a weighted average contractual life of 8.8 years (2018: 4.7 years).

In February 2014, HM Revenue & Customs approved an equity-settled Share Incentive Plan (SIP) for all UK employees (including the Executive Directors), which includes Free Share, Partnership Share and Matching Share elements.

No Free Share and Matching Share awards were made during the year ended 31 March 2019. Partnership shares could be subscribed for by employees via salary deductions, either on a monthly or lump sum basis, to a cumulative value of up to £1,800.

Free Share and Matching Share awards to date have generally been met by the transfer of ordinary shares held in treasury and from continued on market purchases either by the Company or Link Market Services Trustees Limited as Trustee of the SIP. To the extent that ordinary shares are not available in treasury or in the volume required through the market, the Company has issued new ordinary shares to meet these awards.

The total charge for the year relating to the employee share incentive plan was £249,000 (2018: £493,000)

In October 2014, the Company introduced a unit incentive plan to provide similar benefits for all US employees. The plan provides phantom shares or units, equivalent in value to shares in the company, and the plan is cash-settled. As noted in the Report of the Remuneration Committee, a Free Unit award equivalent to 70,537 ordinary shares of 1 pence each in the capital of the Company ("Free Units") was granted to C Pol on 24 October 2017.

The total charge for the year relating to the employee unit incentive plan was £5,000 (2018: £2,000) as outlined in the table below:

	2019 £'000	2018 £'000
At 1 April	10	16
Additional charge	5	2
Paid during the year	(7)	(8)
At 31 March	8	10

18 Related party transactions

During the year ended 31 March 2019, J Tredoux served as a Non-Executive Director. J Tredoux is also a director of Tredoux Capital Limited, the Group's corporate finance adviser. Consultancy fees charged by Tredoux Capital Limited to the Group in respect of his services as a Non-Executive Director and general corporate finance advice, and balances outstanding at the year ends were as follows:

	2019 £'000	2018 £'000
Consultancy fees charged	25	25
Balance outstanding at the year end	13	19

Company Balance Sheet

At 31 March 2019

	Notes	2019 £'000	2018 £'000
Non-current assets			
Investments	3	5,452	5,188
Current assets			
Trade and other receivables	4	4,832	4,671
Total assets		10,284	9,859
Equity			
Share capital	5	505	505
Share premium		673	673
Equity reserve		66	66
Retained earnings		4,186	3,835
Total equity		5,430	5,079
Non-current liabilities			
Convertible loan notes	6	4,747	4,670
Current liabilities			
Trade and other payables	7	107	110
Total liabilities		4,854	4,780
Total equity and liabilities		10,284	9,859

The amount of profit dealt with in the Company financial statements was £58,000 (2018: £65,000).

The financial statements on pages 46 to 51 were authorised for issue by the Board of Directors on 5 June 2019 and were signed on its behalf by:

K van der Leest **Director**
A Walker **Director**

The accompanying notes are an integral part of these financial statements.

Intercede Group plc: Registered No. 04101977

Company Statement of Changes in Equity

For the year ended 31 March 2019

	Share capital £'000	Share premium £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 April 2017	499	673	60	3,305	4,537
Purchase of own shares	—	—	—	(147)	(147)
Employee share option and share incentive plan charges	—	—	—	474	474
Issue of new shares	6	—	—	—	6
Re-issuance of treasury shares	—	—	—	138	138
Equity component of convertible loan notes	—	—	6	—	6
Profit for the year and total comprehensive income	—	—	—	65	65
As at 31 March 2018	505	673	66	3,835	5,079
Proceeds from recycling of own shares	—	—	—	27	27
Employee share option and share incentive plan charges	—	—	—	266	266
Profit for the year and total comprehensive income	—	—	—	58	58
As at 31 March 2019	**505**	**673**	**66**	**4,186**	**5,430**

Note: see page 30 for a description of the reserves appearing in the column headings of the table above.

The accompanying notes are an integral part of these financial statements.

