First Derivatives plc
Annual report and accounts 2019

AT THE CORE OF DATA SCIENCE

FD's world-leading analytics technology and data science expertise are disrupting industries, helping our clients to generate more revenue and increase their operational efficiency

See more online at: firstderivatives.com and kx.com

STRATEGIC REPORT

CORPORATE GOVERNANCE

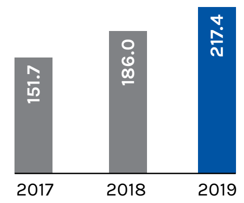
FINANCIAL STATEMENTS

Highlights

FINANCIAL HIGHLIGHTS

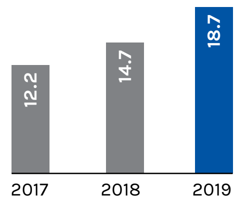
Revenue £m

£217.4m



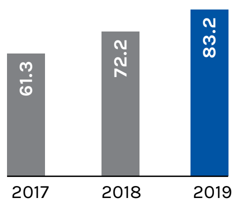
Operating profit £m

£18.7m



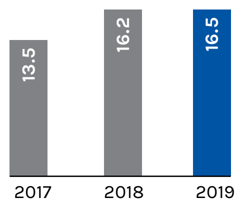
Adjusted diluted EPS p

83.2p



Net debt £m

£16.5m



OPERATIONAL HIGHLIGHTS

- FinTech revenue up 17% to £166.7m (2018: £142.9m), driven by an expansion of services provided to clients and new client wins with the Canadian Securities Administrators, BitMEX and a major Japanese bank
- MarTech revenue up 8% to £41.4m (2018: £38.2m), driven by 25% growth in subscriptions for our Marketing Cloud platform, powered by Kx
- Revenue from other markets increased by 85% to £9.3m (2018: £5.0m), further evidencing the initial success of our strategy to penetrate high-value markets such as Industrial Internet of Things (IoT), automotive and precision manufacturing
- High-profile new client wins across markets including Fingrid, BISTel and Survalent
- Significant contract expansion and appointment as Innovation Partner with Aston Martin Red Bull Racing
- Enhanced partnership and collaboration activity including with Amazon Web Services, Google, H2O.ai and CGI

Business Review and Financial Review pages 08 to 19

At a glance

OUR BUSINESS

First Derivatives (FD) is a software and services company with world-leading intellectual property in ultra-high-performance analytics (Kx) and extensive domain knowledge and capabilities in capital markets systems and technology.

kx

Kx technology addresses one of the largest and most demanding challenges in analytics, namely how to capture and analyse data to make real-time decisions in a world where data volumes are increasing exponentially, and existing technologies fail due to technological or commercial limitations.

Kx technology is widely adopted throughout the global financial industry, at banks, hedge funds and exchanges, and is employed across a range of data-intensive arenas, from high-frequency trading to market data storage and analysis. With this pedigree, Kx is now expanding across multiple sectors challenged by increasing data volumes and the need to make rapid, informed operational decisions.

Managed services and consulting

FD provides a range of services worldwide to its clients in the capital markets sector, focused on supporting mission-critical systems as well as helping them to achieve and maintain regulatory compliance. These services can be delivered by operating either from the client site or on a near-shore basis (or adopting a hybrid approach).

Clients include many of the world's leading banks with FD supporting their activities across a range of operations including credit, interest rate, foreign exchange, equity, cash and derivatives markets. For more than 20 years FD has built a reputation for client-centric delivery that has enabled consistent growth from a growing base of repeat revenue.

OUR Kx PLATFORM

As well as its world-leading performance, Kx also stands out for the fact that it provides a single integrated platform to efficiently analyse vast datasets. Deployable from chip to edge to cloud, the power of the Kx platform has the capacity to disrupt industries, providing both high performance and low total cost of ownership.

OUR JOURNEY SO FAR

	1996	2002	2009	2014	2015	2016	2018	2019
Corporate	First Derivatives founded	IPO on AIM		Acquisition of control of Kx Systems				
Software			Software division formed	MarTech Software launched		Kx for Sensors launched	Kx for Machine Learning launched	
Managed services and consulting			Vendor Services and Managed Services launched		Regulatory & Compliance Practice launched			

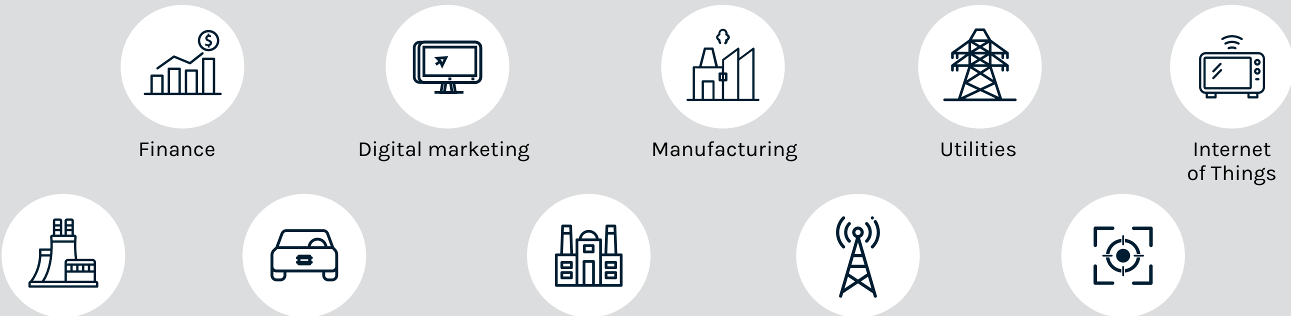
OUR GLOBAL REACH

15
LOCATIONS

4
CONTINENTS

2,400+
EMPLOYEES

CURRENT MARKETS AND OPPORTUNITIES FOR GROWTH



Finance

Digital marketing

Manufacturing

Utilities

Internet of Things

Energy

Automotive

Industrial

Telecoms

Precision manufacturing

Kx has been deployed for numerous use cases, initially based on the capture and analysis of market data. In recent years a broad range of capital markets applications has been developed, including market and trading surveillance, pre-trade decision making, post-trade reporting and liquidity management.

The Group provides a suite of services to its clients in the capital markets sector across the world, focused on supporting mission-critical systems as well as helping them to achieve and maintain regulatory compliance. There is considerable scope for further growth in capital markets, both from gaining new clients and providing additional software and services to the existing client base.

Although financial services will to remain the dominant client sector in the medium term, the Group increasingly sees opportunities for its Kx technology, and applications built on the platform, in new markets outside finance.

The Group has identified digital marketing (MarTech), utilities, precision manufacturing, automotive, telecoms and the Industrial Internet of Things as markets that are particularly attractive. It has therefore invested in sales, engineering and R&D to target these markets, as well as forming partnerships and making acquisitions where appropriate.

Another year of progress

During the past year FD has continued to make progress on our journey to become a leader in ultra-high-performance analytics.

The operational progress achieved during the year in new industry sectors, which is only beginning to be reflected in financial performance, gives confidence that the Group can continue to deliver strong organic growth."

Our investment across the business, particularly in our people, has continued to deliver results with Group revenue increasing by 17% to £217m. This performance reflects solid execution of the Board's strategy. In addition to the achievements in our established field of capital markets, the operational progress achieved during the year in new industry sectors, which is only beginning to be reflected in financial performance, gives confidence that the Group can continue to deliver strong organic growth.

The Group's strategy has three intertwined strands: to become a leading global capital markets consulting practice; to build on the leading position of the Group's Kx technology in capital markets; and to leverage Kx's performance advantages to penetrate new markets.

During the year, we delivered continued growth in our managed services and consulting business, with revenue increasing by 17% to £86m as opportunities to build on our core competencies presented themselves. In particular we invested in our vendor services practice in North America and the successful delivery of a number of contracts in the region provides confidence in our growth potential in future years.

In total, software revenues increased by 17% to £131m. Looking at these figures in more detail, our FinTech software revenues continue to grow strongly as structural changes affecting our customer base are playing to Kx's strengths – greater regulation and increasing cloud adoption are both driving strategic conversations around greater use of our technology.

We remain excited by the potential of our technology in other markets. Our MarTech offering continues to showcase this potential, with investment in the functionality of the product and our sales capability resulting in continued rapid growth, particularly in subscription revenue.

Group revenue
£217m
+17%

Managed services and consulting revenue
£86m
+17%

Kx revenue
£131m
+17%

In other markets, we made good progress during the year in building out the infrastructure needed to deliver significant future revenues in a number of diverse industry sectors. We made substantial investments in R&D, sales and marketing, strengthening our domain expertise and building our global presence. These initiatives enabled us to grow our direct sales pipeline while also signing OEM and partnership agreements. As across the rest of our business, we continue to prioritise revenue visibility and sustainability.

Looking forward, our strategy remains sound and our technology is increasingly well positioned, and consequently the Board expects another year of strong organic growth. We will continue to invest in our strategic objectives to optimise shareholder returns over the medium term.

During the year the Group agreed new financing facilities on improved terms and we are pleased with the continued support of our banks. This is particularly relevant as we move to 100% ownership of Kx Systems, with the acquisition of the minority stake scheduled for completion in June 2019.

Governance

In September 2018 the Group adopted the 2016 UK Corporate Governance Code (the "Code") as its recognised regulatory framework. There were no changes to Board composition during the year.

Last year the Group reported on its gender pay gap for the first time and, although performing better than its peers, I noted that more remained to be done. I am therefore pleased to report that the action steps put in place helped deliver a significant reduction in this year's gender pay gap. These were part of a multi-year programme whose aims include an increase in the proportion of women in senior management roles through career development and mentoring. I am encouraged by the progress to date.

The Board recognises the talent and hard work of all employees who have helped deliver another successful year. The focus across the Group is on driving further growth, in line with our strategic objectives, for the benefit of all our clients, partners, colleagues and shareholders.

Seamus Keating
Chairman
20 May 2019

Creating value by enabling new ways of working

FD operates in two distinct but interrelated markets, providing Kx software across a range of industries while also providing managed services and consulting to the capital markets sector.

kx

World-leading analytics technology

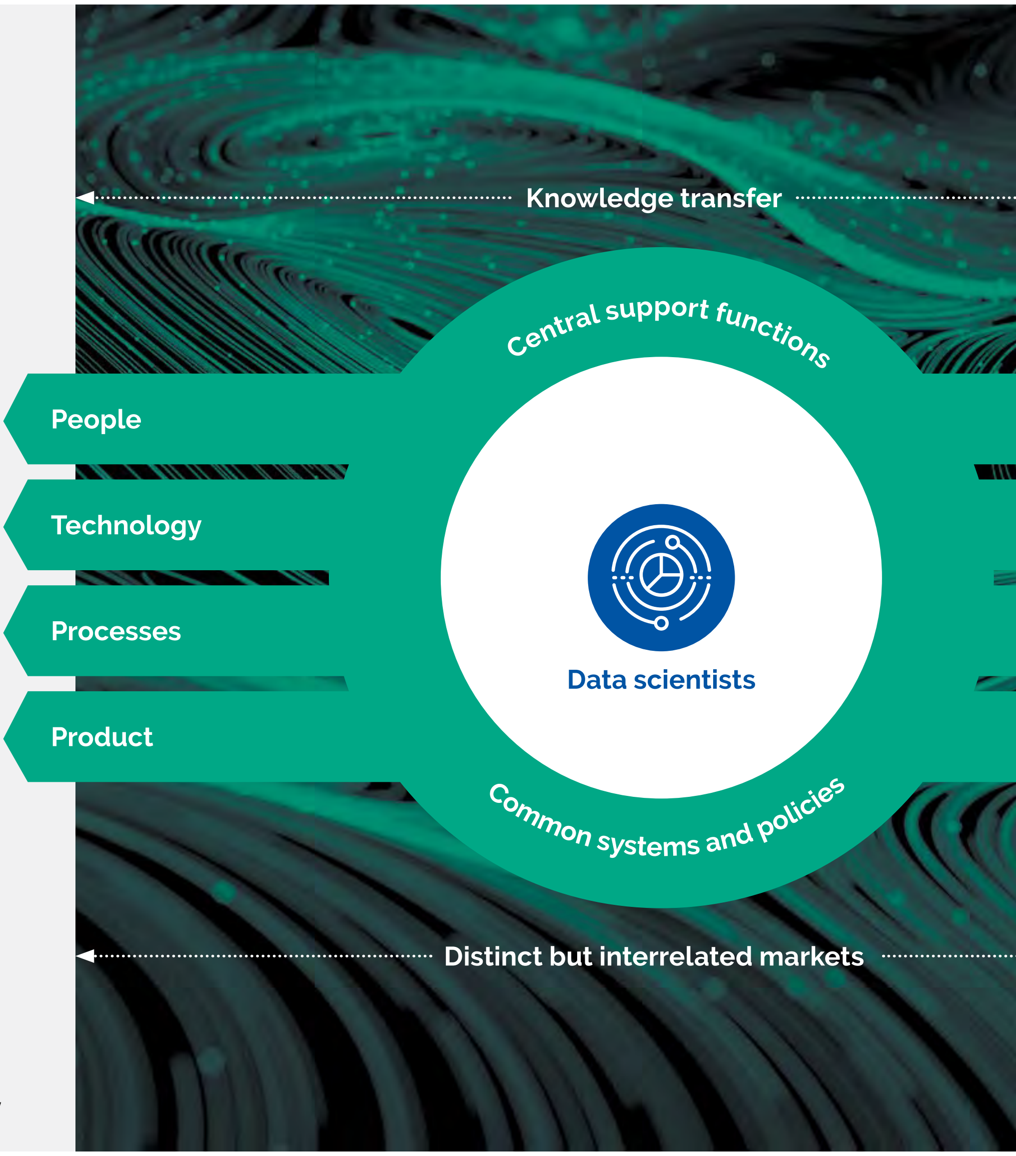
Competitive advantage

- The world's best performing in-memory, time-series database[1]
- Designed for rapid and efficient analysis of enormous volumes of data, particularly streaming data
- Supported by a unique enterprise platform for rapid and flexible deployment and management
- Applications that solve data challenges in multiple vertical markets
- Many times faster than competing solutions, increasing productivity
- Significantly lower computing infrastructure is required compared to other solutions, reducing total cost of ownership

How it creates value

- License fee income from sales of Kx technology
- Subscription-based licensing model to build recurring revenues
- A multi-component sales strategy including lead generation, business development, proof of concept and sales engineering teams
- Development and partnership arrangements with academic, research and OEM agreements
- Collaboration with leading commercial organisations to bring new products to market
- Technology domain partnerships where companies incorporate Kx within their solutions to disrupt a particular market

1 As independently evaluated by the Securities Technology Analysis Center (STAC).



Market opportunities underpin our business

$59bn database addressable market in 2018[2]

$100bn banking industry software application spend in 2019[3]

$520bn IoT market value by 2021[4]

2 IDC estimate.
3 Gartner estimate.
4 Bain estimate.

More than 20 years of consulting and managed services expertise

People

Technology

Processes

Product

Competitive advantage

- Domain expertise in capital markets
- Expertise of FD's consultants in working with the technology solutions prevalent in the industry
- Multi-year training programme, through which all FD graduate recruits pass
- A customer-first ethos that helps enable consistent growth
- Commitment and flexibility in working with customers to ensure their success
- Develop and deploy FD intellectual property to support our professional services

How it creates value

- Services provided primarily on a time and materials basis
- Implementation of technology solutions
- Ongoing support post-installation
- Repeat revenue, typically for many years
- Primarily a direct sales model through Master Service Agreements with leading banks globally
- Increased revenue visibility from near-shore contracts with clients, providing support for applications under multi-year contracts from FD's own premises

$221bn

IT services
spend by banks in 2018[3]

BUSINESS ENVIRONMENT AND MARKET POTENTIAL

The Group operates in several large addressable markets and is involved in many of the leading developments within the technology sector.

Kx technology can be deployed in a number of flexible options, ranging from the customer building everything from the kdb+ database upwards to the use of an application where the Group is responsible for its development and support. The addressable market opportunity for Kx is the combination of the database platform market together with the market for applications built upon it.

IDC, industry analysts, estimate that in 2018 the database addressable market was $59 billion. The market for applications is considerably larger, as the potential use cases of Kx technology are wide and far-ranging. For example, industry analyst Gartner estimates that banks will spend $100 billion on software applications in 2019, encompassing areas such as regulatory reporting, surveillance, trading and real-time risk where Kx solutions are building market share.

In MarTech, the addressable market for predictive analytics is estimated at $12.4 billion by 2022, while vertical market opportunities such as automotive, utilities, pharma, retail, manufacturing, telecoms and others each represent tens of billions of dollars of annual opportunity.

The largest emerging opportunity for Kx technology is in the analysis of sensor data, particularly where dealing with real-time and large volumes of data. Bain estimates that the IoT market alone will be valued at $520 billion by 2021, with analytics the fastest growing component accounting for more than a quarter of spending.

In summary, the total addressable market for Kx can be measured in the hundreds of billions of dollars per annum, covering a range of markets and use cases that provides both opportunity for growth and the potential to diversify the Group's revenue base.

In managed services and consulting, Gartner estimates the total spend on IT services in banking in 2018 was $221 billion. In addition, Gartner states that banks currently spend $100 billion on internal services, which represents an additional addressable market as the banks outsource technology support. The size of these opportunities provides vast potential for the Group to grow its revenues. The capability to exploit these opportunities is not constrained by the Group's ability to recruit and train suitable staff – for every graduate recruited during 2018, there were in excess of 28 suitably qualified applicants.

Given the growth in its markets, the Group devotes considerable resources to ensuring its software remains at the forefront of emerging technology trends. During the past year the Group's R&D has focused on increasing the use cases for Kx, for example by supporting unstructured data within our database and by ensuring Kx is interoperable with the industry's leading technologies, such as Python for machine learning. We also formed new teams dedicated to cybersecurity and telecoms.

Given the enormous potential demand for both its managed services and consulting propositions and its world-leading technology, the Group believes it remains in the early stages of commercial exploitation of these opportunities. It remains committed to a financially disciplined approach to expansion which strives to provide the optimum balance between risk and reward for shareholders.

Delivering on strategy with solid growth

The financial year saw the delivery of solid growth and execution of our strategy. Revenue increased by 17% to £217m which enabled reinvestment in R&D and sales and marketing while also delivering an increase in adjusted EBITDA of 14% to £38.9m.

During the year, Kx continued to gain traction across the industries we are targeting as its power and efficiency continue to resonate with existing and potential clients. To further enhance the proven performance and high return on investment provided by Kx, we increased our AI and machine learning capabilities and increased our interoperability by adding to the growing range of open interfaces to the technology industry's leading development tools, as well as further enhancing our core platform. These initiatives are assisting in our drive to make Kx the answer to the most demanding data challenges that organisations face.

Our strategy remains unchanged: to build on Kx technology's leading position in capital markets software; to use Kx's performance advantages to penetrate other markets; and to become a leading global capital markets practice. We are making good progress in all three areas.

Building on Kx's leading position in capital markets software. Our FinTech software revenue continued to grow strongly. FinTech is our core market yet we continue to see additional opportunities for continued growth, particularly from our solutions that address regulatory initiatives and from the strategic move to the cloud within our customer base that includes many of the world's leading banks, exchanges and regulators, providing significant upsell opportunities.

Using Kx's performance advantages to penetrate new markets. Our strategy seeks to extend Kx's presence into multiple other industries challenged by increasing volume and velocity of sensor and other data. The validity of our strategy has been showcased in MarTech, where our solution is establishing itself as a leader in predictive analytics for customer acquisition, delivering high return on investment for our clients and generating recurring revenues with considerable potential for growth. We achieved significant progress in other new markets during the year, with high-profile customer wins and OEM agreements across sectors including automotive (Aston Martin Red Bull Racing), utilities (Fingrid and Survalent), manufacturing (BISTel) and smart cities (Urban Institute). We have received significant inbound interest from additional potential clients within these industries in the wake of these wins and are excited by our pipeline of opportunities.