Notes to the Company Financial Statements

For the year ended 31 March 2019

1 Accounting policies

The Company is a holding company which was set up to facilitate the admission of the Group onto the AIM section of the London Stock Exchange. It does not trade and it has no employees or staff costs and is therefore not required to display a staff cost note.

Basis of Preparation

The financial statements have been prepared on the going concern basis in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006. The Company has taken advantage of Section 408 of the Companies Act 2006 not to present its own statement of comprehensive income.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

(a) the requirements of IAS 7 'Statement of cash flows';

(b) the requirements of IFRS 7 'Financial Instruments: Disclosures';

(c) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 'Share Based Payment';

(d) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements';

(e) the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors';

(f) the requirements of paragraphs 91-99 of IFRS 13 'Fair Value Measurement'; and

(g) the requirements of paragraphs 17-19 of IAS 24 'Related Party Disclosures'.

As outlined in note 1 to the consolidated financial statements, the Directors consider that the going concern assumption is appropriate and therefore the Company's financial statements have been prepared on a going concern basis under the historical cost convention.

A summary of the principal accounting policies, which have been applied consistently, is set out below.

Investments

Investments held as fixed assets are stated at cost less provision for impairment in value.

Critical accounting estimates and judgements

No critical accounting estimates or judgments have been applied in the preparation of the Company's financial statements.

Taxation

The tax expense represents the sum of the current tax and deferred tax. UK corporation tax is provided at amounts expected to be paid (or recovered) and the current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax is recognised using the balance sheet liability method for all temporary differences, unless specifically exempt, at the tax rates that have been enacted or substantively enacted at the balance sheet date.

A deferred tax asset represents the amount of income taxes recoverable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses and the carry forward of unused tax credits. Deferred tax assets are only recognised to the extent that it is more likely than not that taxable profits will be available against which deductible temporary differences can be utilised.

Convertible loan notes

The proceeds received from the issue of the convertible loan notes are allocated between their financial liability and equity components. The financial liability is initially recognised at fair value (being the discounted cash flows using a market rate of interest that would be payable on a similar instrument that does not include an option to convert). The equity component is assigned to the residual amount after deducting this fair value liability from the fair value of the financial instrument as a whole. It is recognised in the 'Equity reserve' within shareholders' equity. More information is provided in note 6.

The financial liability is subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. The difference between the interest expense and the coupon payable is added to the carrying amount of the liability in the balance sheet.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based upon their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

Share-based payments

The equity-settled share option programme allows employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of all the options granted are measured using the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms of the grant. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

Share options made available to employees of the Company's subsidiaries are treated as increases in equity over the vesting period of the award, with a corresponding increase in the Company's investment in subsidiary undertaking based on an estimate of the number of shares that will eventually vest.

Adoption of new accounting standards

New standards that are effective for the first time during the year ended 31 March 2019 are IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. Adoption of IFRS 15 and IFRS 9 do not have a material impact, as the Company does not trade and only has intercompany receivables which have not resulted in a material change under IFRS 9. A number of new amendments to IFRS 1, IFRS 2, IFRS 4, IAS 28 and IAS 40 are also effective for the first time for periods beginning on 1 April 2018 and have been adopted in these financial statements. None of the amendments impacted on the Company's financial statements.

The Company intends to adopt IFRS 16 Leases during the year ended 31 March 2020 when it becomes effective. It does not believe there will be any impact on adoption as it has no leases. IFRS 17 Insurance Contracts establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and is effective for accounting periods beginning on or after 1 January 2021. The Company does not issue insurance contracts or hold reinsurance contracts and therefore is not impacted by adopting this standard.

2 Auditors' remuneration

Fees payable to the Company's auditors for the audit of the parent company are £2,000 (2018: £2,000).

3 Investments

	2019 £'000	2018 £'000
At 1 April	5,188	4,721
Additions	264	467
At 31 March	5,452	5,188

Additions in the year of £264,000 (2018: £467,000) reflect the employee share option, incentive and unit plan charges and credits relating to employees of the Company's subsidiaries. It has not been necessary to recognise any impairment against investments, which are all stated at cost.

The Company's subsidiaries at 31 March 2019 are:

	Country of incorporation	Class of shares	% held	Principal activity
Intercede Limited	England and Wales	Ordinary	100	Software developer
Intercede 2000 Limited	England and Wales	Ordinary	100	Dormant
Intercede MyID Inc.	USA	Common	100	Service provider

The registered offices are set out in note 9 of the consolidated financial statements.

4 Trade and other receivables

	2019 £'000	2018 £'000
Amounts owed by subsidiary undertakings	4,832	4,671

Amounts owed by subsidiary undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Interest is charged on amounts owed by subsidiary undertakings at market rates.

The Company makes an estimate of the recoverable value of amounts owed by subsidiary undertakings. When assessing impairment of amounts owed by subsidiary undertakings, management considers factors including the ability to repay the amount owed on demand through the availability of cash at hand discounted to the year end date. No impairment was identified in respect to this at the year end.

Notes to the Company Financial Statements continued

For the year ended 31 March 2019

5 Share capital

	2019 £'000	2018 £'000
Authorised		
481,861,616 ordinary shares of 1p each (2018: 481,861,616)	4,819	4,819

Allotted and fully paid		
50,523,926 ordinary shares of 1p each (2018: 50,523,926)	505	505

As at 31 March 2019, the Company had 41,645 ordinary shares held in treasury (2018: 41,645).

6 Convertible loan notes

	2019 £'000	2018 £'000
Non-current		
8% Convertible loan notes (29 December 2021)	4,747	4,670

Borrowings are repayable as follows:

	2019 £'000	2018 £'000
Between two and five years	4,747	4,670

The maturity of the debt and interest payments is as follows:

	2019			2018		
	Debt £'000	Interest £'000	Total £'000	Debt £'000	Interest £'000	Total £'000
Due within one year	—	400	400	—	400	400
Due between one and two years	—	400	400	—	400	400
Due between two and five years	5,005	399	5,404	5,005	799	5,804
	5,005	1,199	6,204	5,005	1,599	6,604

The table above shows the contractual, undiscounted cash flows due in future periods to settle the debt and interest payments. The total amount of debt payable shown above differs from the total book value of debt of £4,747,000 (2018: £4,670,000) as the book value of debt includes unamortised fees and is net of the value ascribed to the equity element of the convertible loan note.

On 30 January 2017, the Company issued £4,495,000 convertible loan notes that carry an interest coupon of 8.0% pa payable quarterly. The Company has granted security by way of a composite guarantee and debenture in favour of Welbeck Capital Partners LLP to secure the repayment of principal and interest due on the convertible loan notes to the holders. Holders of the convertible loan notes may convert into ordinary shares, at a conversion price of 68.8125 pence per ordinary share, at any time until the final redemption date of 29 December 2021.

On 25 August 2017, the Company issued £510,000 convertible loan notes under the same convertible loan note instrument.

The amount recognised in the balance sheet in relation to the convertible loan notes is as follows:

	2019 £'000	2018 £'000
Nominal value of convertible loan note issue	5,005	5,005
Issue costs	(348)	(348)
Equity component at date of issue	(66)	(66)
Liability component at date of issue	4,591	4,591
Effective interest rate adjustment from date of issue	156	79
Liability component at 31 March	4,747	4,670

7 Trade and other payables

	2019 £'000	2018 £'000
Accruals	107	110

8 Financial commitments

a) Capital commitments

The Company had no capital commitments at the year end (2018: £nil).

b) Operating leases

The Company had no annual commitments under non-cancellable operating leases at the year end (2018: £nil).

FY20 - A CONTINUED PUSH TO INNOVATE

We are driven to deliver innovation that continues to advance digital identity security. Our software and services have continued to evolve for more than twenty years and it is that continuous drive for improvement that has enabled us to forge so many longstanding relationships with our customers.

As the digital world becomes increasingly connected and intertwined with our physical environment, the importance of secure digital identities will only continue to grow.

From interoperability across emerging technologies to securing the industrial internet of things, we will continue to strive for best practice digital identity issuance and management for our customers.

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