Becoming a leading global capital markets practice. Our managed services and consulting business had a strong year of growth, opening up additional markets and developing new capabilities. We increased our presence and brand recognition in North America where we gained multiple new customers and assisted our clients with third party systems implementation and regulatory reporting. We also added to our capabilities in areas such as automated testing and development as a service. Our services remain in high demand and we start the new year with good momentum.

To facilitate our strategy we have a diverse, talented pool of more than 2,000 data scientists, R&D engineers and domain experts. Their combined talents are directed at serving our existing and potential clients and delivering growth by developing new intellectual property. We work with some of the world's leading companies to improve the performance of existing systems and develop new solutions that have the potential to provide significant competitive advantage and operational efficiency.

Our R&D activity has enabled a further increase in our addressable market as we extend the performance and use cases for which our technology is applicable. We are excited by the potential within our pipeline and increasingly advanced in those markets in which we seek to establish ourselves.

Kx software

Our platform, branded as Kx technology (Kx), sets performance benchmarks for the analysis of vast quantities of data, both real-time and historic. Kx comprises the kdb+ database, with its highly efficient 600kb footprint, and an enterprise layer designed to maximise analytic performance while providing vital functions such as security, control and visualisation. This platform enables the rapid development of applications, either by FD or our customers or partners. Some of the key benefits to customers resulting from our performance capabilities are efficiency (including lower hardware and power costs), flexibility (with deployment options ranging from the edge, to on-premise, cloud and hybrid architectures) and the ability to handle the most demanding data challenges within acceptable timeframes; we are typically orders of magnitude faster than competing solutions.

> **Our R&D activity has enabled a further increase in our addressable market as we extend the performance and use cases for which our technology is applicable.”**

The market opportunity for our platform and applications is extensive, totalling hundreds of billions of dollars across the areas our applications address. According to IDC, the database system market alone will reach $84 billion in 2022. However, the addressable market for Kx extends far beyond that, into applications with Kx at their core, such as in FinTech and MarTech where Kx-based applications are well established. When we add in markets where Kx is well placed to succeed, including the IoT, automotive and precision manufacturing, and horizontal markets such as cybersecurity and AI, the enormous potential demand for our technology means our opportunity for growth is effectively unlimited.

Research and development

Our R&D activity focuses around three key themes – improving the performance of our technology, growing its addressable market and making it easier to adopt. We made progress in all three areas during the year.

Improving performance. We released new versions of our platform which again delivered improvements in processing power and scalability. This continues our track record of delivering incremental performance improvements and helped scale the real-world capabilities of our technology. For instance, we continue to raise the bar in terms of the volume of data Kx can handle.

Growing addressable market. We added a number of new features including anymap, which provides the ability to combine structured and unstructured data and analyse them both with the record-breaking speed that we are known for. This enables more of our clients' data to be held in Kx and increases the applicable use cases for our technology. In addition, we continue to strive to put our technology at the heart of AI and machine learning, by increasing our R&D resources, collaborating with domain specialists such as Brainpool and H20.ai and working with clients to develop solutions that harness Kx's unique capabilities.

Ease of adoption. We extended the availability of our technology on the public cloud with the launch of Kx on demand on both the Amazon Web Services Marketplace and Google Cloud Launcher. We were particularly pleased with the results of independent STAC testing that set new performance benchmarks for cloud analytics on the Google cloud platform. We also continue our efforts to enable Kx to integrate seamlessly with popular third-party technologies, both to ease adoption and to augment their performance. These interfaces include Kafka, Java, Python, R and Jupyter.

Combined, these initiatives are enabling us to increase our total addressable market and ease the adoption and integration of Kx within our clients' technology infrastructure, thereby driving revenue and profit growth.

Sales

FinTech

FinTech software continued to deliver strong growth, with revenue up by 17% to £80.2m. This growth resulted from demand across the range of solutions we provide, driven by Kx technology's unrivalled ability to analyse vast quantities of streaming and historical data for purposes such as regulatory and risk reporting, market surveillance and trading analytics.

OEM AGREEMENT WITH BISTel

Kx will be used as the technology to store and analyse massive volumes of sensor data within BISTel's real-time, adaptive intelligence applications for smart manufacturing. The OEM agreement was reached after a number of proofs of concept, including direct comparisons with potential competing solutions, during which Kx technology proved to be an order of magnitude faster than these alternative products.

Business review continued

> **The move to the cloud also offers the potential for additional Kx license sales and assistance with innovation such as machine learning. We believe that cloud transition has the potential to drive significant growth in our FinTech software revenue.”**

Kx software continued

Sales continued

FinTech continued

We have an extensive client base, including the top 20 global investment banks and numerous regulators and exchanges, and see considerable scope for growth within both new and existing clients. Our solutions assist them to improve the quality and integrity of their market, transaction and reference data and to meet regulatory scrutiny in a timely and cost-effective manner.

In recent periods we have seen our clients increase their preparation to move their data operations to the public cloud, attracted by opportunities for development agility and innovation and the ability to cope with peaks in compute resource demands. FD is well placed to assist with this strategic transformation, with an enterprise platform that normalises data and automates its management, professional services that support the transition from on-premise to cloud and managed services to support their new environment. The move to the cloud also offers the potential for additional Kx license sales and assistance with innovation such as machine learning. We believe that cloud transition has the potential to drive significant growth in our FinTech software revenue.

During the year we signed significant new contracts across the portfolio of our applications, including with a major Japanese bank, where we were selected to build and manage its next generation e-FX platform; BitMEX, a leading cryptocurrency derivatives exchange, where its expanded use of Kx underpins its increasing trading volumes and growth in new products; and CSA, the securities regulator for Canada’s provinces and territories, to build and manage a next generation market analytics platform.

MarTech

Revenue from MarTech increased by 8% to £41.4m with 47% of this revenue derived from subscription contracts (2018: 41%). Our solution, powered by Kx and branded as MRP Prelytix, is one of the leading enterprise-class B2B Account-Based Marketing (ABM) platforms in the market. It delivers predictive analytics derived from billions of data points, ingested in real-time, to provide clients the power to scale their ABM programmes globally. MRP Prelytix’s real-time intelligence can be integrated with industry-standard marketing automation and CRM systems, allowing our clients to activate the intelligence within their own infrastructure. Many clients also depend on our concierge service – ABM Managed Services – to engage, nurture and qualify the targets identified by MRP Prelytix.

We continue to develop the solution, with a significant number of new capabilities added during the year to increase its effectiveness. These include allowing subscribers to target potential customers with customised content and tactics based on specific product interest and stage of the buying process and customisable pipeline classification criteria that enable the visualisation of a client’s entire sales pipeline in a single “waterfall” screen.

The unique insights provided by MRP Prelytix and our constant technical innovation of the platform, built on the power of Kx, is generating high return on investment for our clients and driving interest from new clients and industry partners. During the year our importance to our clients was illustrated by record levels of pipeline delivered through our platform and one of our major customers inviting us to address their global partner event. We also signed a collaboration agreement with Oracle Marketing Cloud and became one of only five marketing platforms approved by LinkedIn to access matched audience data.

While technology companies continue to form the core of our client base in MarTech, our platform is applicable to a wide range of industries and we expect our growth to be generated by a combination of increasing spend from existing clients, the addition of new technology industry clients and continued expansion of the target client base. During the year we won new deals with clients operating in information services, media, healthcare, financial services and online education.

INNOVATION PARTNER TO LEADING F1 TEAM

Following the successful use of Kx to analyse wind tunnel data for Aston Martin Red Bull Racing, we signed an extended deal and were appointed Innovation Partner to the leading F1 team. This will see Kx deployed across its operations, accelerating the competitive advantage the use of Kx has delivered to date by applying it more widely within F1 and also to commercial solutions for its customers across industries.

We have built a strong product offering in MarTech while our global footprint and strong technology background differentiate us from competitors and further strengthen our position within a large addressable market. We are optimistic regarding growth in the current financial year.

Other markets

We made significant progress with our strategy to establish Kx in other markets that are challenged by data volumes and velocity and where our technology is able to demonstrate superior performance and return on investment. During the period, revenue from these other markets increased by 85% to £9.3m. We are pleased with the results of the investment we have made in internal domain expertise and in progress with partnerships and OEM agreements, which lay the foundation for growth in the years to come. We are particularly excited by the potential relating to the analysis of sensor data, where we believe our performance advantage sets our capabilities apart from competitors.

We continue to seek predictable, long-term revenue streams, such as OEM and revenue share agreements. Notable contracts secured during the year include:

- *Automotive* – We were appointed Innovation Partner to Aston Martin Red Bull Racing (AMRBR), acknowledging the success of our initial engagement with the leading F1 team and extending the application of Kx into areas including in-race performance and machine learning. The relationship with AMRBR is generating significant interest across the automotive industry and we have a pipeline of opportunities across engineering, design, telemetry and connected cars.
- *Utilities* – We announced that, working alongside our partner CGI, Kx had been selected to deliver a next-generation electricity information exchange for Fingrid, the transmission system operator for Finland. The implementation is proceeding to plan and opens opportunities to showcase the power of Kx at a time when numerous utility market participants are seeking to upgrade their systems to provide additional services and to cope with more demanding regulations.
- *Smart manufacturing* – We announced an OEM agreement with BISTel, a leading South Korean provider of smart manufacturing solutions, for the use of Kx for Sensors and kdb+ in its product line. The first deployments are expected in the first half of 2019 and the announcement of the OEM agreement has generated interest within BISTel's client base regarding early adoption.
- *Sensor analytics* – We signed an OEM agreement with Survalent, one of the world's leading providers of SCADA control systems to utilities, providing the ability for its customers to access advanced analytics on sensor data. The integration work to embed Kx in Survalent's product has now been completed and pilot customers identified ahead of an expected launch in the first half of 2019.

We continue to progress opportunities across a spectrum of markets, including a number of high-value potential contracts where the sales cycle is lengthy and which require the deployment of resource by the Group at an early stage to demonstrate the potential and power of Kx, often through proofs of concept (POCs). While this requires investment by the Group, we remain confident that it will result in FD becoming a business of considerably greater scale in industry. Our confidence is driven by the results we are able to demonstrate in the POC studies we have conducted to date and positive feedback from early adopters of our technology in new markets.

Business development

To increase awareness of our technology we have introduced a range of initiatives to promote Kx at grassroots developer level, to improve mindshare in the tech community and to showcase the disruptive power of our technology by collaborating with innovators in different fields of scientific endeavour. The overarching aim of these initiatives is to drive long-term, high-margin software revenues by promoting Kx as a disruptive technology across multiple industries.

Our business development strategies include:

Academic and research partnerships

This consists of a range of initiatives designed to showcase our technology. We operate an academic license programme and work with universities such as Princeton and Berkeley in the US to assist their students to use the power of Kx to drive innovation. We have collaborated with NASA FDL (space weather and the search for exoplanets), the Earlham Institute (crop research) and leading technology providers such as Intel, Samsung, EMC, Google and Dell to demonstrate the leading performance of our respective technologies.

OEM agreements

We are building strong alliances with key industry players through OEM agreements that allow us to leverage their brand and global sales reach. We have been working with Thomson Reuters for a number of years in FinTech, and we have extended this approach to other markets with OEM partners such as a Fortune 500 company for sensor data management and Utilismart for smart meter analytics. During the year we signed new OEM agreements with BISTel for smart manufacturing, Survalent for network data analytics, Urban Institute for smart cities and H20.ai and App Orchid for machine learning.

Commercial partnerships and collaborations

We are working in partnership with leading organisations to provide innovative new commercial services and products across our business. For example, in FinTech we were pleased to be recognised as Google Cloud Global Technology Partner – Financial Services for 2018, while we also worked closely with CGI to win an energy market contract with Fingrid.

Kx software continued
Business development continued
Commercial partnerships and collaborations continued

We are now jointly pitching this solution in other energy markets around the world and have extended our partnership with CGI to look at opportunities across other markets. We are currently in discussions with a number of large companies with domain expertise where we can work together to provide disruptive solutions to our partners' customer base.

Tech/domain partnerships

Many inbound enquiries for the use of our technology come from innovative start-up and scale-up businesses. In February 2017 we formally launched an initiative to license our technology to these firms on a revenue share basis. In some cases, we inject seed capital to help bring solutions to market quickly, rather than having them forfeit valuable time raising capital. This approach allows FD to enter new markets rapidly and helps showcase our technology. During the year, nine venture agreements have been added, bringing the total to 18, including companies operating in areas as diverse as 3D Earth observation, detection of cognitive diseases, quantum computing and cybersecurity.

Taken together, these initiatives are helping to establish Kx as a disruptive technology and create innovative IP in new markets and will provide FD with significant long-term royalty revenue streams.

Managed services and consulting

Revenue from managed services and consulting was £86.5m, an increase of 17% on the prior year (2018: £74.1m). FD has more than 20 years of experience providing services to leading capital markets firms, training and developing our consultants in-house through industry-recognised programmes to equip them with both data science skill sets and an understanding of how capital markets firms use technology to underpin their business. We provide support for mission-critical systems, assist clients with regulatory change initiatives and assist in the delivery of both "run-the-bank" and "change-the-bank" projects across our client base.

These activities typically result in long-term assignments and our customer-centric approach means that our services are in high demand, delivering long-term, high-quality customer relationships. A key driver of growth in recent years has been the increasingly strategic nature of our client engagements, enabling conversations with them regarding their future requirements. This has developed from a combination of the increasing depth and breadth of services we can provide and our key account management approach, which has also increased our ability to cross-sell our capabilities.

During the year, our managed services and consulting business performed strongly. The driver for this growth was ongoing demand across a range of capital markets activities, including vendor system management, regulatory remediation and application support, together with geographic expansion, particularly in North America.

To support this growth, we invested in the period to extend our vendor services capabilities, particularly relating to Calypso and Murex. This investment resulted in FD being awarded notable managed services engagements with both Calypso and Murex clients covering the ongoing support of the system as well as development, upgrades, automated testing and implementation services. Most notable are contract wins where we are upgrading our clients to the latest versions of these software platforms, supported by automated testing. During the year we assisted our clients in the successful delivery of a number of strategic projects including the high-profile go-live of a key cross-asset roll-out of Murex front-to-back and a well-known cross-asset front-to-back Calypso treasury client successfully upgraded to the latest version.

We also supported our clients as they undertook a wide range of regulatory initiatives including technology development tasks relating to regulatory remediation and audit projects, Know Your Client outreach and customer due diligence. These included a major global financial institution where we supported the redevelopment and issue resolution of one of their key European transaction reporting requirements. Throughout this engagement we provided programme management, business analysis and end solution technology development on the client's internal platform and will be involved in the ongoing support and maintenance following the go-live.

Our brand has become more recognised in the US where we gained Master Service Agreements (MSAs) with multiple new key sell-side banks, particularly in New York, Boston and Chicago. These clients have engaged our programme and project management capabilities to assist them in delivering their key initiatives across their front-to-back portfolios, together with meeting milestones for their regulatory reform projects as well as the ongoing management of these systems in future years.

During the year we developed particular market-leading capabilities across a number of key areas for our clients:

- the development of automated test services where we are gaining recognition for our ability to rapidly accelerate our clients' time to market for system upgrades;
- the provision of development as a service, with key new clients being added to support their digitisation initiatives, especially from a front-end trading application perspective; and

> The investment programme in recent years has delivered a number of important new contract wins and OEM and partnership agreements during the year that provide a platform for growth in the years to come."

- the addition of test automation services to our application support capability, which has enabled further growth in near-shore engagements for our KPI-governed managed services.

Through our knowledge and alliances with the major third-party capital markets trading technologies, we have seen a trend by our clients to engage us earlier in their decision-making processes regarding transformation initiatives. We have helped a number of clients with independent system selections and with our guidance they have been able to choose the best technology solution based upon their current and future business objectives.

We have recently launched a major initiative to train our consulting workforce as cloud architects to support the transition from enterprise to public cloud enabled application management and monitoring. This initiative combines our capital markets domain expertise alongside our experience in managing third-party trading technologies and we envisage our cloud services as a major value add for our clients. We continue to be supported in this initiative by the major public cloud providers, which see our capabilities as central to ensuring that our clients make a successful transition to the cloud.

We have developed a multi-year track record of growth in our managed services and consulting business. Through our commitment to quality and excellence in our financial services, vendor services, regulatory and managed services practices we are confident that we are well placed for further growth in the coming years.

People

The Group now employs more than 2,400 people, up from over 2,200 at the same time last year. Our award-winning graduate recruitment and training programme continues to attract new talent for the Group to enable us to provide software and services that exceed the expectations of our clients.

We continue to expand our office presence around the world which also assists our reach into leading universities, now totalling more than 100 institutions, as we seek to attract ambitious graduates. We received job applications from 10,687 people which resulted in 538 new hires, of which 374 were new graduates and 164 were experienced hires. Retention rates remain significantly higher than industry average, driven by the provision of market-leading training and development programmes, a rewarding career path and a fair remuneration and reward system.

During the year we have enrolled hundreds of our data scientists in machine learning nano degrees and have partnered with the University of Ulster to launch a four-year distance learning Masters in Capital Markets for our staff. We believe our success to date and future ability to realise the opportunities across our software and managed services and consulting businesses will be led by our investment in talent. A measure of the success of the programme can be seen from the increasing number of employees who have been promoted to senior positions within FD and are helping to drive growth.

The quality of our people and technology was recognised by three awards, namely Best Technology at the 2018 AIM Awards, Most Innovative Third-Party Technology Vendor (Infrastructure) at the 2018 American Technology Financial Awards and, just after the year end, Google Cloud Global Technology Partner – Financial Services. These awards reflect the hard work and talent of our staff and I would like to thank them all for another year of success.

Current trading and outlook

The new financial year has started strongly with good momentum across the business. The investment programme in recent years has delivered a number of important new contract wins and OEM and partnership agreements during the year that provide a platform for growth in the years to come. We are excited by the pipeline across our business, which is at record levels, and are confident of achieving another year of strong organic growth.

How we plan to grow

FD's strategy has been consistent - to position its software and services for continued and sustainable growth in the very large markets it addresses

MS&C practice

Provides vital support and enabling role for our Kx technology operations through FinTech domain expertise and data scientist resource pool

HOW WE DO IT:

Grow key accounts and managed services

- Leverage our unique combination of domain and technical skills
- Use our growing scale and reputation to increase our client base
- Exploit our near shore capabilities to deepen our relationships with key clients

2019 KPI: Revenue growth 17%

Kx in FinTech

Core market with enormous growth potential and providing strategic solutions for our growing client base of banks, hedge funds, exchanges and regulators

HOW WE DO IT:

Build and convert software pipeline

- Ensure high levels of client satisfaction to create market-leading reference sites
- Increase penetration within existing clients across asset classes and geographies
- Work with partners to increase routes to market and global reach

2019 KPI: Software license revenue growth 28%

Kx in other markets

Develop and commercialise solutions providing competitive advantage to clients across multiple industries, utilising Kx's performance and Total Cost of Ownership advantages

HOW WE DO IT:

Increase routes to market

- Define use cases across multiple, high-value markets
- Use internal and external domain experts to develop compelling solutions
- Continue to invest in R&D, sales and marketing to deliver on significant opportunities
- Develop additional channels to market via partnerships, JVs and other routes

2019 KPI: Revenue growth 85%

The table below highlights the components of revenue growth across the Group along with an analysis of gross profit. The analysis also shows our revenue and growth by vertical market. The Board has reviewed the presentation of the Consolidated statement of comprehensive income and has provided additional information relating to the categorisation of revenue, and reclassified certain costs. The purpose of these changes is to enable easier comparison with the Group's peers. The comparative amounts for the year ended 28 February 2018 have been presented on the same basis to enable comparability.

Revenue and gross margin analysis (£m)

2019	2018	Growth	2019	2018	Growth	2019	2018	Growth		2019	2018	Growth
Software by sector									Total software			
FinTech revenue			MarTech revenue			Other revenue						
9.7	7.0	*38%*	**–**	–	–	**3.7**	0.3	*1,254%*	Perpetual	**13.3**	7.3	*83%*
27.7	24.7	*12%*	**19.3**	15.5	*25%*	**1.6**	1.1	*45%*	Recurring	**48.6**	41.2	*18%*
37.4	31.7	*18%*	**19.3**	15.5	*25%*	**5.3**	1.4	*285%*	Licenses	**62.0**	48.5	*28%*
									Cost of sales	**(10.6)**	(10.0)	*6%*
									Gross profit	**51.4**	38.5	*33%*
									Gross margin	**83%**	79%	*4%*
42.8	37.1	*16%*	**22.0**	22.7	*(3%)*	**4.1**	3.7	*11%*	Services	**68.9**	63.4	*9%*
									Cost of sales	**(48.9)**	(43.1)	*13%*
									Gross profit	**20.0**	20.3	*(1%)*
									Gross margin	**29%**	32%	*(9%)*
80.2	68.7	*17%*	**41.4**	38.2	*8%*	**9.3**	5.0	*85%*	Revenue	**130.9**	111.9	*17%*
									Cost of sales	**(59.5)**	(53.1)	*12%*
									Gross profit	**71.4**	58.8	*21%*
									Gross margin	**55%**	53%	*4%*
Managed services and consulting by sector									Total managed services and consulting			
FinTech revenue			MarTech revenue			Other revenue						
86.5	74.1	*17%*	**–**	–	–	**–**	–	–	Revenue	**86.5**	74.1	*17%*
									Cost of sales	**(66.6)**	(54.5)	*22%*
									Gross profit	**19.9**	19.7	*1%*
									Gross margin	**23%**	27%	*(13%)*
Sector totals												
FinTech revenue			MarTech revenue			Other revenue						
166.7	142.9	*17%*	**41.4**	38.2	*8%*	**9.3**	5.0	*85%*	Revenue	**217.4**	186.0	*17%*
									Cost of sales	**(126.1)**	(107.6)	*17%*
									Gross profit	**91.3**	78.5	*16%*
									Gross margin	**42%**	42%	–
EBITDA and net margin profit analysis												
									R&D	**(10.7)**	(9.3)	*15%*
									Sales expense	**(32.3)**	(26.6)	*21%*
									Other operating expense	**(18.0)**	(15.9)	*13%*
									Adj. EBITDA ex cap	**30.3**	26.6	*14%*
									Capitalised	**8.6**	7.5	*15%*
									Adj. EBITDA	**38.9**	34.1	*14%*
									Adj. EBITDA margin	**18%**	18%	–

Strong revenue growth and fiscal discipline

Revenue and margins

Group revenue increased organically by 17% to £217.4m (2018: £186.0m) driven by continued strong growth across both software and managed services and consulting. This strong revenue performance represented our 22nd consecutive year of double-digit revenue growth. Gross margin was maintained at 42% despite reinvestment in resources, delivery capability and expertise.

Our investment in the Group's operations resulted in an increase in sales and marketing cost of 21%, building on the 63% increase seen in FY 2018, as we added new sales and pre-sales staff to expand our market reach. Research and development costs increased by 15%, in line with recent periods, as we continued to deliver improvements in our software's performance and interoperability for the benefit of our growing client base. Other operating expenses increased by 13% reflecting the Group's fiscal discipline. Strong debtor collection and the subsequent improvement in debt profile resulted in a £19k charge for impairment loss for the year ended 28 February 2019 (2018: £1.4m).

Software

Total software revenues increased by 17% to £130.9m and represent 60% of total Group revenue (2018: 60%) driven by a 28% increase in software license revenue, tempered by 9% growth in services revenue.

Software revenue from FinTech increased by 17% to £80.2m, reflecting 18% growth in license revenue and 16% growth in services revenue as Kx continues to win market share in our largest market. Our Kx platform continues to be seen as a key component of our clients' long-term infrastructure as the number of clients electing to contract under a perpetual license model grew (2019: £13.3m; 2018: £7.3m). The wider adoption of the Kx platform within these clients as their core platform is pleasing as it will provide opportunities to upsell our recurring revenue applications in future periods.

Total revenue from MarTech was £41.4m, up by 8% driven by the continued strong increase in subscription revenue, which was up by 25% to £19.3m, offset by a 3% reduction in services revenue. The impact of GDPR saw a slowdown in MarTech services revenue in Europe in H1, followed by a return to growth in H2 in line with our expectations.

> **"This strong revenue performance represented our 22nd consecutive year of double-digit revenue growth."**

Our recurring revenue was up 25% on the prior year but broadly flat in H2 compared to H1, due to a corporate restructuring at one of our major clients which deferred the completion of its annual renewal until after the year end. We continue to expect MarTech growth to be led by subscription revenue and see potential for overall revenue growth rates to accelerate in 2020 compared to those in 2019.

Software revenue from other markets increased by 85% to £9.3m, reflecting early success as we penetrate a number of high-value markets where the performance and capabilities of our technology differentiate us from the competition. Our approach of obtaining OEM/revenue share license agreements, while slower to generate revenue in early periods, will result in larger ongoing royalty style payments to the Group in future periods as products and solutions with "Kx Inside" are brought to market by our clients and partners. Recurring revenue in other markets was £1.6m, up 45% on 2018.

Software gross margin increased to 55% from 53%, driven by growth in high-margin license revenue and ongoing cost control, particularly with regard to efficiencies around data collection and management costs in MarTech, which offset increments in other line items. Software license gross margin increased to 83% (2018: 79%) and license revenue was 47% of total software revenue (2018: 43%).

Software services gross margin was 29% (2018: 32%). We increased the Kx services team in H1 to support the expansion of Kx within our core markets and other verticals, which caused a drag to profitability in the short term. Margins increased in H2 and this investment allows us to meet the growing needs of existing clients as well as the delivery demands of new clients. Gross margins were also impacted by the lower level of MarTech services revenue, again with H2 showing an improvement on H1.

Managed Services and Consulting

Managed services and consulting revenue increased by 17% to £86.5m while delivering gross margins of 23% (2018: 27%). This represents another strong performance delivering market share gains in the large addressable market for FinTech services.

Gross margins are dependent on utilisation, the level of investment in personnel and the timing of projects commencing with our clients. In H1 we experienced a drag effect from the record graduate intake last year, while we also invested to meet client demand in our vendor managed services practice in North America, growing our core capabilities in the region to allow the Group to successfully deliver two large assignments. This resulted in a H1 gross margin of 22%, while H2 was stronger at 24% as we started to generate revenues from these investments.

Profit before tax

Reported profit before tax increased by 38% to £16.7m (2018: £12.1m). Adjusted profit before tax increased by 12% to £27.5m (2018: £24.5m), the calculation of which is detailed below.

	2019 £m	2018 £m
Reported profit before tax	16.7	12.1
Adjustments for:		
Amortisation of acquired intangibles	3.8	4.7
Share-based payment and related costs	2.4	2.7
Acquisition costs, associate disposal costs and changes in deferred consideration	4.0	3.6
Loss on foreign currency translation	0.6	1.4
Share of loss of associate	–	–
Adjusted profit before tax	27.5	24.5

Other income, which relates mostly to employment and training incentive grants, was £0.3m for the year. This represents a reduction of £1.1m on the prior year, as these grants come to an end.

As previously noted, the Group continued to invest in research and development to maintain its technology lead, with total R&D up 15% to £10.7m. Net capitalisation of R&D was up 8% in the period, as detailed below:

	2019 £m	2018 £m	Increase
Research and development costs:			
Expensed during the period	2.1	1.8	16%
Capitalisation of product development costs	8.6	7.5	15%
Total research and development	10.7	9.3	15%
Amortisation of R&D	(7.2)	(6.2)	16%
Net capitalisation of R&D	1.4	1.3	8%

Financial review continued

Earnings per share

Reported profit after tax increased by 29% to £13.2m (2018: £10.2m) and reported basic earnings per share increased by 26% to 50.9p per share (2018: 40.4p).

The adjusted profit after tax for the period of £22.9m (2018: £19.5m) represented growth of 17%. The Group's adjusted tax rate was 17% (2018: 20%), the reduction being predominantly attributable to the full year impact of US tax reform.

The calculation of adjusted profit after tax is detailed below:

	2019 £m	2018 £m
Reported profit after tax	13.2	10.2
Adjustments from profit before tax	10.8	12.4
Tax effect of adjustments and US tax reform	(1.1)	(3.1)
Adjusted profit after tax	22.9	19.5
Weighted average number of ordinary shares (diluted)	27.5m	27.0m
Adjusted EPS (fully diluted)	83.2p	72.2p

The fully diluted average number of shares in issue increased to 27.5m (2018: 27.0m) due to payment of deferred consideration for prior acquisitions and as additional existing share options were exercised. This resulted in adjusted fully diluted earnings per share of 83.2p, representing growth of 15% for the period (2018: 72.2p).

Balance sheet

Total assets increased by 9% to £277.8m (2018: £254.6m). Other financial assets, which includes equity investments, increased to £13.7m (2018: £3.4m) as a result of an increase in fair value of £4.3m, new equity investment of £2.7m and the conversion of £3.3m of loans to Quantile Technologies Limited (Quantile) into equity. The loan to equity conversion was undertaken as a result of Quantile's continued strong operational progress.

Deferred revenue at the period end was up 31% at £19.5m (2018: £14.9m), arising from the continued growth in recurring license revenue in the year. Deferred tax assets decreased by 16% to £15.4m (2018: £18.4m) due to the reduced tax deduction for share options following the decrease in the share price.

On 6 February 2019 the Group announced that it had agreed new financing facilities comprising a term loan of £65m and a revolving loan facility of a further £65m, replacing the existing facilities on improved terms. The timing of the Group's new financing facilities at the balance sheet date resulted in changes to the profile of the Group's loans and borrowings. Non-current loans and borrowings decreased from £25.2m to £0.3m while current loans and borrowings increased from £3.3m to £35.0m. This will effectively reverse next year under the new financing facilities as our borrowing reverts to a long-term repayment profile.

On 2 July 2018 the Group announced it had reached agreement with the minority shareholders of Kx Systems to acquire their shareholding, taking the Group to 100% ownership by 29 June 2019 for consideration of $53.8m. The balance sheet reflects the movement of the liability for the NCI put from within non-current trade and other payables to current trade and other payables. The settlement of this liability will be provided from the Group's financing facilities referred to above when the new facility is drawn for payment in June 2019.

Cash generation and net debt

The Group generated £27.3m of cash from operating activities before taxes paid (2018: £25.3m). This is after cash payment of £5.3m (2018: £nil) relating to deferred contingent consideration paid for prior acquisitions. Under IAS 7 these payments are classified in operating activities as the conditions attached to them related to the fulfilment of service agreements by the principles of the companies acquired. Excluding this deferred contingent consideration, cash generated from operating activities was £32.7m, representing an 84% conversation of adjusted EBITDA (2018: 74%). Given the Group's working capital profile, continued strong revenue growth will typically result in conversion rates below 100%.

At the period end, net debt was £16.5m (H1 2019: £24.2m; 2018: £16.2m). The factors impacting the movement in net debt are summarised in the table below:

	2019 £m	2018 £m
Opening net debt	(16.2)	(13.5)
Operating cash flow	27.3	25.3
Deferred consideration paid (IAS 19 remuneration)	5.3	–
Operating cash flow before impact of IAS 7 for deferred consideration paid	32.7	25.3
Taxes paid	(3.5)	(5.7)
Dividends paid	(6.3)	(8.3)
Capital expenditure: property, plant and equipment	(4.1)	(3.4)
Capital expenditure: intangible assets	(9.2)	(8.2)
Deferred consideration paid	(5.3)	(0.9)
Acquisition of subsidiaries	(0.6)	(0.1)
Investments	(4.6)	(7.7)
Issue of new shares	3.2	7.1
Foreign exchange and other	(2.5)	(0.8)
Closing net debt	(16.5)	(16.2)

Deferred consideration payments relate to payments made for prior period acquisitions as contracted earn-out targets are met. These payments predominantly relate to payments made for Affinity Systems Inc. and Prelytix Inc. which were acquired in 2015. The integration of the associated domain expertise has been instrumental in our successful push into the Industrial IoT market and MarTech market respectively. Investment payments relate to the entry of Kx technology into other markets where we have signed OEM or revenue share agreements as we seek to capitalise on external knowledge and domain expertise.

The table below summarises the investments made in companies to date as well as the maximum future commitment and the revenue generated for the Group to date. Future commitments are typically payable only if certain pre-determined challenging performance milestones are achieved by the venture. In 2019 the Group advanced £7.8m in equity and loans to its new and existing venture agreement companies with a maximum further commitment of up to £2.3m across all 18 venture agreements.

	2019	2018	Total to date
Number of venture agreements in period	9	5	18
Equity and loans advanced (£m)	7.8	6.9	16.6
Outstanding commitment (£m)	2.3	4.0	
Revenue share agreements	9	4	16
Revenue recognised for software services (£m)	2.1	2.7	5.2
Licenses recognised under revenue share agreements (£m)	0.4	0.3	0.7

Dividend

The Board has recommend payment of a final dividend of 19.3p per share (2018: 17.00p per share) which, together with the interim dividend of 7.7p paid in December 2018, gives a total dividend for the year of 27.0p per share, an increase of 13% compared to the prior year. The final dividend, if approved at the AGM on 27 June 2019, will be paid on 19 July 2019 to those shareholders on the register on 21 June 2019.

Risk management report

The Group operates in a changing economic and technological environment and as a result is exposed to a spectrum of risks and uncertainties. Risks are formally reviewed by the Board and appropriate processes put in place to monitor and mitigate them. These risks, their potential impact on the Group and the measures in place to mitigate them are discussed below.

Risk	Potential impact	Mitigation
Attracting and retaining talent in a competitive environment As a software and consultancy provider, FD is dependent on the skill, experience and commitment of its employees, particularly on the recruitment and retention of key staff.	The performance of the Group would be adversely affected if the required staffing levels of sufficient calibre are not achieved.	The Group seeks to mitigate this risk by offering a rewarding work environment geared towards continuing development. This includes competitive reward packages and a strong commitment to training and career progression. The Group consistently achieves attrition rates below industry levels, attesting to the effectiveness of these policies.
Market risk The Group operates in a competitive and cyclical market environment which makes it more difficult to forecast future demand from clients.	The Group's resourcing decisions could lead to over-investment, reducing profitability in the short term, or under-investment, leading to missed commercial opportunities and/or client dissatisfaction.	The Group addresses this risk by seeking to increase the certainty and diversity of its revenues and through seeking, wherever possible, to secure long-term client engagements. It does this by targeting consulting assignments which have the potential to be multi-year assignments; by seeking annual license agreements for software contracts; and by expanding and diversifying its portfolio of software and services offerings. In particular, the Group's expansion into new industries reduces its exposure to sector-specific impacts.
Technological change Technology in the software industry can change rapidly, resulting in potential obsolescence or increased competition.	In order to remain competitive, it is essential that the Group's products remain up to date and that its development plans are flexible.	Significant ongoing investment is made in research and development to proactively develop new and enhanced capabilities within our software. This process also allows for the identification of, and adaptation to, any technological changes that do occur externally, thereby ensuring that the Group's products continue to meet the demands of its clients. In addition to its central R&D team, the Company formed Kx Labs in 2015, which is tasked with identifying technology trends and new software product opportunities to further mitigate this risk.

Risk	Potential impact	Mitigation
Retention of key client relationships Through its world-class software products and associated services coupled with high-calibre managed services and consulting, FD strives to maintain successful relationships with all of its clients. A small number of these are particularly important to the success of the Group.	Events outside of the Group's control such as changes in ownership or business priorities could adversely affect future revenues from existing client relationships.	This risk is mitigated in several ways including increasing the number of clients, diversification into new industry verticals, a growing presence in geographic regions outside of the UK and US plus long-term contracts wherever possible. A low level of client attrition is evidence of the Group's success in limiting this risk.
Management of growth The Group has experienced several years of strong growth which it expects to continue and therefore needs to manage this growth effectively.	If the correct level of investment in people and technology is not maintained it is possible that the quality of the Group's client offering will drop and/or cost control and operational effectiveness will deteriorate.	The Group has a programme of continual improvement in operational, financial and management controls, in reporting systems and procedures, and in training programmes to motivate, manage and develop employees. Increasing levels of investment are made in each of these areas every year to improve and augment existing functions that will continue to manage the Group's growth.
Management of information technology security The Group is at risk of financial loss and reputational damage relating to breaches of IT security policy, including unauthorised access to confidential data or technology disruption undertaken by third parties.	These risks have implications in terms of potential litigation and regulatory action as well as commercial implications as a result of loss of customer confidence and negative publicity.	As a provider of software to leading financial services organisations around the world, FD is required to operate stringent IT and cyber security practices. The Group has extensive documented policies to mitigate risk in these domains covering areas such as access control, environmental controls, IT system architecture, remote access policies, password protection policies, data communication protocols, back-up policies, quality assurance, application change controls and system support. To provide assurance on the effectiveness of these policies, the Group has adopted SSAE 18 SOC1, a standard from the American Institute of Certified Public Accountants, on the effectiveness of the Group's IT security controls. The latest SSAE 18 SOC1 audit report covering the year to March 2018 found the Group was fully compliant as a result of the 28 separate IT security controls it has in place.

Retaining the best talent

Given the nature of our activities, people are especially vital to the success of our business. We are proud of our track record of attracting and retaining the best talent and of our industry-leading training and development programmes, both of which enable the Group to develop and deliver software and services that exceed the expectations of our clients.

Recruitment

The HR team at FD is tasked with attracting and retaining the best people. As well as an extensive engagement programme which encompasses more than 100 universities, we also have a successful employee referral programme which, together with our increasing brand awareness, led to 10,687 people applying for a job with FD during the year. From these applications, we selected 538 people to commence employment with us during the year, of which 374 were new employees at the graduate level and 164 were experienced hires.

Development

We equip our people with the right skills. We expanded our investment in external training during the past year, which included 150 employees pursuing a machine learning qualification and 250 employees studying for a risk management certification. Internally we have 713 employees currently participating in our industry-recognised, two-year Capital Markets Training Programme (CMTP). These employees have already completed 11,207 modules across finance, technical and consulting streams. The CMTP is primarily designed for, and focused on, our graduate intakes but many of those joining us as experienced hires have benefited from the extensive knowledge base we have developed. This year we also partnered with Thomson Reuters to enhance our compliance training for all staff and to provide access to a library of over 400 training courses which all employees can access.

Reward

At FD we value effort and excellence. We recognise that we have an exceptionally talented and diligent team, which cares passionately about the work it does and the service it provides to clients. We have a generous and balanced reward system in place to ensure that this excellence is valued.

713

employees currently participating in our industry-recognised, two-year Capital Markets Training Programme

10,687

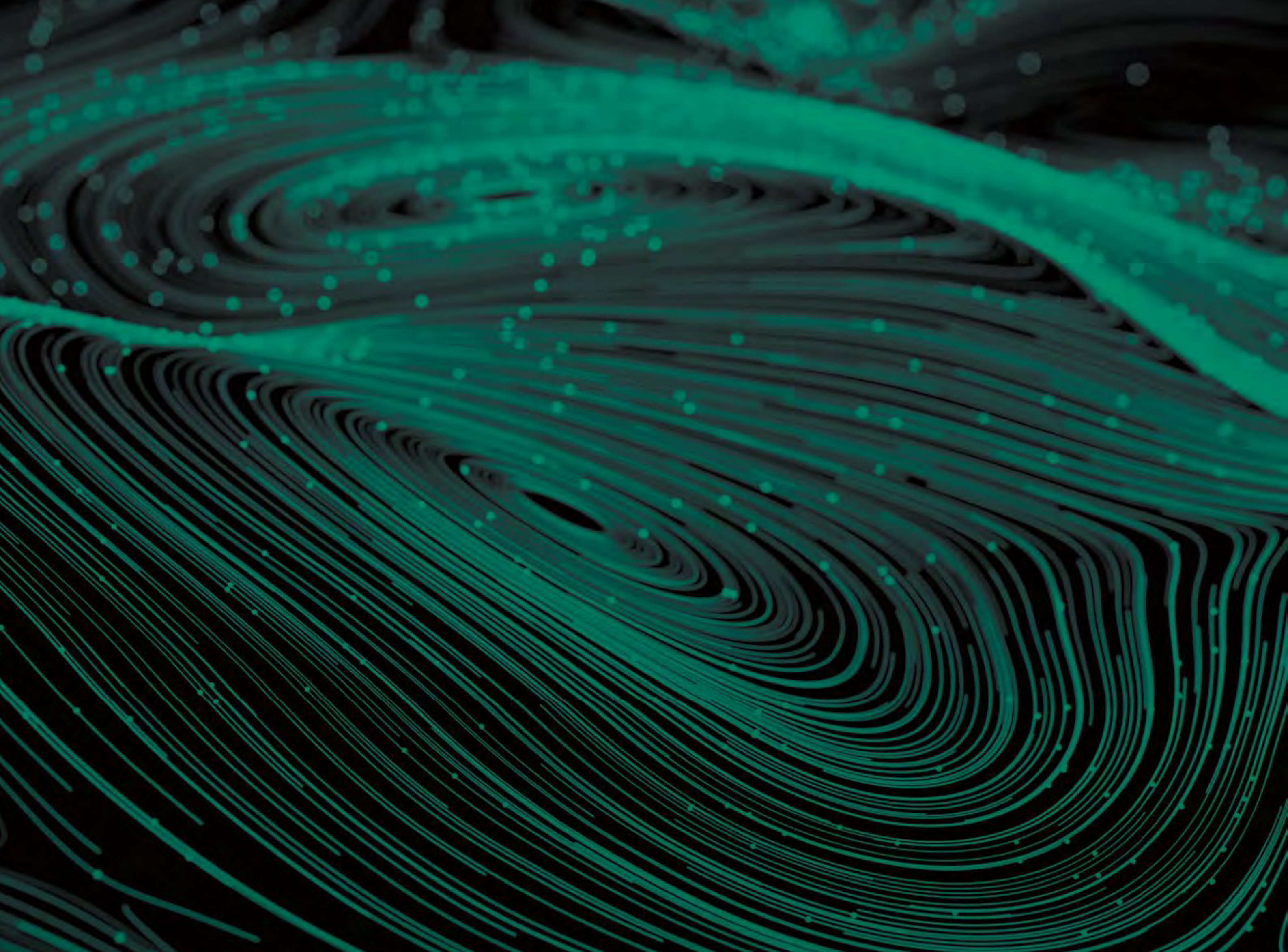
people applied for jobs at FD in 2019

Support

We care about the people who work for us. We have a 24-hour, 365-day employee assistance programme in place for all employees. During the year we launched an enhanced health and wellbeing initiative, with a particular focus on mental health, and we provide complementary healthcare plans and private health insurance.

Diversity

At FD we are proud of the diverse, inclusive and vibrant team that we have built. Our success to date has been built on bringing together high-performing teams of talent from across the globe to service our client base. We continue to diversify our business and create a culture of inclusion, mutual respect and equal opportunity which contributes to improved employee wellbeing and engagement and increases the quality of our service to clients. During the year we launched both FD Pride, our LGBT+ network, and FDWN, our women's network. We also constantly strive to offer employment opportunities to persons with physical disabilities. Our employees have embraced these networks enthusiastically and we look forward to continuing to influence the FD culture going forward.



CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

Board of Directors

Seamus Keating
Chairman

Committee membership
A N R

Seamus was appointed as an independent Non-Executive Director of FD on 10 December 2012 and was appointed Non-Executive Chairman on 18 July 2013. He has over 20 years' experience in the global technology sector in finance and operational roles and has held a number of non-executive roles since 2012.

He was chief financial officer of Logica plc from 2002 until 2010 when he became chief operating officer and head of its Benelux operations. Prior to his role at Logica plc, he worked for the Olivetti Group in senior finance roles in the UK and Italy.

Other appointments
Seamus is currently chairman of Sionnach Ltd, the holding company of Version1 Ltd, a technology services group, a non-executive director of BGL Group Limited, a non-executive director of Mediclinic International plc and a non-executive director of Mi-pay Group plc.

Brian Conlon
Chief Executive Officer

Committee membership

Brian founded FD in 1996 and has led its development ever since. His background is in the capital markets sector where, following training with KPMG, he joined the risk management team in Morgan Stanley International, London.

He was a capital markets consultant with SunGard, a major global derivatives software house, during which time he worked with more than 60 financial institutions worldwide. He left in 1996 to set up FD.

Other appointments
None.

Graham Ferguson
Chief Financial Officer

Committee membership

Graham joined the Board of FD in September 2008 and has responsibility for the Group's financial operations. During his career he has worked on numerous corporate acquisitions and restructuring projects and has experience in business and acquisition finance.

He formerly held senior roles with KPMG, Bank of Ireland and Silverwood Property Developments Limited and is a qualified Chartered Accountant.

Other appointments
None.

Key to Committee membership

A Audit Committee	R Remuneration Committee
N Nomination Committee	Committee Chair
	Independent

Virginia Gambale
Non-Executive Director

Committee membership

A N R

Virginia joined the Board of FD in March 2015. A US citizen, she is managing partner of Azimuth Partners LLC, which assists its clients in the development of strategies for growth, innovation and international expansion.

Prior to forming Azimuth, Virginia was a partner at Deutsche Bank Capital Partners and has also held senior management positions such as CIO at Merrill Lynch, Bankers Trust, Deutsche Bank and Marsh & McLennan Companies, Inc.

Other appointments

Virginia is currently a director of JetBlue Airways Corporation and the public company Regis Corporation, and is a member of the advisory board for Chicago Trading Company and chair of the executive advisory board for Nutanix (a public company and leading cloud computing provider).

Keith MacDonald
Non-Executive Director

Committee membership

A N

Keith has been a Director of FD since June 2012. He is a Chartered Director, a fellow of the Institute of Chartered Accountants in Ireland and an Associate of the Irish Taxation Institute.

Keith was formerly the global head of structured corporate finance for Lloyds Banking Group and possesses a wealth of knowledge of capital markets. Prior to joining Lloyds Banking Group, Keith had a 16-year career with Citigroup during which time he held a variety of senior positions in Europe and Asia including being Asia-Pacific head of structured corporate finance.

Other appointments

Keith is a director of several other listed and private companies across a number of industries and geographies including the NYSE-listed Seadrill Partners, Unit DX Ltd, which is a UK science incubator, and the MAPS Group of aircraft leasing entities.

Donna Troy
Non-Executive Director

Committee membership

N R

Donna joined the Board of FD in January 2018 and has extensive experience in both senior executive and non-executive roles within multi-national technology companies. She is based in Austin, Texas.

Donna has held CEO, division general management and sales leadership roles in organisations including IBM, Partnerware, McAfee, SAP, Dell and Epicor, delivering revenue and margin growth and implementing global go-to-market strategies.

Other appointments

Donna is currently on the board of directors at Pivot3, TIBCO, Aptean and Curvature. She is an advisory board member of Kony Software and Riverside Partners.

Chairman's governance statement

On behalf of the Board, I am pleased to present the Corporate Governance Report for the year ended 28 February 2019. The Board is responsible for setting and ensuring delivery of the Group's strategic objectives and it is my responsibility to ensure that the Board operates effectively and that it sets and upholds high standards of corporate governance.

Strategy

The Board has outlined its strategy for the business within this Annual Report and during the year has debated its appropriateness and effectiveness. The Board also exercises its judgement to determine appropriate levels of resource allocation to achieve these strategic objectives, while also ensuring processes are in place to identify and manage risk. Having debated these issues regularly in our meetings during the year, the Board believes that the Group's strategy is proving effective.

Culture

FD is a dynamic business which provides stimulating careers for its employees. The Group continues to upscale rapidly, primarily through organic growth that requires detailed planning and strong execution to deliver. In the management of this environment we adopt a disciplined approach towards our operations, structures and resources.

Compliance with the UK Corporate Governance Code

The Company is listed on AIM and is committed to ensuring the operation of high standards of corporate governance. It has elected to adopt the 2016 UK Corporate Governance Code (the "Code") as its governance framework and has put in place procedures and policies to comply.

Since the adoption of the Code in September 2018, the Company has complied with all of the provisions of the Code except that, as discussed in the Report of the Audit Committee, it does not have a formal internal audit function.

Meeting attendance

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Total
S Keating	6	3	3	2	14
K MacDonald	6	3	–	2	11
V Gambale	6	3	3	2	14
D Troy	6	–	3	2	11
B G Conlon	6	–	–	–	6
G R Ferguson	6	2*	–	–	8
Number of meetings	**6**	**3**	**3**	**2**	**14**

* Graham Ferguson was invited to attend two Audit Committee meetings.

The Board

Led by the Chairman, the Board's principal responsibilities are:

- to establish the vision, mission and values of the Group;
- to set strategic objectives and provide the leadership to put them into effect;
- to monitor and assess financial performance;
- to embed a framework of controls which allow for the identification, assessment and management of risk; and
- to ensure the Group fulfils its obligations to shareholders, employees, clients and other stakeholders.

The effective discharge of these responsibilities is intended to achieve high standards of governance within the Group.

Matters reserved for a decision of the Board include approval of the Group's commercial strategy, annual operating and capital expenditure budgets, business plans, acquisitions, oversight of the recruitment of key executives, significant contracts, annual reports and interim statements and any substantial funding and capital expenditure plans.

The Board meets regularly to discuss and agree on the various matters brought before it, including trading results, key personnel matters and significant investments. FD has a highly committed and experienced Board, supported by the senior management team, with the qualifications and experience necessary for the effective running of the Group.

In addition to the Board meetings, there is regular communication between Executive and Non-Executive Directors to update the Non-Executive Directors on matters requiring attention prior to the next Board meeting. In addition, the Chairman meets separately with the Non-Executive Directors.

Responsibilities of the Chairman and Chief Executive Officer

The Chairman is responsible for the leadership of the Board, ensuring the efficient discharge of its principal responsibilities described above. The Chief Executive Officer is responsible for implementing the Group's strategy and for the financial performance, risk management, people development and other key components of ongoing operations.

Composition of the Board

The Code requires that the Board should contain a balance of skills, experience, independence and knowledge of the Company. It should also include an appropriate combination of Executive and Non-Executive Directors and that there should be a formal, rigorous and transparent procedure when appointing new Directors to the Board.

The Board considers that its composition, including the balance between Executive and Non-Executive Directors, is appropriate in view of the size and requirements of the Group's business and the need to maintain a practical balance between Executive and Non-Executive Directors.

Board composition is kept under review to ensure the requisite mix of skills and business experience is maintained and to ensure the proper functioning of the Board. When a new appointment to the Board is proposed, consideration is given to the capabilities, knowledge and experience that a potential new member could add to the existing Board composition.

Before the appointment of a Non-Executive Director is confirmed, the Chairman establishes that the prospective Director can commit the time and effort necessary to fulfil their duties, in terms of availability both to prepare for and attend meetings and to discuss matters at other times.

Board information and development

Both at its periodic meetings and in separate briefing sessions between Non-Executive Directors and senior management (including Executive Directors), the Board is kept fully apprised of all material commercial and technological developments likely to affect the Group's performance and prospects.

Updates dealing with changes in legislation and regulation relevant to the Group's business are provided to the Board by the Company Secretary/Chief Financial Officer and through the Board Committees.

The Board recognises its overall responsibility for the Group's system of internal control and for monitoring its effectiveness. All activity is organised within a defined structure with formal lines of responsibility and delegation of authority. The Group produces information packs on a weekly and monthly basis detailing key financial and marketplace information. The Group also produces regular information packs which are distributed to Directors to enable the Board to monitor operational performance and the cash position and as a result allocate the Group's resources.

Adherence to high standards in the areas of health and safety and corporate social responsibility are also monitored by the Board on a regular basis.

Re-election

Under the Code, Directors should offer themselves for re-election at regular intervals. The Board has decided that all Directors will offer themselves for re-election annually.

During the period under review, there were no appointments to or resignations from the Board.

Board Committees

The Group has an Audit Committee, a Remuneration Committee and a Nomination Committee. These Committees consist of Non-Executive Directors and have written constitutions and terms of reference which can be found on the Group's website.

Governance framework continued

Board Committees continued

The Audit Committee's role is to assist the Board with the discharge of its responsibilities in relation to internal controls and external audits particularly with respect to the integrity, reliability and transparency of published financial information. The Audit Committee has formal meetings prior to the publication of the interim and final results and additional meetings on an ad hoc basis as and when required. The auditor attends the Audit Committee meeting prior to the publication of the final results. All members of the Audit Committee have directorship experience of other publicly quoted companies either currently or in the recent past.

The Remuneration Committee meets periodically to determine the remuneration of the senior executives. Remuneration levels are set in order to attract and retain the senior executives needed to run the Company based on objective comparable market data. In addition, the Remuneration Committee provides guidance and direction into all major compensation-related policy decisions by the Group.

The Nomination Committee ensures that there is an appropriate balance of skills, experience, diversity, independence and knowledge on the Board and its Committees, reviews the size and composition of the Board and makes recommendations to the Board. The Committee receives reports from and provides input on the Chief Executive's plans for executive succession and development. The Committee also considers and agrees (i) appointments to and removals from the Executive Committee and changes in other executive direct reports to the Chief Executive; and (ii) proposals to restructure the Executive Committee.

Internal control

The Board has overall responsibility to ensure that the Group's internal control system is comprehensive, coherent and responsive to the evolving environment in which the Group operates.

Recognising that no system of internal control can provide absolute assurance against the risk of misstatement or loss, the Group's systems are nevertheless designed to meet its business objectives whilst effectively reducing risks to an acceptable level.

The Group has built a robust framework of internal control around risk identification, impact assessment, probability of occurrence and mitigation strategies. Further information on these controls can be found in the Report of the Audit Committee.

The Board confirms that it is not aware of any significant failings or weaknesses in the Group's system of internal controls.

Relations with stakeholders

The Board recognises that it is primarily accountable to the Company's shareholders and, at the same time, seeks to consider the interests of all of the Company's stakeholders including clients, suppliers and subcontractors, employees, as well as the local community and the environment in which it operates.

The Group maintains core values of honesty, integrity, hard work, service and quality and actively promotes these values in all activities undertaken on behalf of the Group.

Shareholders

The Chief Executive Officer and Chief Financial Officer have regular dialogue with shareholders and analysts to discuss strategic and other issues including the Group's financial results.

The Company engages in full and open communication with both institutional and private investors and responds promptly to all queries received. In conjunction with the Company's brokers and other financial advisers all relevant news is distributed in a timely fashion through appropriate channels to ensure shareholders can access material information on the Company's progress. The Company's website has a section for investors, which contains all publicly available financial information and news on the Company.

During the year a capital markets event was held at which several members of the executive team presented details of the Group's operations to investors, with the presentations available for all investors to view on the Group's website.

Employees

The Group is committed to attracting and retaining the highest level of talent within its personnel. It is an equal opportunities employer, with a policy to ensure that no job applicant or employee receives less favourable treatment on the grounds of gender, race, disability, ethnic or national origin, marital status, sexuality, religion or belief, trade union affiliation or age.

The Group applies high standards in recruitment and invests considerable time and resource to ensure good communication in relationships with its staff.

The importance of staff retention to the performance of the Group is recognised through the provision of training and development and by ensuring that there are ample opportunities for career progression, determined solely by ability and achievement. A number of employees have a direct financial interest in the growth of the business through the ownership of share options with a wider pool of employees participating in the Group bonus scheme.

Clients

The Group is committed to achieving the highest levels of client service and satisfaction in line with delivering high-quality products and services. It seeks to be honest and fair in all relationships with clients.

Other stakeholders

The Group recognises that it plays an important role in relation to many other stakeholders including suppliers, local communities, governmental agencies and the wider public who benefit directly or indirectly from its products and services. As one of the largest private sector enterprises headquartered in Northern Ireland, it is particularly aware of its responsibilities to maintain high standards in all aspects of its business.

Dear shareholders

This report is intended to provide an insight into the role and responsibilities of the Committee and to demonstrate how it has carried out this work. The Committee is appointed by, and reports to, the Board with its principal role being oversight of financial reporting, internal control and risk monitoring.

Virginia Gambale

Virginia Gambale
Non-Executive Director

20 May 2019

"Each member of the Committee has significant experience of financial matters through their past and present business careers."

Composition

The Audit Committee is chaired by Virginia Gambale, who was previously a partner at Deutsche Bank and held senior management positions at firms including Merrill Lynch. The other members of the Committee are Keith MacDonald, who is a Chartered Accountant, and Seamus Keating, FCMA. Each member of the Committee has significant experience of financial matters through their past and present business careers. The composition of the Committee is reviewed on an annual basis.

Role and activities

The Committee is responsible for reviewing the Group's financial reporting, including monitoring changes to reporting requirements to assess their applicability and impact on the Group. It is also responsible for ensuring there are appropriate internal control and risk management procedures in place and for overseeing the relationship with the external auditor and making recommendations to the Board on its appointment. The Committee meets regularly to consider the matters under its remit, including before both the interim and full year financial reports.

Governance

The Committee sets its own agenda and while only the members of the Committee have the right to attend its meetings, the Committee may from time to time invite other parties to attend. On several occasions during the year the Committee has interacted with the external auditor and senior financial management of the Group to review matters under its remit.

Business during the year

Issues considered by the Committee during the year that are considered to be significant include:

Revenue recognition

Revenue recognition is considered formally by the Committee and following a review, including the adoption of IFRS 15 Revenue from Contracts with Customers, it was found to be in line with the Group's stated accounting policies. New software contracts are carefully reviewed, and elements are broken down, where necessary, to separate implementation and license revenues. On larger contracts revenue is invoiced in line with the terms of the contract with revenue recognition occurring on acceptance or the achievement of non-refundable milestones.

Report of the Audit Committee continued

Business during the year continued

Goodwill and intangible assets

The Committee examined the Group's policies on goodwill and intangible assets and reviewed the application of its accounting policies, which are detailed in note 17 to the financial statements. The Committee considered the methodology applied and the key assumptions used in the impairment assessment of goodwill and intangible assets. Amortisation of intangible assets was found to have been recorded in accordance with the Group's accounting policies. The Group continues to capitalise internal software development costs in accordance with IAS 38 with amortisation policies continuing to be deemed appropriate based on historical experience.

Investments

During the period the Group has invested in a number of businesses which are seeking to use Kx technology in verticals principally outside of capital markets. Under IFRS reporting investments are to be carried at fair value. A fair value review was performed as at 28 February 2019. The methodology applied, including the significant inputs to the assessment of fair value of investments, is detailed in note 32.

Trade receivables

The Committee assessed the impact of IFRS 9 when completing the evaluation of the adequacy of the bad debt provisions. A retrospective review of bad debt provisions at 28 February 2018 was also carried out in order to note any indication of management bias within the provisions and none was noted. The Committee was satisfied that such judgements were appropriate and the risk had been adequately addressed.

Share based payments

The value of options issued by the Group is required to be calculated and is prepared using the adjusted Black-Scholes model which is subjective in nature. Following a detailed review, the assumptions utilised for grants awarded in the year to 28 February 2019 are deemed to be reasonable.

Reclassifications

In early 2019 the Financial Reporting Council (FRC) submitted a request for further information based solely on their review of the annual accounts on certain aspects of the Group's Annual Report for the year to 28 February 2018. FD responded fully to the matters raised and as a result of the FRC's enquiry, the Group has restated certain items in its other comprehensive income and reserves reported in the 2018 Annual Report, as detailed in note 33. The FRC's enquiry did not result in any change to reported profit, earnings per share, assets, liabilities or the cash flows reported in respect of the 2018 financial year.

Review of effectiveness

The Board confirms that FD has established systems, procedures and controls designed to establish an ongoing process for identifying, evaluating and managing the principal risks faced by the Group and that they have been in place for the period under review and up to the date of approval of the Annual Report. The effectiveness of those systems, procedures and controls are regularly reviewed by the Board, which, through the Audit Committee, has reviewed the effectiveness of these risk management and internal control systems. It was considered that the procedures in place to identify and manage risk were appropriate and that the Group's plans to mitigate these risks remain effective.

The Committee noted that the Group addresses the management of risk explicitly through a number of formal policies. For example, regular management meetings have a standing agenda item where managers and staff are encouraged to report and discuss any risk-related items. There are detailed policies in place around business continuity, client engagement and cybersecurity. Where possible and cost effective, the Group seeks to insure itself against the risks it faces.

While the Group has policies and procedures in place to ensure the integrity of its systems, it does not have an internal audit function. Instead:

- The Group operates an audit programme which forms part of its information security certification. As part of this process FD undergoes a biannual assessment to ensure that all of its controls are robust and assets are appropriately protected. Information security risks are assessed and reviewed regularly in IT steering meetings with the Group's senior management.
- FD also participates in additional third-party assessments for private sector customers to ensure that associated security controls are effective and address any related risks. Through the various external audit activities and the close control of operations exercised by the Executive Directors as well as the centralisation of financial management in Newry, the Group does not require these activities to be separated into a standalone audit function.
- The Audit Committee reviews enterprise risk on an annual basis and reviews the internal control framework and procedures on an ongoing basis, giving consideration to whether certain areas should be looked at more closely.

Taking all the above factors into consideration, the Audit Committee believes that management is able to derive assurance as to the adequacy and effectiveness of internal controls and risk management procedures, without the need for an internal audit function. The Audit Committee will continue to monitor whether there is a requirement for a dedicated internal audit function and report accordingly to the Board.

Going concern

The Group's business activities, strategy and operational review are set out in the Strategic Report, while its financial position, including cash flows, liquidity position and borrowing facilities (including the new finance facilities announced in February 2019) are detailed in the financial statements. Having undertaken a rigorous assessment of the Group's financial forecasts as detailed in the viability statement, the Board has concluded that the Group will continue to have adequate financial resources to realise its assets and discharge its liabilities as they fall due.

Having given due consideration to all of these matters and the nature of the Group's business, the Directors consider that the Company and the Group are going concerns and the financial statements are prepared on that basis. This treatment reflects the reasonable expectation that the Group has adequate resources to continue in business for the foreseeable future and the consideration of the various risks set out in this Annual Report.

Viability statement

In accordance with the UK Corporate Governance Code, the Directors have considered the Group's current financial position and future prospects and have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of the assessment.

In reaching this conclusion, considerations that impact this assessment include the Group's current financial position and available financial resources, the Group's business model as outlined in this Annual Report and budgetary projections presented to the Board.

The annual budget process involves input from all relevant business heads on a region-by-region basis and the impact of strategic initiatives, together with consideration of key risks. This results in a detailed twelve-month outlook which includes cash flow projections and capital expenditure requirements. The budget is reviewed and approved by the Board on an annual basis and performance against budget is reviewed throughout the year, including at each Board meeting. In addition to the detailed twelve-month budget, a three-year forecast is prepared using assumptions of future growth and the costs required to support the Group's strategy through this period.

The Directors consider that three years is an appropriate period over which to provide a viability statement and believe this provides the readers of the Annual Report with a reasonable degree of confidence. The Directors have no reason to believe that the Group will not be viable over a longer period.

In addition to considering the above, the Group also monitors performance against pre-defined budget expectations and risk indicators, along with strategic progress updates, which provide early warning to the Board, allowing management action to be taken where required including the assessment of new opportunities.

Anti-bribery and corruption policy

As well as meeting its obligations under the Bribery Act 2010, the Group operates an Ethics Code of Conduct which includes, inter alia, requirements relating to anti-bribery and corruption. This policy is supplied to all employees.

Whistleblowing

The Group has a whistleblowing policy that enables employees to confidentially report matters of concern to an independent third party. The details of any such reports are communicated to the Non-Executive Directors. No such matters arose during the year in question.

External auditor effectiveness, independence and appointment

The Committee reviews and makes recommendations regarding the appointment of the external auditor. In making these recommendations the Committee reviews the performance, effectiveness and independence of the external auditor. The Committee holds regular meetings with the external auditor to review matters of interest.

The Committee assessed the effectiveness of the external audit process at its meeting in May 2018. The external auditor performs testing of operating effectiveness of key controls together with substantive testing, focusing on the most significant assessed risks for material misstatement including revenue recognition, the valuation of goodwill and intangible assets and the assessment of the fair value and accounting of investments. The results of the audit provided the Committee with confidence with regard to the overall quality of the audit. The Committee also asked the external auditor to report on control findings arising from the audit as part of the year end process. In addition, feedback on the audit was obtained from management and the finance team.

The fees paid to the external auditor during the year are detailed in note 9. In addition to the audit services it performed, KPMG provided taxation and related services to the Group as detailed in the note. The Committee received confirmation from the auditors that they are independent of the Group under the requirements of the Financial Reporting Council's ethical standards for Auditors.

During the financial year the Group elected for voluntary adoption of the 2016 UK Corporate Governance Code, which contains recommendations relating to auditor rotation. As a result, the Audit Committee conducted a tender process following which it recommended to the Board that Deloitte LLP be appointed to replace KPMG, which has been the external auditor since 2000, since when no tender process has been undertaken. The Board has agreed to recommend the appointment of Deloitte LLP, subject to shareholder approval at the AGM.

Report of the Nomination Committee

Dear shareholders

The Nomination Committee (the "Committee") ensures that there is an appropriate balance of skills, experience, diversity, independence and knowledge on the Board and its Committees, reviews the size and composition of the Board and makes recommendations to the Board. The Committee receives reports from, and provides input on, the Chief Executive's plans for executive succession and development. The Committee also considers and agrees: (i) appointments to and removals from the Executive Committee and changes in other executive direct reports to the Chief Executive; and (ii) proposals regarding the composition and structure of the Executive Committee.

The Committee oversees and monitors the Group's governance framework, endorses governance policies and makes recommendations to the Board.

Seamus Keating
Chairman

20 May 2019

"During the year the Committee reviewed succession plans for key executives in the business. The outcome of this review identified a number of actions which the executive management is in the process of implementing."

Composition

The Committee is chaired by Seamus Keating, and all of the Non-Executive Directors are members of the Committee.

Role and activities

The Committee fulfils a number of duties concerning the nomination and appointment of Board and executive positions. In particular, it is responsible for reviewing regularly the size and composition of the Board and its Committees in order to ensure an appropriate balance of skills, experience, diversity, independence and knowledge of the Group. It prepares a description of the specific experience and abilities needed for each appointment and reviews conflicts or potential conflicts of interest prior to appointment and annually thereafter.

The Group is proud of its track record on diversity, including gender, ethnicity, nationality, skills and experience, which has resulted in the formation of a diverse, inclusive and vibrant team. While not in favour of setting specific targets, in the event that a Board position requires filling, during succession planning it will proactively ensure that the search process is sufficiently inclusive to encourage applications from diverse candidates with relevant skills, experience and knowledge, and that the selection process is fair and transparent.

The Committee also advises the Board on succession planning for all Board members, taking into account the skills and experience needed on the Board, and receives reports from the Chief Executive Officer on succession and development planning for the Executive Committee.

The Committee meets at least twice a year to consider the matters under its remit.

Governance

The Committee sets its own agenda and while only the members of the Committee have the right to attend its meetings, the Committee may from time to time invite third parties to attend. For matters to do with the succession of the chairmanship of the Board, the Committee is chaired by the Senior Independent Director. The composition of the Committee is reviewed on an annual basis.

Business during the year

Issues considered by the Committee during the year that are considered to be significant include:

Board evaluation

During the year, a Board effectiveness review was conducted, led by one of the Non-Executive Directors. This review considered the operation and effectiveness of the Board from a number of different perspectives including the timing and frequency of meetings, the recurring and special agenda matters, the quality of Board materials, the depth and extent of Board discussion and debate as well as the composition of the Board, succession planning and other relevant items. The review did not identify any significant shortcomings in the operation and effectiveness of the Board and its recommendations have been universally adopted for implementation in the current financial year.

Executive succession planning

During the year the Committee reviewed succession plans for key executives in the business. The outcome of this review identified a number of actions which the executive management is in the process of implementing.

Report of the Remuneration Committee

Dear shareholders

This report is intended to provide insight into the roles and responsibilities of the Committee and to demonstrate how it has carried out this work. The Committee is constituted by the Board to assist it in meeting its responsibilities regarding the determination and implementation of the Group's remuneration policy, including the remuneration of the Chairman, Executive Directors and senior management, as well as overseeing the arrangements for the wider workforce.

Donna L. Troy

Donna Troy
Non-Executive Director

20 May 2019

"A key element of the Group's policy is to align the interests of managers with those of shareholders through the total compensation package."

Composition

The Remuneration Committee is chaired by Donna Troy. The other members are Seamus Keating and Virginia Gambale.

Remuneration policy

The Group's remuneration policy is detailed below and is designed to provide levels of remuneration to attract, retain and motivate Directors and key staff. The packages are designed to be competitive in value to those offered to the Directors of similarly sized public companies in related sectors. A key element of the Group's policy is to align the interests of managers with those of shareholders through the total compensation package including the grant of options under the Group's Share Option Plan. These incentives are structured to encourage retention and deliver the strategic objectives of the Group over the longer term.

The components of the Executive Directors' remuneration packages are a basic salary, bonus, money purchase pension contributions and participation in the Share Option Plan. The Non-Executive Directors' remuneration packages do not include variable or long-term elements.

Executive Directors

Basic salary

Basic salary is set by the Committee and reviewed annually. Salary levels take into account a range of factors which include the Director's role and responsibilities; their skills, experience and performance; and pay and conditions elsewhere in the Group. In addition, the salaries paid to Directors performing roles of similar scope in comparable listed companies are considered.

Pension and healthcare

The Group operates a defined contribution scheme for Executive Directors which entitles participants to a Company pension contribution equal to 10% of their base salary. Executive Directors are also eligible for private health care insurance which is treated as a benefit in kind.

Cash bonus

Bonus awards, which are not pensionable, are made to the Executive Directors based on achieving performance criteria set out by the Committee. The bonus plan for the Executive Directors includes an on-target bonus of 50% of basic salary with a maximum of up to 100% being achievable. The criteria are reviewed annually and aligned to the key financial and strategic objectives of the Group. The Committee has discretion to amend the pay-out should any formulaic outcome not reflect its assessment of overall performance; however, the exercise of any such discretion shall not result in a bonus payment in excess of 100% of basic salary.

Share Option Plan

The Directors believe it is important to incentivise key management and employees and accordingly the Executive Directors are able to participate in the Company's Share Option Plan. Any awards made under this plan will be granted on a conditional basis and subject to the achievement of specified performance conditions, with exercise permitted not less than three years from the date of award.

Executive Directors continued

Share Option Plan continued

The outstanding options granted to Executive Directors had a performance condition solely related to absolute total shareholder return (TSR). The Committee has agreed that future awards will be based 50% absolute TSR and 50% on growth in earnings per share.

Non-Executive Directors

The Board, based on a recommendation by the Chairman of the Remuneration Committee or, in the case of the Chairman, the remainder of the Board, determines the remuneration of the Non-Executive Directors. The Non-Executive Directors are not eligible to join the Group's pension scheme nor do they receive share options or cash bonuses. Non-Executive Directors may elect to receive payment in their home currency if based outside the UK and receive part payment of their remuneration in Group shares. In such circumstances, the number of shares to be issued will be based on the average closing mid-market share price over the 90 business days prior to the release of the Group's preliminary results.

FY 2019 Remuneration Report

During the year the Committee reviewed how the implementation of the Group's remuneration policy impacted on performance and determined that the policy was operating effectively. However, given the growth and increasing complexity of the business, it was decided that measures should be taken to ensure that the policy remained effective in future years. Therefore, during the year the Remuneration Committee instructed external consultants to conduct a benchmarking exercise for Director salaries and the results of this exercise will be taken into consideration in the next salary review. The Committee determined that Directors should not receive an increase in basic salary for the 2019 financial year and, pending the results of the salary review, have also determined that there will be no increase in basic salary for the 2020 financial year.

Alignment of remuneration and performance

The Committee believes the historical growth performance of the business is reflective of the Group's effective remuneration policy. The Committee is committed to an open and transparent dialogue with shareholders and where appropriate will engage with shareholders and their representative bodies, seeking views which it may take into account when setting remuneration policy.

Details of each Director's remuneration is set out in the table below (audited).

		Salary and fees £000	Benefits £000	Annual bonus £000	Share based payment £000	Pension £000	Total remuneration £000
Executive Directors							
B G Conlon	**2019**	**332**	**–**	**177**	**–**	**33**	**542**
	2018	330	–	330	–	33	693
R G Ferguson	**2019**	**200**	**–**	**100**	**193**	**20**	**513**
	2018	200	–	150	135	20	505
Non-Executive Directors							
K MacDonald	**2019**	**60**	**–**	**–**	**–**	**–**	**60**
	2018	45	–	–	–	–	45
D Troy	**2019**	**45**	**–**	**–**	**30**	**–**	**75**
	2018	6	–	–	–	–	6
V Gambale	**2019**	**49**	**–**	**–**	**27**	**–**	**76**
	2018	50	–	–	28	–	78
S Keating	**2019**	**100**	**–**	**–**	**–**	**–**	**100**
	2018	100	–	–	–	–	100
J Robson*	**2019**	**–**	**–**	**–**	**–**	**–**	**–**
	2018	73	–	–	–	–	73
Total	**2019**	**786**	**–**	**277**	**250**	**53**	**1,366**
	2018	804	–	480	163	53	1,500

* Details in the above table reflect the Director's remuneration up to the date of resignation on 15 May 2017.

Alignment of remuneration and performance continued

Bonus payments were made to the Executive Directors in line with the targets set for the year, with no discretion exercised by the Committee. During the year these targets were weighted 70% on Group revenue, adjusted EBITDA and adjusted earnings per share targets and 30% on growth in software revenue. Achievement of these targets resulted in the payments as detailed in the table above.

The Executive Directors did not receive any award of share options during the year, and there was no vesting or exercise of existing share options awarded in prior years.

Non-Executive Directors Virginia Gambale and Donna Troy, both US citizens, are remunerated in US dollars and the salary and fees detailed in the table reflect the sterling translation of payments made during the period. Ms Gambale and Ms Troy are additionally entitled to receive payment of approximately £30,000 in FD shares, issued and allotted on the business day following publication of the Group's Annual Report under the terms of the Group's remuneration policy.

Service contracts

The Executive Directors have entered into service contracts with the Group that are terminable by either party on not less than six months' prior notice.

Directors' interests in shares (audited)

The interests held in shares of the Company by the Directors who held office at the end of the financial year, all of which are beneficial holdings, were as follows:

	Number of ordinary shares	
	28 February 2019	28 February 2018
B G Conlon	7,853,953	7,853,953
R G Ferguson	100,000	100,000
V Gambale	10,706	10,053
S Keating	25,314	25,314
K MacDonald	45,741	45,741
D Troy	90	–

Share options

Share options awarded to Executive Directors over ordinary £0.005 shares in the Company are set out in the table below:

	1 March 2018	Granted during the year	Exercised during the year	28 February 2019	Exercise price £	Exercise period
R G Ferguson	200,000	–	–	200,000	17.25	2019–2026

The Remuneration Committee has set TSR performance conditions for the share options granted to Graham Ferguson on 18 July 2016. These vest on a sliding scale based on achieving a minimum of 50% and up to 100% absolute TSR over the three-year period from grant.

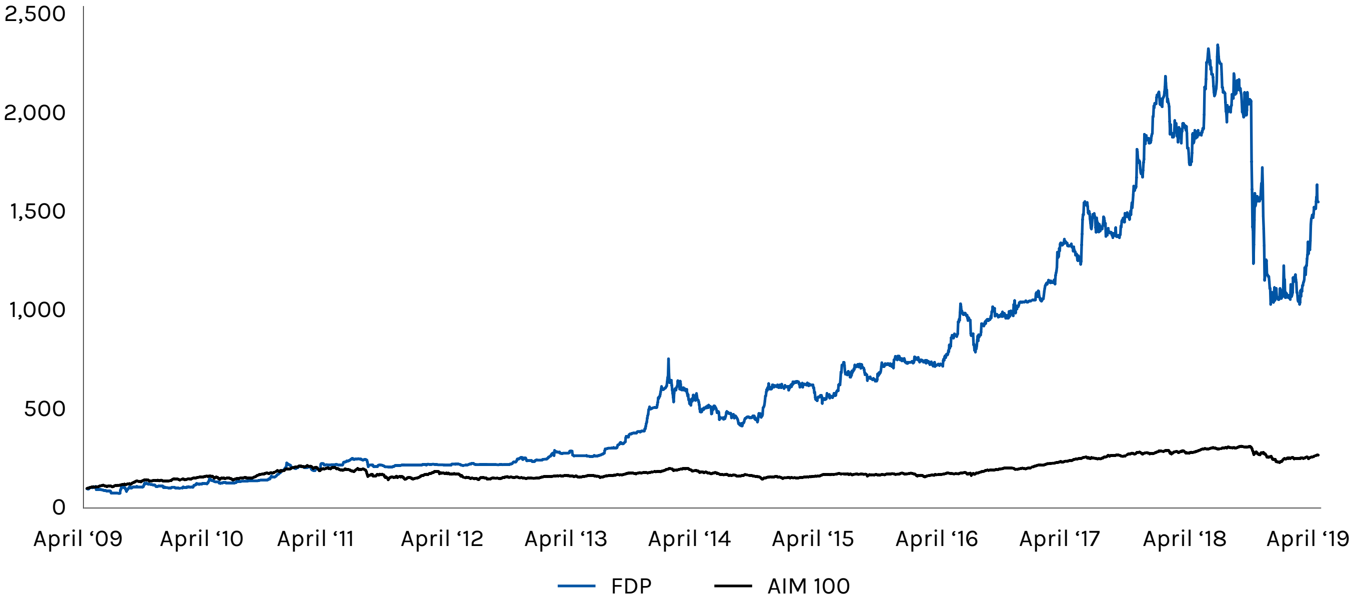
The Company recognised total expenses of £1,452k (2018: £1,586k) related to equity-settled share-based payment transactions during the year. Expenses of £250k (2018: £163k) related to share options granted to the Directors. There were no share options exercised by the Directors during the year (2018: nil).

Transactions with Directors

The Directors' interests in contracts with the Company are disclosed in note 31.

Performance graph and CEO remuneration

The chart below shows the Group's total shareholder return performance over the past ten years compared to the AIM 100, an index of which the Group is a constituent.



The table below shows the total remuneration and annual bonus for the Chief Executive Officer over the same period. During this period the CEO has not received any long-term incentive remuneration.

	2012	2013	2014	2015	2016	2017	2018	**2019**
Total remuneration (£'000)	231	277	276	165	311	657	693	**542**
Annual bonus as a % of maximum opportunity	40%	62%	63%	–	97%	100%	100%	**53%**
Long-term incentives as a % of maximum opportunity	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**n/a**

Strategic Report
Corporate Governance
Financial Statements

Directors' report

The Directors have pleasure in submitting to the shareholders their annual report and the audited financial statements of the Group and Company for the year ended 28 February 2019.

Results and dividend

The Group's profit after taxation attributable to shareholders for the year to 28 February 2019 was £13,175k (2018: £10,208k).

The Directors propose the payment of a final dividend of 19.30 pence (2018: 17.00 pence) per share which, together with the interim dividend of 7.70 pence (2018: 7.00 pence) per share, totals 27.00 pence (2018: 24.00 pence) per share. The final dividend has not been included in payables as it was not approved before the year end.

Dividends paid during the year comprised a final dividend of 17.00 pence per share for the year ended 28 February 2018 and an interim dividend of 7.70 pence per share for the six months ended 31 August 2018.

The price of the Company's shares at close of business on 28 February 2019 was £21.90 (2018: £38.00) and the high and low share prices during the year were £48.00 (2018: £43.80) and £20.10 (2018: £22.88) respectively. The average share price during the year was £33.96 (2018: £31.70).

Directors

The Directors who held office during the year were as follows:

B G Conlon
R G Ferguson
V Gambale
S Keating
K MacDonald
D Troy

Directors and their interests

The interests of the Directors in shares during the year are set out in the Report of the Remuneration Committee and the information is incorporated into the Directors' Report by reference.

Substantial shareholdings

At 20 May 2019, the Group had received notification of interests in 3% or more of the ordinary share capital from B G Conlon (30.0%), Standard Life Aberdeen (10.1%), T Rowe Price (7.4%), Baillie Gifford & Co (4.7%), Oppenheimer (4.6%) and Octopus Investments (4.5%).

Research and development

The Group's policy is to invest in product innovation and engage in research and development activities geared toward the enhancement of its software products. During the year costs of £8,573k (2018: £7,486k) were capitalised in respect of activities which were deemed to be development activities in accordance with the Group's accounting policies. Research and development costs of £2,089k (2018: £1,807k) were expensed during the year.

AIM Rule Compliance Report

First Derivatives plc is quoted on AIM and as a result the Company has complied with AIM Rule 31 which requires the following:

- have in place sufficient procedures, resources and controls to enable its compliance with the AIM Rules;
- seek advice from its nominated adviser regarding its compliance with the Rules whenever appropriate and take that advice into account;
- provide its nominated adviser with any information it reasonably requests in order for the nominated adviser to carry out its responsibilities under the AIM Rules for Nominated Advisers, including any proposed changes to the Board of Directors and provision of draft notifications in advance of publication;
- ensure that each of the Company's Directors accepts full responsibility, collectively and individually, for compliance with the AIM Rules; and
- ensure that each Director discloses without delay all information which the Company needs in order to comply with AIM Rule 17 (Disclosure of Miscellaneous Information) insofar as that information is known to the Director or could with reasonable diligence be ascertained by the Director.

In addition, the Company maintains compliance with AIM Rule 26, which lists a range of information that the Company is required to make available.

Employee opportunities

The Group's policy on employees remains to adopt a very open management style, keeping employees informed of all matters affecting them as employees including key financial and economic factors affecting the Group's performance. This is achieved through meetings and informal consultation at all levels.

It is the Group's policy to ensure that equal opportunity is given for the employment, training and career development of disabled persons, including persons who become disabled whilst in the Group's employment.

Financial instruments

The Group's financial risk management objective is broadly to seek to make neither a profit nor loss from exposure to currency or interest rate risk. The policy is to finance working capital and the acquisitions of property, plant and equipment through retained earnings and through borrowings at prevailing market interest rates.

The Group does not use derivatives to manage its financial risks. The main cash flow, credit and liquidity risks are those associated with selling on credit. However, the vast majority of the Group's clients are substantial enterprises which reduces the risk of default. The Group is also exposed to the impact of fluctuations in exchange rates as it generates income and incurs expenses in currencies other than sterling (GBP). The Group's main exposure is to the US dollar (USD), euro (EUR), Australian dollar (AUD) and Canadian dollar (CAD). However, because it has both income and expenses denominated in foreign currency, its net exposures are substantially lower than the gross balances.

In addition, the Group has financial risk exposure as a result of debt financing for asset purchases, trade receivables and activities carried on by subsidiary undertakings, as well as exposure to movements in fair value of equity investments and convertible loans. The Group's financial position is structured to take advantage of a natural foreign currency hedge using excess cash generated from operations to repay the associated capital and interest on US dollar borrowings. Furthermore, by funding in US dollars the acquisitions of Market Resource Partners LLC (MRP), Reference Data Factory Inc (RDF) and Prelytix Inc. and the acquisition of control of Kx Systems, the Group achieved a net investment hedge against a significant portion of its translation exposure on the net assets of its foreign operations.

Political donations

The Group and Company made no political donations during the year (2018: £nil).

Future developments

As highlighted in the Chairman's Review and the Business Review, the Group focuses on the sale of software and consulting services. It remains the key strategy of the Group to increase its share in its expanding range of target market segments through a combination of organic growth and selective acquisitions. No material change to this approach is currently contemplated.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to become aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

The Board has recommended the appointment of Deloitte LLP to replace KPMG as auditor and a resolution to appoint them will be proposed at the forthcoming Annual General Meeting.

Other information

The other information required under Section 414C (ii) of the Companies Act 2006 to be disclosed in respect of the review of the Group's business is given in the Chairman's Review, Business Review and the Financial Review.

By order of the Board

JJ Kearns
Secretary

20 May 2019

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and they have elected to prepare the parent Company financial statements on the same basis.

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 parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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

We consider the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

On behalf of the Board

John J Kearns

JJ Kearns
Secretary

20 May 2019

KPMG

Independent auditor's report

to the members of First Derivatives plc

1. Our opinion is unmodified

We have audited the financial statements of First Derivatives plc ("the Company") for the year ended 28 February 2019 which comprise the consolidated statement of comprehensive income, the consolidated and Company balance sheets, the consolidated and Company statement of changes in equity, the consolidated and Company cash flow statements and the related notes, including the accounting policies in note 1. The financial reporting framework that has been applied in their preparation is UK Law and International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 28 February 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are further described in the *Auditor's Responsibilities* section of our report. We have fulfilled our ethical responsibilities under, and we remained independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview	
Materiality: Group financial statements as a whole	£775k (2018: £650k) 5% (2018: 5%) of Group profit before tax
Coverage	97% (2018: 95%) of Group profit before tax

Key audit matters		**vs 2018**
Recurring risks for the Group	Revenue recognition	◄►
	Valuation of goodwill and intangible assets	◄►
	Assessment of fair value and accounting of investments	▲
Recurring risks for the Company	Revenue recognition	◄►
	Assessment of fair value and accounting of investments	▲

Independent auditor's report to the members of First Derivatives plc *(continued)*

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2018):

	The risk	Our response
Revenue recognition Revenue: £217.4 million (2018: £186.0 million). *Refer to page 29 (Audit Committee Report), page 69 (accounting policy) and page 75 (financial disclosures).*	The Group and Company have a range of revenue streams across their components, including software sales, consulting services, data management, hosting and transactional activities. There is a risk that revenue may be recorded on an inconsistent basis with the contractual terms agreed with the customer or not in accordance with the Group and Company's accounting policy regarding revenue recognition or revenue may not be recognised in the correct year.	Our procedures included, amongst others: — **Control operation:** We tested the operating effectiveness of internal controls regarding the recognition of revenue. — **Tests of detail:** We examined a sample of contracts to assess revenue recognition in accordance with the terms of the contracts and the Group and Company's accounting policy on revenue recognition. — We considered the Group and Company's revenue accounting policies in accordance with the requirements of IFRS 15. — We assessed customer relationships and contracts to determine if any goods or services were bundled in respect of contracts comprising software sales and consulting services, including assessing the appropriateness of the allocation of contract revenue to multiple element deliverables. — We performed testing for a sample of revenue items booked either side of the year end to ensure that revenue was recognised in the correct period. — We assessed the level of deferred revenue and accrued revenue recognised at the year end and performed testing on a sample of deferred revenue and accrued revenue items to ensure they were in accordance with the Group and Company's accounting policy in respect of revenue recognition. — **Disclosures:** We assessed the disclosures presented to explain revenue recognition policies and the key judgments being applied. — **Our findings:** The results of our testing were satisfactory and we found the amount of revenue recognised to be acceptable (2018: acceptable).

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2. Key audit matters: our assessment of risks of material misstatement *(continued)*

	The risk	Our response
Valuation of goodwill and intangible assets Goodwill: £107.4 million (2018: £103.9 million). Intangible assets: £44.6 million (2018: £45.8 million). *Refer to page 30 (Audit Committee Report), pages 65 and 68 (accounting policy) and pages 84 to 87 (financial disclosures).*	We consider the carrying value of goodwill and intangible assets and the risk over potential impairment to be a significant audit risk because of the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability. Management test the Group's goodwill for impairment annually and definite life intangible assets if there is an indication of impairment. There is significant judgment involved in preparing forecasts and discounted cash flow projections for this purpose in relation to the various assumptions used as set out in the note on goodwill on page 85.	Our procedures included, amongst others: — **Control operation:** We tested the principles and integrity of the Group's discounted cash flow model. — **Test of detail:** We evaluated the assumptions and methodologies used in the Group's goodwill impairment model, with support from our internal valuation specialist. In particular we evaluated those relating to future growth assumptions, the discount rate and terminal growth rate applied to the forecasted cash flows in the model. — We evaluated the historical accuracy of the Group's forecasts by comparing actual to budgeted results. — **Sensitivity analysis:** We examined sensitivity analysis over key assumptions and discount rates used to assess the impact on recoverability of the assets. — **Comparing valuations:** We compared the Group's market capitalisation to the book value of the Group's net assets which indicated that the market capitalisation exceeded the book value by £430.1 million as at 28 February 2019. — **Our findings:** We found the resulting estimate of the recoverable amount of goodwill and intangible assets to be acceptable (2018: acceptable).
Assessment of fair value and accounting of investments Group £13.7 million (2018: £3.4 million). Company £12.8 million (2018: £3.3 million). *Refer to page 30 (Audit Committee Report), page 66 (accounting policy) and pages 89 and 102 to 104 (financial disclosures).*	The Group and Company has a number of equity investments in unlisted companies, which are measured at fair value. Where investments are not publicly traded this involves valuation techniques using unobservable inputs, which can have a significant effect on the asset's valuation. We have identified a risk in the assessment of the valuation of these investments and the ongoing judgment that the investments should be accounted for as investments in the scope of IFRS 9 rather than as associates on the basis that the Group and Company does not have significant influence.	Our procedures included, amongst others: — **Control operation:** We evaluated the process and models used by management in its assessment of the fair value of investments. — **Tests of detail:** We assessed the appropriateness of assumptions adopted to determine the fair value of investments including involving our internal valuation specialists to challenge judgments affecting investee company valuations, such as discount factors and earnings multiples. — **Comparing valuations:** Where a recent transaction has been used to value any holding, we obtained an understanding of the circumstances surrounding the transaction and whether it was considered to be on an arm's-length basis and suitable as an input into a valuation. — We assessed the accounting categorisation of each interest as an investment or an associate based on ability to exert significant influence. — **Disclosures:** We considered the adequacy of the Group and Company's disclosures in respect of investments. — **Our findings:** The results of our testing were satisfactory and we found that the assessed fair value and accounting of investments to be acceptable (2018: acceptable).

Independent auditor's report to the members of First Derivatives plc *(continued)*

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £775k (2018: £650k), determined with reference to a benchmark of Group profit before tax of which it represents 5% (2018: 5%).

Materiality for the Company financial statements as a whole was set at £500k (2018: £375k), determined with reference to a benchmark of Company profit before tax of which it represents 5% (2018: 5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £39k, in addition to other identified misstatements that warranted reporting on qualitative grounds.

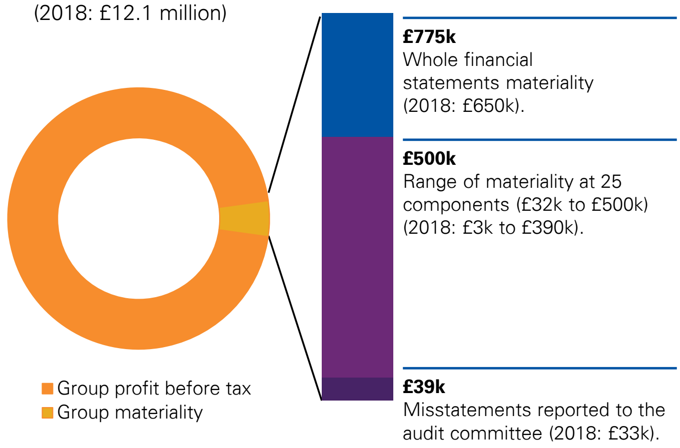
Of the Group's 24 (2018: 23) components, we subjected 8 (2018: 8), which represent the principal activities of the Group, to full scope audits for Group purposes and 1 (2018: 2) to review to component materiality by the same audit team. The latter was not individually financially significant enough to require a full scope audit for Group purposes, but did present specific individual risks that needed to be addressed. Audits for Group reporting purposes were performed for the majority of reporting components in the following countries: UK, Ireland and US. The combination of this work covered 97% (2018: 99%) of total Group revenue; 97% (2018: 95%) of the total profits and losses that make up Group profit before tax and 98% (2018: 98%) of total Group assets.

For the remaining components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within them.

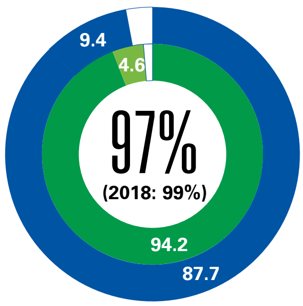
For each component in our audit scope, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £32k and £500k.

Group profit before tax
£16.9 million
(2018: £12.1 million)

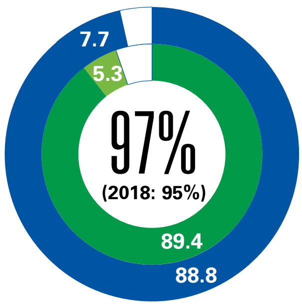
Group materiality
£775k (2018: £650k)



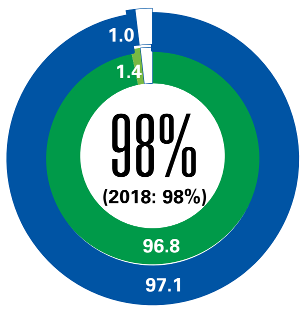
Group revenue

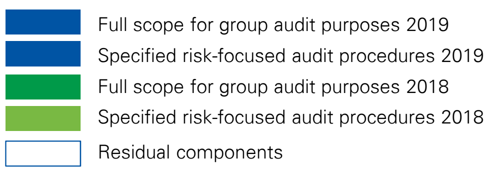


Group profit/losses before tax



Group total assets





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Independent auditor's report to the members of First Derivatives plc *(continued)*

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group and Company's business model, including the impact of Brexit, and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the Directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

— we have not identified material misstatements in the Strategic Report and the Directors' Report;

— in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

— the Directors' confirmation within the Viability Statement (page 31) that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;

— the Principal Risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and

— the Directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

— we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or

— the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in these respects.

Independent auditor's report to the members of First Derivatives plc *(continued)*

6. We have nothing to report on the other matters on which we are required to report by exception

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

— 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

— the Company financial are not in agreement with the accounting records and returns; or

— certain disclosures of Directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; assessing the Group and 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 they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

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

John Poole

John Poole (Senior Statutory Auditor)
for and on behalf of KPMG, Statutory Auditor
Chartered Accountants
The Soloist Building
1 Lanyon Place
Belfast
BT1 3LP

20 May 2019

Consolidated statement of comprehensive income

Year ended 28 February 2019

	Note	2019 £'000	2018 Restated[1] £'000
Revenue			
Software licenses and services	4 & 5	130,888	111,912
Managed services and consulting	4 & 5	86,463	74,130
Total revenue		217,351	186,042
Cost of sales			
Software licenses and services	4	(59,465)	(53,124)
Managed services and consulting	4	(66,594)	(54,457)
Total cost of sales		(126,059)	(107,581)
Gross profit		91,292	78,461
Operating costs			
Research and development costs		(10,662)	(9,293)
– Of which capitalised		8,573	7,486
Sales and marketing costs	7	(32,273)	(26,635)
Administrative expenses	8	(38,455)	(35,319)
Impairment loss on trade and other receivables	32	(19)	(1,380)
Other income	6	277	1,382
Total operating costs		(72,559)	(63,759)
Operating profit		18,733	14,702
Acquisition costs and changes in contingent deferred consideration	8	3,975	3,570
Share based payment and related costs	34	2,473	2,710
Depreciation and amortisation	16 & 17	9,958	8,460
Amortisation of acquired intangible assets	17	3,799	4,684
Adjusted EBITDA		38,938	34,126
Finance income	11	37	1
Finance expense	11	(1,478)	(1,150)
Loss on foreign currency translation	11	(592)	(1,386)
Net finance costs		(2,033)	(2,535)
Share of loss of associate, net of tax	18	(23)	(70)
Profit before taxation		16,677	12,097
Income tax expense	12	(3,502)	(1,889)
Profit for the year		13,175	10,208

1 See note 37 for details of restatement. The Group has also initially applied IFRS 15 and IFRS 9 at 1 March 2018. Under the transition method chosen comparative information has not been restated; see note 1a.

Consolidated statement of comprehensive income continued

Year ended 28 February 2019

	2019 £'000	2018 Restated[1] £'000
Profit for the year	**13,175**	10,208
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Equity investments at FVOCI – net change in fair value	**3,587**	–
Items that will or may be reclassified subsequently to profit or loss		
Net exchange gain/(loss) on net investment in foreign subsidiaries	**2,958**	(13,741)
Net (loss)/gain on hedge of net investment in foreign subsidiaries	**(728)**	1,570
	2,230	(12,171)
Other comprehensive income for the period, net of tax	**5,817**	(12,171)
Total comprehensive income for the period attributable to owners of the parent	**18,992**	(1,963)

	Note	Pence	Pence
Earnings per share			
Basic	15a	**50.9**	40.4
Diluted	15a	**47.9**	37.8

1 See note 33 for details of restatement. The Group has also initially applied IFRS 15 and IFRS 9 at 1 March 2018. Under the transition method chosen comparative information has not been restated; see note 1a.

All profits are attributable to the owners of the Company and relate to continuing activities.

Consolidated balance sheet

As at 28 February 2019

Registered company number: NI 30731

	Note	2019 £'000	2018 Restated[1] £'000
Assets			
Property, plant and equipment	16	10,162	7,714
Intangible assets and goodwill	17	151,965	149,744
Equity accounted investee	18	2,711	2,631
Other financial assets	19	13,706	3,433
Trade and other receivables	20	5,720	6,594
Deferred tax assets	25	15,352	18,353
Non-current assets		199,616	188,469
Trade and other receivables	20	57,915	52,846
Current tax receivable	26	1,461	872
Cash and cash equivalents	21	18,798	12,365
Current assets		78,174	66,083
Total assets		277,790	254,552
Equity			
Share capital	22	131	128
Share premium		79,726	73,168
Merger reserve		8,118	8,118
Share option reserve		10,744	14,341
Fair value reserve		3,587	–
Currency translation adjustment reserve		3,944	1,714
Retained earnings		36,560	40,630
Equity attributable to owners of the Company		142,810	138,099
Liabilities			
Loans and borrowings	23	289	25,205
Trade and other payables	24	3,300	32,127
Deferred tax liabilities	25	10,827	9,811
Non-current liabilities		14,416	67,143
Loans and borrowings	23	34,998	3,346
Trade and other payables	24	77,546	34,070
Current tax payable	26	1,004	1,195
Employee benefits	27	5,945	5,011
Contingent deferred consideration	28	1,071	5,688
Current liabilities		120,564	49,310
Total liabilities		134,980	116,453
Total equity and liabilities		277,790	254,552

1 See note 33 for details of restatement. The Group has also initially applied IFRS 15 and IFRS 9 at 1 March 2018. Under the transition method chosen comparative information has not been restated; see note 1a.

These financial statements were approved by the Board of Directors on 20 May 2019.

Seamus Keating
Chairman

Brian Conlon
Chief Executive Officer

Graham Ferguson
Chief Financial Officer

Company balance sheet

As at 28 February 2019

Registered company number: NI 30731

	Note	2019 £'000	2018 Restated[1] £'000
Assets			
Property, plant and equipment	16	4,726	3,764
Intangible assets and goodwill	17	23,994	20,629
Investment in subsidiaries	18	133,464	95,329
Other financial assets	19	12,776	3,308
Trade and other receivables	20	21,658	13,579
Deferred tax assets	25	8,484	12,268
Non-current assets		205,102	148,877
Trade and other receivables	20	52,942	43,247
Current tax receivable	26	1,337	872
Cash and cash equivalents	21	14,760	4,013
Current assets		69,039	48,132
Total assets		274,141	197,009
Equity			
Share capital	22	131	128
Share premium		79,726	73,168
Merger reserve		8,118	8,118
Share option reserve		10,898	14,070
Fair value reserve		3,733	146
Retained earnings		28,046	26,052
Equity attributable to shareholders		130,652	121,682
Liabilities			
Loans and borrowings	23	–	25,205
Trade and other payables	24	1,527	1,071
Deferred tax liabilities	25	4,406	3,358
Non-current liabilities		5,933	29,634
Loans and borrowings	23	34,909	3,339
Trade and other payables	24	96,457	37,017
Employee benefits	27	5,119	4,299
Contingent deferred consideration	28	1,071	1,038
Current liabilities		137,556	45,693
Total liabilities		143,489	75,327
Total equity and liabilities		274,141	197,009

1 See note 33 for details of restatement. The Group has also initially applied IFRS 15 and IFRS 9 at 1 March 2018. Under the transition method chosen comparative information has not been restated; see note 1a.

The Company's profit for the year ended 28 February 2019 was £8,779k (2018: £7,289k).

These financial statements were approved by the Board of Directors on 20 May 2019.

Seamus Keating
Chairman

Brian Conlon
Chief Executive Officer

Graham Ferguson
Chief Financial Officer

Consolidated statement of changes in equity

Year ended 28 February 2019

	Share capital £'000	Share premium £'000	Merger reserve £'000	Share option reserve £'000	Fair value reserve £'000	Currency translation adjustment £'000	Retained earnings £'000	Total equity £'000
Adjusted balance at 1 March 2018	128	73,168	8,118	14,341	–	1,714	40,630	138,099
Impact of changes in accounting policy – see note 1a	–	–	–	–	–	–	(1,002)	(1,002)
Restated balance at 1 March 2018	128	73,168	8,118	14,341	–	1,714	39,628	137,097
Total comprehensive income for the year								
Profit for the year	–	–	–	–	–	–	13,175	13,175
Other comprehensive income								
Net exchange gain on net investment in foreign subsidiaries	–	–	–	–	–	2,958	–	2,958
Net exchange loss on hedge of net investment in foreign subsidiaries	–	–	–	–	–	(728)	–	(728)
Net change in fair value of equity investments at FVOCI	–	–	–	–	3,587	–	–	3,587
Total comprehensive income for the year	–	–	–	–	3,587	2,230	13,175	18,992
Transactions with owners of the Company								
Tax relating to share options	–	–	–	(4,292)	–	–	–	(4,292)
Exercise of share options	2	3,829	–	(684)	–	–	–	3,147
Change in measurement of NCI put	–	–	–	–	–	–	(9,932)	(9,932)
Issue of shares	–	29	–	–	–	–	–	29
Issue of shares as contingent deferred consideration	1	2,700	–	–	–	–	–	2,701
Share based payment charge	–	–	–	1,452	–	–	–	1,452
Transfer on forfeit of share options	–	–	–	(73)	–	–	73	–
Dividends to owners of the Company	–	–	–	–	–	–	(6,384)	(6,384)
Dividends to NCI	–	–	–	–	–	–	–	–
Balance at 28 February 2019	**131**	**79,726**	**8,118**	**10,744**	**3,587**	**3,944**	**36,560**	**142,810**

The Group has initially applied IFRS 15 and IFRS 9 at 1 March 2018. Under the transition method chosen comparative information has not been restated; see note 1a.

Consolidated statement of changes in equity continued

Year ended 28 February 2018

	Share capital £'000	Share premium £'000	Merger reserve £'000	Share option reserve £'000	Currency translation adjustment £'000	Retained earnings £'000	Total equity £'000
Balance at 1 March 2017, as previously reported	124	72,275	–	10,225	8,335	40,772	131,731
Impact of correction of reserves classification – see note 33	–	(7,677)	7,677	–	5,550	(5,550)	–
Restated balance at 1 March 2017	124	64,598	7,677	10,225	13,885	35,222	131,731
Total comprehensive income for the year (restated)							
Profit for the year	–	–	–	–	–	10,208	10,208
Other comprehensive income							
Net exchange loss on net investment in foreign subsidiaries	–	–	–	–	(13,741)	–	(13,741)
Net exchange gain on hedge of net investment in foreign subsidiaries	–	–	–	–	1,570	–	1,570
Total comprehensive income for the year (restated)	–	–	–	–	(12,171)	10,208	(1,963)
Transactions with owners of the Company							
Tax relating to share options	–	–	–	3,910	–	–	3,910
Exercise of share options	4	8,542	–	(1,427)	–	–	7,119
Change in measurement of NCI put	–	–	–	–	–	3,557	3,557
Issue of shares	–	28	–	–	–	–	28
Issue of shares as purchase consideration	–	–	441	–	–	–	441
Share based payment charge	–	–	–	1,586	–	–	1,586
Transfer on forfeit of share options	–	–	–	47	–	(47)	–
Dividends to owners of the Company	–	–	–	–	–	(5,272)	(5,272)
Dividends to NCI	–	–	–	–	–	(3,038)	(3,038)
Adjusted balance at 28 February 2018	128	73,168	8,118	14,341	1,714	40,630	138,099

See note 33 for details of restatement. The Group has also initially applied IFRS 15 and IFRS 9 at 1 March 2018. Under the transition method chosen comparative information has not been restated; see note 1a.

Company statement of changes in equity

Year ended 28 February 2019

	Share capital £'000	Share premium £'000	Merger reserve £'000	Share option reserve £'000	Fair value reserve £'000	Retained earnings £'000	Total equity £'000
Adjusted balance at 1 March 2018	128	73,168	8,118	14,070	146	26,052	121,682
Impact of changes in accounting policy – see note 1a	–	–	–	–	–	(474)	(474)
Restated balance at 1 March 2018	128	73,168	8,118	14,070	146	25,578	121,208
Total comprehensive income for the year							
Profit for the year	–	–	–	–	–	8,779	8,779
Other comprehensive income							
Net change in fair value of equity investments at FVOCI	–	–	–	–	3,587	–	3,587
Total comprehensive income for the year	–	–	–	–	3,587	8,779	12,366
Transactions with owners of the Company							
Income tax relating to share options	–	–	–	(3,867)	–	–	(3,867)
Exercise of share options	2	3,829	–	(684)	–	–	3,147
Issue of shares	–	29	–	–	–	–	29
Issue of shares as contingent deferred consideration	1	2,700	–	–	–	–	2,701
Share based payment charge	–	–	–	1,452	–	–	1,452
Transfer on forfeit of share options	–	–	–	(73)	–	73	–
Dividends to owners of the Company	–	–	–	–	–	(6,384)	(6,384)
Balance at 28 February 2019	**131**	**79,726**	**8,118**	**10,898**	**3,733**	**28,046**	**130,652**

The Group has initially applied IFRS 15 and IFRS 9 at 1 March 2018. Under the transition method chosen comparative information has not been restated; see note 1a.

Company statement of changes in equity continued

Year ended 28 February 2018

	Share capital £'000	Share premium £'000	Merger reserve £'000	Share option reserve £'000	Fair value reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 March 2017, as previously reported	124	72,275	–	9,713	146	24,082	106,340
Impact of correction of reserves classification – see note 33	–	(7,677)	7,677	–	–	–	–
Restated balance at 1 March 2017	124	64,598	7,677	9,713	146	24,082	106,340
Total comprehensive income for the year							
Profit for the year	–	–	–	–	–	7,289	7,289
Total comprehensive income for the year	–	–	–	–	–	7,289	7,289
Transactions with owners of the Company							
Income tax relating to share options	–	–	–	4,151	–	–	4,151
Exercise of share options	4	8,542	–	(1,427)	–	–	7,119
Issue of shares	–	28	–	–	–	–	28
Issue of shares as purchase consideration	–	–	441	–	–	–	441
Share based payment charge	–	–	–	1,586	–	–	1,586
Transfer on forfeit of share options	–	–	–	47	–	(47)	–
Dividends to owners of the Company	–	–	–	–	–	(5,272)	(5,272)
Adjusted balance at 28 February 2018	128	73,168	8,118	14,070	146	26,052	121,682

See note 33 for details of restatement. The Group has initially applied IFRS 15 and IFRS 9 at 1 March 2018. Under the transition method chosen comparative information has not been restated; see note 1a.

Consolidated cash flow statement

Year ended 28 February 2019

	2019 £'000	2018 £'000
Cash flows from operating activities		
Profit for the year	13,175	10,208
Adjustments for:		
Net finance costs	2,033	2,535
Depreciation of property, plant and equipment	2,744	2,246
Amortisation of intangible assets	11,013	10,898
Increase in deferred consideration	3,230	2,980
Equity-settled share based payment transactions	1,452	1,586
Grant income	(277)	(1,382)
Share of loss of associate	23	70
Deferred consideration paid (IAS 19 remuneration)	(5,317)	–
Tax expense	3,502	1,889
	31,578	31,030
Changes in:		
Trade and other receivables	(6,468)	(8,711)
Trade and other payables	2,230	2,992
Cash generated from operating activities	27,340	25,311
Taxes paid	(3,462)	(5,733)
Net cash from operating activities	23,878	19,578
Cash flows from investing activities		
Interest received	37	1
Increase in loans to other investments	(1,944)	(5,805)
Acquisition of subsidiaries, net of cash acquired	(591)	(114)
Acquisition of other investments and associates	(2,652)	(1,865)
Acquisition of property, plant and equipment	(4,105)	(3,443)
Acquisition of intangible assets	(9,238)	(8,246)
Deferred consideration paid (IFRS 3 purchase consideration)	–	(897)
Net cash used in investing activities	(18,493)	(20,369)
Cash flows from financing activities		
Proceeds from issue of share capital	3,147	7,119
Drawdown of loans and borrowings	8,900	5,300
Repayment of borrowings	(3,558)	(3,750)
Payment of finance lease liabilities	(48)	(62)
Interest paid	(1,457)	(1,143)
Dividends paid	(6,336)	(8,310)
Net cash generated/(used) in financing activities	648	(846)
Net increase/(decrease) in cash and cash equivalents	6,033	(1,637)
Cash and cash equivalents at 1 March	12,365	16,250
Effects of exchange rate changes on cash held	400	(2,248)
Cash and cash equivalents at 28 February	18,798	12,365

The Group has also initially applied IFRS 15 and IFRS 9 at 1 March 2018. Under the transition method chosen comparative information has not been restated; see note 1a.

Company cash flow statement

Year ended 28 February 2019

	2019 £'000	2018[1] £'000
Cash flows from operating activities		
Profit for the year	8,779	7,289
Adjustments for:		
Finance expense and foreign exchange loss	2,956	843
Depreciation of property, plant and equipment	1,093	906
Amortisation of intangible assets	5,161	4,328
Dividends from associate and subsidiary	(8,000)	(5,411)
Equity-settled share based payment transactions	1,452	1,586
Grant income	(300)	(1,242)
Tax expense	368	397
	11,509	8,696
Changes in:		
Trade and other receivables	(8,187)	(12,176)
Trade and other payables	17,378	502
Cash generated from operating activities	20,700	(2,978)
Taxes paid	432	(263)
Net cash from operating activities	21,132	(3,241)
Cash flows from investing activities		
Acquisition of subsidiaries	(762)	(645)
Increase in loans to other investments	(338)	–
Acquisition of other investments	(1,844)	(187)
Acquisition of property, plant and equipment	(2,055)	(1,475)
Acquisition of intangible assets	(6,579)	(5,914)
Deferred consideration paid (IFRS 3 purchase consideration)	–	(500)
Dividends received from associate and subsidiary	–	5,411
Net cash used in investing activities	(11,578)	(3,310)
Cash flows from financing activities		
Proceeds from issue of share capital	3,147	7,119
Drawdown of loans and borrowings	8,900	5,300
Repayment of borrowings	(3,558)	(3,750)
Interest paid	(1,457)	(1,521)
Dividends paid	(6,336)	(5,272)
Net cash generated from financing activities	696	1,876
Net increase/(decrease) in cash and cash equivalents	10,250	(4,675)
Cash and cash equivalents at 1 March	4,013	9,499
Effects of exchange rate changes on cash held	497	(811)
Cash and cash equivalents at 28 February	14,760	4,013

The Group has also initially applied IFRS 15 and IFRS 9 at 1 March 2018. Under the transition method chosen comparative information has not been restated; see note 1a.

1. Significant accounting policies

First Derivatives plc (FDP or the "Company") is a public limited company incorporated and domiciled in Northern Ireland. The Company's registered office is 3 Canal Quay, Newry BT35 6BP. The consolidated financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity accounts for the Group's interest in its associate. The Company financial statements present information about the Company as a separate entity and not about the Group.

The Group is primarily involved in the provision of a range of software and consulting services, particularly to finance, technology, retail, pharma, manufacturing and energy institutions.

The financial statements were authorised by the Board of Directors for issuance on 20 May 2019.

a) Basis of preparation

The consolidated financial statements and the Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (IFRS) and with the Companies Act 2006. On publishing the Group financial statements together with the Company financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of those approved financial statements.

The Group and Company financial statements are prepared on a historical cost basis except for the following items which are measured at fair value or grant date fair value:

- share based payment arrangements;
- contingent deferred consideration;
- derivative financial instruments; and
- equity investments that are in the scope of IFRS 9.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by the Group and Company other than those detailed in changes in accounting policies.

Changes in accounting policies

The following standards, amendments and interpretations were effective for accounting periods beginning on or after 1 March 2018 and these have been adopted in the Group and Company financial statements where relevant:

- IFRS 15 Revenue from Contracts with Customers including Amendments to IFRS 15: Effective Date of IFRS 15 and Clarifications to IFRS 15 Revenue from Contracts with Customers;
- IFRS 9 Financial Instruments;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- Amendments to IFRS 2: Classification and Measurement of Share Based Payment Transactions; and
- Annual Improvements to IFRS Standards 2014–2016.

The effects of applying IFRS 9 and IFRS 15 are described in further detail below. The other changes listed above did not result in material changes to the Group and Company financial statements.

IFRS 9 Financial Instruments

The Group adopted IFRS 9 from 1 March 2018 with the practical expedients permitted under the standard. Comparative information has not been restated to reflect the new requirements.

IFRS 9 replaced the requirements of IAS 39 Financial Instruments: Recognition and Measurement. The main changes introduced by the new standard are new classification and measurement requirements for certain financial assets, a new expected loss model for the impairment of financial assets, and optional revisions to hedge accounting. IFRS 9 largely retains the requirements of IAS 39 for the classification and measurement of financial liabilities.

Notes continued

1. Significant accounting policies continued

a) Basis of preparation continued

Changes in accounting policies continued

IFRS 9 Financial Instruments continued

Classification and measurement of financial assets and financial liabilities

IFRS 9 replaces the previous IAS 39 categories for financial assets with new categories. The measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities at 1 March 2018 are as follows:

			Group		Company	
	Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39 £'000	Carrying amount under IFRS 9 £'000	Carrying amount under IAS 39 £'000	Carrying amount under IFRS 9 £'000
Financial assets						
Equity securities	Available for sale	FVOCI	3,433	3,433	3,308	3,308
Warrants	FVTPL	FVTPL	–	–	–	–
Trade and other receivables	Loans and receivables	Financial assets at amortised cost	48,778	47,614	47,965	47,563
Convertible loans	Loans and receivables[1]	FVTPL	1,944	1,944	323	323
Other loans and receivables	Loans and receivables	Financial assets at amortised cost	4,299	4,138	4,299	4,138
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost	12,365	12,365	4,013	4,013
Financial liabilities						
Contingent deferred consideration	FVTPL	FVTPL	(5,688)	(5,688)	(1,038)	(1,038)
Derivatives	FVOCI[2]	FVOCI[2]	–	–	–	–
Other derivatives	FVTPL	FVTPL	–	–	–	–
Secured bank loans	Liabilities at amortised cost	Other financial liabilities	(28,544)	(28,544)	(28,544)	(28,544)
Trade, accruals and other payables	Liabilities at amortised cost	Other financial liabilities	(48,892)	(48,892)	(32,420)	(32,420)
Employee benefits	Liabilities at amortised cost	Other financial liabilities	(1,832)	(1,832)	(1,448)	(1,448)

1 Under IAS 39 the conversion feature was a derivative which was recognised FVTPL and as at 28 February 2018 was assessed as having minimal value.

2 NCI put – accounting policy choice to account for remeasurements in equity.

Equity securities represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated each of these investments at the date of initial application of IFRS 9 at FVOCI. Under IFRS 9 gains and losses realised on the derecognition of financial assets at FVOCI will be reclassified to retained earnings rather than transferred to profit or loss as under IAS 39.

1. Significant accounting policies continued

a) Basis of preparation continued

Changes in accounting policies continued

IFRS 9 Financial Instruments continued

Impairment of financial assets

IFRS 9 has introduced a new impairment model for financial assets classified at amortised cost which required the recognition of impairment provisions based on expected credit losses (ECLs) rather than incurred credit losses as under IAS 39. For trade receivables and accrued income (contract asset), the Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance. For other loans and receivables the Group measures loss allowance at twelve-month ECLs. On adoption of IFRS 9 the provision for trade and other receivables, net of tax effect, for the Group increased by £1,002k and £474k (tax effect of £323k and £89k respectively) for the Company; there was a corresponding decrease in retained earnings.

For assets in scope of IFRS 9 impairment model, the Group and Company have determined that the application of IFRS 9 impairment requirements at 1 March 2018 results in an additional allowance for impairment as follows:

	Group £'000	Company £'000
Loss allowance at 28 February 2018 under IAS 39	2,982	1,916
Additional impairment recognised at 1 March 2018		
– Trade and accrued income	1,164	402
– Other loans	161	161
Loss allowance at 1 March 2018 under IFRS 9	4,307	2,479

Hedge accounting

The Group holds foreign currency loans designated as a hedge of net investments in a foreign operation. Foreign currency differences arising on retranslation are recognised in other comprehensive income to the extent the hedge is effective and are presented in the currency translation adjustment reserve. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. There has been no change in treatment under IFRS 9 compared to IAS 39. On transition to IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39 instead of applying the new requirements in IFRS 9.

IFRS 15 Revenue Recognition

The Group adopted IFRS 15 from 1 March 2018 using the modified retrospective method with the cumulative effect of initially applying the standard reflected as an adjustment to the opening balance of retained earnings as of 1 March 2018; as such, comparative information has not been restated to reflect the new requirements.

Accounting for revenue

Under IFRS 15, revenue earned from contracts with customers is recognised based on a five-step model which requires the transaction price for each identified contract to be apportioned to separate performance obligations arising under the contract and recognised either when the performance obligation in the contract has been performed (point in time recognition) or over time as control of the performance obligation is transferred to the customer.

The Group used the five-step model to assess the impact of IFRS 15 on the Group's revenue transactions. The adoption of IFRS 15 did not impact on how revenue is accounted for. Contracts with customers can be readily identified and are considered to include a single performance obligation to which the transaction price is allocated. Revenue is recognised when the performance obligation is satisfied and control is transferred to the customer.

Accounting for costs

Under IFRS 15, costs incurred on the commission paid to employees relating to software sales are recognised as an expense consistent with the transfer of the related goods or services to the customer and are amortised over the term of the contract.

The impact of adopting IFRS 15 on our consolidated financial statements was not material for the Group and there was no adjustment to retained earnings on application at 1 March 2018.

Notes continued

1. Significant accounting policies continued
a) Basis of preparation continued
New standards and interpretations not adopted
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 March 2018 and have not been applied in preparing these financial statements. The relevant standards and interpretations not adopted are outlined below and will be applied when mandatory:

- IFRS 16 Leases (mandatory for the year commencing on or after 1 January 2019);
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (mandatory for the year commencing on or after 1 January 2019);
- Annual Improvements to IFRS Standards 2015–2017 Cycle (mandatory for the year commencing on or after 1 January 2019);
- Amendments to Preferences of Conceptual Framework in IFRS Standards (mandatory for the year commencing on or after 1 January 2020);
- Amendments to IFRS 3: Definition of a Business (mandatory for the year commencing on or after 1 January 2020); and
- IFRIC 23 Uncertainty over Income Tax Treatment (mandatory for the year commencing on or after 1 January 2019).

With the exception of IFRS 16, the Directors do not expect that the adoption of the standards and interpretations listed above will have material impact on the Group and Company financial statements.

IFRS 16 will change lease accounting mainly for lessees, and will replace the existing standard IAS 17. An asset for the right to use the leased item and a liability for future lease payments will be recognised for all leases, subject to limited exemptions for short-term leases and low-value lease assets. The costs of leases will be recognised in profit or loss split between depreciation of the lease asset and a finance charge on the lease liability. This is similar to the existing accounting for finance leases, but substantively different to the existing accounting treatment for operating leases under which no lease asset or lease liability is recognised. IFRS 16 also includes an election which permits a lessee not to separate non-lease components (e.g. maintenance) from lease components and instead capitalise both the lease cost and associated non-lease costs.

The standard will primarily affect the accounting for the Group and Company as a lessee under operating leases. The application of IFRS 16 will result in the recognition of additional assets and liabilities in the Group and Company's balance sheet and in the consolidated statement of comprehensive income and it will replace the straight-line operating lease expense with a depreciation charge for the right-of-use asset and an interest expense on the lease liabilities. The Group and Company will apply IFRS 16 from 1 March 2019 using the modified retrospective approach and will avail of the recognition exemption for short-term and low-value leases. All right-of-use assets will be measured at the amount of the lease liability on adoption. The Group and Company's non-cancellable operating lease commitments on an undiscounted basis at 28 February 2019 are detailed in note 29 and provide an indication of the scale of leases held by the Group. The Group has completed an initial assessment of the potential impact of IFRS 16; the standard is expected to increase property, plant and equipment by £24.7m, increase loans and borrowings by £24.7m and increase EBITDA by £4.2m, of which £3.7m relates to depreciation and £0.5m relates to finance charges.

Functional and presentational currency
The financial statements are presented in GBP, rounded to the nearest thousand, which is also the Company's functional currency as its cost base is predominantly in this currency.

Going concern
The Group has considerable financial resources and meets its day-to-day working capital requirements through generated cash flows and new five-year loan facilities were agreed in the current year. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its facilities. As a result the Directors believe that the Group is well placed to manage its business risks successfully.

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and financial statements.

Further information regarding the Group and Company's loan facilities are discussed in note 23. Additionally note 2 to the financial statements includes the Group and Company's objectives, policies and processes for managing its capital, financial risk management objectives and exposure to credit risk and liquidity risk.

1. Significant accounting policies continued

a) Basis of preparation continued

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed and revised on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant impact on the amounts recognised in the financial statements are as follows:

- It is noted that management has assessed that all residences owned by the Group are held for use within the business and as such are classified as property, plant and equipment, rather than as investment properties.
- Management has assessed that in respect of equity investments, the Group does not hold significant influence over the investees' financial and operating policies.
- Management applies judgement in the recognition of revenue, determining when performance obligations are satisfied and control transferred. In particular, for software products provided as an annual license, including the right to regular upgrades, judgement is required when assessing whether the annual license is a separate performance obligation from the provision of upgrades to the customer. Management has assessed that the ongoing updates and upgrades to the software are fundamental to the value of the software and that without these updates the value of the software will substantially deteriorate over time. Therefore, the annual license and the updates and upgrades are combined as one performance obligation and revenue is recognised over the life of the license as the service is delivered.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- Under IFRS goodwill on acquisitions is not amortised, but is tested for impairment on an annual basis. Management has assessed goodwill for impairment based on the projected profitability of the individual cash-generating unit to which the goodwill relates. No impairments have been identified. Other intangibles are being amortised and tested for impairment if an indicator of impairment is identified.
- Management has estimated the fair value of equity investments and convertible loans. Management has reviewed recent market activity and has applied a discounted cash flow valuation technique to assess the fair value of the assets as at year end considering the forecast revenue and EBITDA, together with forecast exit value applying market multiples, discounted using a risk-adjusted discount rate.
- For financial assets held at amortised cost, management has estimated an expected credit loss allowance on a forward-looking basis. Loss rates for trade receivables and accrued income (contract assets) are based on; historical payment behaviours, current economic circumstances of customers and type of product purchased. For non-convertible loans and other receivables the Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information) and applying experienced credit judgement.

Management has assessed that there are no other estimates or judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities recognised in the financial statements.

Measurement of fair values

A number of the Group's and Company's accounting policies and disclosures require the measurement at fair values of both financial and non-financial assets and liabilities.

Management has established a control framework with respect to the measurement of fair values and regularly reviews significant unobservable inputs and valuation adjustments. If third-party information is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Notes continued

1. Significant accounting policies continued

a) Basis of preparation continued

Measurement of fair values continued

When measuring the fair value of an asset or a liability, the Group and Company use market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability are categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- note 32 – financial instruments; and
- note 34 – share based payment arrangements.

b) Basis of consolidation

i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. Identifiable intangibles are those which can be sold separately or which arise from contractual or legal rights regardless of whether those rights are separable.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of a pre-existing relationship. Such amounts are generally recognised in profit or loss.

Transaction costs other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination are expensed as incurred.

The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return of all other assets that are part of creating the related cash flows. The fair value of other intangible assets acquired in a business combination is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Deferred and contingent consideration arrangements in a business combination are assessed to determine if the amounts payable are consideration for the business or are payable for post-combination employee services. When arrangements are assessed as being consideration in a business combination, deferred and contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss. Deferred and contingent consideration that is assessed as being payment for post-combination services (remuneration) is expensed as incurred in the post-combination period.

Payments to settle deferred and contingent consideration payable are recognised in the cash flow statement within investing activities if they relate to an arrangement assessed as being consideration in a business combination. Payments to settle arrangements assessed as being post-combination services are recognised in the cash flow statement within operating activities.

1. Significant accounting policies continued

b) Basis of consolidation continued

ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. In the Company's financial statements, investments in subsidiaries are carried at cost less any provision made for impairment.

iii) Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. If a put option is held by NCI in a subsidiary undertaking, whereby the holder of the option can require the Group to acquire the NCI's shareholding in the subsidiary at a future date, the Group examines the nature of such a put option. The Group assesses whether the NCI continues to have a present ownership interest in the shares subject to the put option. Where the NCI does not have present ownership rights from the put option then the transaction is accounted for as if the Group had acquired the NCI at the date of entering into the put option and undertake what is referred to as the anticipated acquisition method. The acquisition of Kx Systems Inc and the associated put option held by NCI are accounted for under the anticipated acquisition method.

The Group accounts for any put option on the shares of its subsidiary held by NCI shareholders that obliges the Group to purchase the shares for cash or another financial instrument (NCI put) at fair value on initial recognition. Any subsequent changes in the fair value of the NCI put, including changes due to foreign exchange movements, are recognised directly in equity. Following the exercise of the NCI put, the Group and Company account for the instrument as a forward contract with any subsequent changes in the fair value, including changes due to foreign exchange movements, recognised in finance income or expense.

iv) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. This includes goodwill identified on acquisition and fair value of intangibles (these amounts are not recognised separately in the consolidated financial statements but included in the Group's net investment in the associate). The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases net of any impairment on the investment. In the Company's financial statements, investments in associates are carried at cost less any provision made for impairment.

v) Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

c) Foreign currency

i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Group entities at the exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Monetary liabilities designated as a hedge of net investments are treated as set out in note 1(c) (iii). Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate ruling at the date the fair value was determined. Foreign exchange differences arising on retranslation are generally recognised in profit or loss, except for:

- differences arising on the retranslation of a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective, which is recognised in OCI in the Group's financial statements; and
- differences arising from the retranslation of an interest in equity securities designated at FVOCI (2018: available for sale equity investments (except on impairment)) which are recognised in OCI.

Notes continued

1. Significant accounting policies continued

c) Foreign currency continued

i) Foreign currency transactions continued

Gains or losses arising on the retranslation of foreign currency denominated deferred and contingent consideration estimated as payable at the year end on acquisitions prior to 1 March 2013 are accounted as an adjustment to goodwill. On acquisitions on or after 1 March 2013 the retranslation gain or loss is accounted for in profit or loss separately for deferred consideration and as part of the fair value movement on contingent deferred consideration.

ii) Foreign operations

The assets and liabilities of foreign subsidiaries, including goodwill and fair value adjustments arising on consolidation, are translated to GBP at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to GBP at the foreign exchange rates ruling at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income and presented in the currency translation adjustment reserve in equity.

When a foreign operation is disposed of, such that control or significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate that includes a foreign operation while retaining significant influence, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Certain exchange differences arising from monetary items receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income and presented in the currency translation adjustment reserve in equity.

iii) Hedge of net investment in foreign operation

Foreign currency differences arising on the retranslation of foreign currency loans designated as a hedge of net investments in a foreign operation are recognised in other comprehensive income to the extent the hedge is effective and are presented in the currency translation adjustment reserve. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged part of a net investment is disposed of, the associated cumulative amount in equity is transferred to profit or loss as an adjustment to the profit or loss on disposal.

d) Property, plant and equipment

i) Owned assets

Property, plant and equipment is reported at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and is recognised net within other administrative expenses in profit or loss.

ii) Leased assets

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

iii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in profit or loss as an expense as incurred.

1. Significant accounting policies continued

d) Property, plant and equipment continued

iv) Depreciation

Depreciation is calculated to write down the costs of parts of items to their estimated residual values and is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Depreciation is calculated using the following annual rates:

Office furniture and equipment	— 25%
Plant and equipment	— 25–50%
Buildings – long leasehold and freehold	— 2%

Items of property, plant and equipment are depreciated from the date that the asset is completed and ready for use.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

e) Intangible assets and goodwill

i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets on the balance sheet. For the measurement of goodwill at initial recognition see note 1(b).

Goodwill is measured at cost less any accumulated impairment losses. Goodwill arising on acquisitions is not amortised. Goodwill is allocated to cash-generating units and is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

ii) Research and development

Expenditure on research activities undertaken with the prospect of gaining new technical knowledge and understanding is recognised in profit or loss as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

The expenditure capitalised in respect of software assets includes the cost of materials, direct labour and an appropriate proportion of overheads that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised through profit and loss as an expense as incurred. Capitalised development expenditure is measured at cost less accumulated amortisation and impairment losses.

Tax credits for research and development are recognised at their fair value based on amounts recoverable from the tax authorities in current and future years. A credit is recognised in the income statement against the related expense or recognised in the period in which the expenditure is amortised where the related expenditure is capitalised.

iii) Other intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

iv) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

v) Amortisation

Except for goodwill, intangible assets are amortised based on the cost of an asset less its residual value. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets, from the date that the asset is available for use as follows:

Customer lists	— 12.5%
Acquired software	— 12.5%
Brands	— 12.5%
Developed software	— 12.5–20.0%

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Notes continued

1. Significant accounting policies continued

f) Financial instruments

Trade receivables are initially recognised when they are originated. All other financial instruments are recognised when the Group becomes a party to its contractual provisions.

On initial recognition a financial asset is classified as measured at: amortised cost; FVOCI; or FVTPL. The classification is based on the business model for managing the financial assets and the contractual terms of the cash flows. Only when the business model for managing the assets changes reclassification is required. The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or are transferred to a third party.

Financial liabilities are classified as measured at amortised cost or FVTPL. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

Trade and other receivables

Trade and other receivables in a held to collect business model are initially measured at fair value plus any directly attributable transaction costs. Short-term receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial. Trade and other receivables are subsequently stated at amortised cost less expected credit losses (see note 1(g)(i).

Trade and other receivables not measured at amortised cost, as described above, are measured at FVTPL. This includes convertible loans.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less and are measured at amortised cost. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Equity investments

Equity investments are recognised initially at fair value plus attributable transaction costs. On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI and accumulated in the fair value reserve. This election is made on an investment-by-investment basis. When an investment is sold, the cumulative gain or loss in equity is transferred to retained earnings. Dividends from equity investments are recognised in profit or loss when the Group's right to receive payment is established.

Derivative financial instruments

Derivatives are initially measured at fair value with any directly attributable transaction costs being recognised immediately in profit or loss. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognised in profit or loss.

Trade and other payables

Trade and other payables are initially measured at fair value less any directly attributable transaction costs. Trade and other payables are subsequently measured at amortised cost.

Loans and borrowings

Loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

Prior to 1 March 2018 the policy was as follows:

On initial recognition a financial asset was classified as: loans and receivables; available for sale; or at FVTPL. The financial instruments accounting policies above applied in the prior year, with the exception of:

Available for sale financial assets

The Group's investments in unquoted equity instruments are classified as available for sale financial assets. These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available for sale monetary items, are recognised in other comprehensive income (OCI) and accumulated in the fair value reserve. When an investment is sold, the cumulative gain or loss in equity is transferred to profit or loss. Investments in unquoted equity instruments held by the Company are classified as being available for sale and are held at fair value unless the fair value of these assets cannot be measured reliably, in which case they are measured at cost, subject to impairment testing.

1. Significant accounting policies continued

f) Financial instruments continued

Prior to 1 March 2018 the policy was as follows continued:

Trade and other receivables

Trade and other receivables are initially measured at fair value plus any directly attributable transaction costs. Short-term receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial. Trade and other receivables are subsequently stated at amortised cost less impairment losses on incurred loss model.

g) Impairment

i) Financial assets

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost. The Group measures loss allowances on a forward-looking basis, at an amount equal to lifetime ECLs.

The Group uses an allowance matrix to measure the ECLs of trade receivables and accrued income (contract assets). Loss rates are calculated using a roll rate method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different business units based on the following common credit characteristics – historical payment behaviours, current economic circumstances of customers and type of product purchased.

For non-convertible loans and other receivables the Group measures loss allowances at twelve-month ECLs. The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions for agencies (Standard & Poor's). Exposures within each credit risk grade are segmented by industry classification. An ECL rate is calculated for each segment based on delinquency status and actual credit loss experience.

For the Company's intercompany receivable balances management has assessed the ECL as low risk based on the cash-generating ability of the relevant subsidiaries and latest forecasts and applies a twelve-month ECL model in calculating the estimated credit provision.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. The Group individually makes an assessment with respect to the timing and amount of write-off based on whether this is a reasonable expectation of recovery.

Prior to 1 March 2018 the policy was as follows:

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the assets and the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and receivables at a specific asset level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Notes continued

1. Significant accounting policies continued

g) Impairment continued

ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For goodwill and assets that are not yet available for use, the recoverable amount is estimated at each reporting date. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill acquired in a business combination is allocated to the legal entity or business that has been acquired in a business combination, which reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

h) Employee benefits

i) Defined contribution plans

The Group operates a defined contribution (pension) plan for employees. A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense through profit or loss as incurred.

ii) Share based payment transactions

The grant date fair value of equity share based payment arrangements granted to employees is generally recognised as an expense with a corresponding increase in equity over the vesting period. The fair value of the options granted is measured using an adjusted Black-Scholes model, taking into account the terms and conditions upon which the options were granted. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of the Company's historical volatility, particularly over the historical period commensurate with the expected term and adjusted for recent volatility changes), expected term of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest. On the lapse of share options on the vesting date the amount recognised in shares to be issued is transferred to retained earnings. On the exercise of share options, the amount recorded in shares to be issued is transferred to the share premium reserve.

iii) Short-term benefits

Liabilities for employee benefits for wages, salaries and annual leave entitlements represent present obligations resulting from employees' services provided up to the reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at the reporting date.

A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1. Significant accounting policies continued

i) Revenue

i) Products and services rendered

Revenue is measured based on the transaction price allocated to the performance obligation from the sale of goods or provision of services. Revenue is recognised either when the performance obligation in the contract has been performed ("point in time" recognition) or "over time" as control of the performance obligation is transferred to the customer. The Group does not have contracts involving a combination of products and services.

Revenue in respect of each product or service is as follows:

- Revenue from perpetual software licensing is recognised at the point in time when control is transferred upon delivery to the customer where there are no significant vendor obligations remaining following delivery, the client has accepted the software and the collection of the resulting receivable is considered probable.
- Revenue from annual licensing is recognised over the period to which the service is provided to the customer.
- Revenue from consulting services is recognised in the month the service is performed, upon acceptance by the customer and when the collection of the resulting receivable is considered probable.
- In respect of customisation of software, revenue is recognised when control is transferred upon acceptance by the customer and when the collection of the resulting receivable is considered probable.
- Revenue from other services, including data management hosting, other hosting and transactional activities is recognised over the period to which the contract relates or the transaction occurs which gives rise to the receivable. In instances where a non-refundable fee is paid by the customer, a contract liability (deferred income) is recognised and the fair value of any significant obligations is deferred and recognised over the life of the contract; the remaining balance is recognised when control is transferred following delivery and when the resulting receivable is considered probable.

The Group recognises a contract asset (accrued income) when the value of satisfied performance obligations is in excess of the payment due to the Group or a contract liability (deferred income) when the amount of unconditional consideration is in excess of the value of satisfied performance obligations. Once a right to receive consideration is unconditional, that amount is presented as a receivable.

Costs incurred on the commission paid to employees relating to software sales are capitalised as contract costs within prepayments and recognised as an expense consistent with the transfer of the related goods or services to the customer and amortised over the life of the initial term of the contract. The Group applies the practical expedient in paragraph 94 of IFRS 15 and recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the assets that the Group otherwise would have recognised is one year or less.

ii) Government grants

An unconditional government grant is recognised as other operating income when the grant becomes receivable. Other government grants are initially recognised in the balance sheet as deferred income if there is reasonable assurance that they will be received and that the Group has complied with the conditions attaching to it; they are released to the income statement as other income on a systematic basis over the performance condition period. Grants that compensate the Group for expenses incurred are recognised as other operating income through profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income statement as other operating income on a systematic basis over the useful life of the asset.

Prior to 1 March 2018 the policy was as follows:

Revenue from products and services rendered is measured at the fair value of the consideration received or receivable and is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due. Costs incurred on the commission paid to employees is expensed in the period in which the sale is made.

Notes continued

1. Significant accounting policies continued

j) Lease payments

i) Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the terms of the lease.

ii) Finance lease payments

Minimum lease payments made under finance leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

iii) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

k) Finance income and expenses

Finance income comprises interest receivable on funds invested and dividend income. Interest income is recognised through profit or loss as it accrues, using the effective interest method. Dividend income is recognised in profit or loss on the date on which the Group's right to receive payment is established. Financing expenses comprise interest payable on borrowings calculated using the effective interest rate method, and foreign exchange gains and losses. The interest expense component of finance lease payments is recognised through profit or loss using the effective interest rate method. Finance income and expenses included the foreign currency gain or loss on financial assets and liabilities; the net gain or loss on financial assets at fair value through profit or loss; the fair value loss on contingent consideration classified as a financial liability; and hedge ineffectiveness recognised in profit or loss. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortised cost of the financial liability.

l) Taxation

Tax expense on the profit or loss for the period presented comprises current and deferred tax. Current and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or in other comprehensive income.

i) Current tax

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

ii) Deferred tax

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; those arising from the initial recognition of assets or liabilities acquired in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and differences relating to investments in subsidiaries to the extent that it is probable they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

1. Significant accounting policies continued
l) Taxation continued
ii) Deferred tax continued
A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

m) Classification of financial instruments issued by the Group
Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial asset for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

n) Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects. The nominal value of shares issued is recognised as share capital. The value of the consideration received in excess of the nominal value is recognised as share premium unless it relates to the fair value of the consideration given in excess of the nominal value of the ordinary shares issued on the acquisition of subsidiaries (interest of at least 90%) on share for share exchanges.

o) Dividends
Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at the year end. Dividends paid include any discretionary dividends paid to the shareholders of NCI.

p) Earnings per share
The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees, Executive Directors and as part of business combinations.

q) Segmental reporting
An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The operating results are regularly reviewed by the Board and comprise one segment; however, the information provided contains revenue and gross margin split between the various consulting and software activities. The Group makes substantial investment in developing highly technical training which is provided to all staff so they may work in both areas of the business.

r) Adjusted EBITDA
Adjusted EBITDA is defined as results from operating activities before acquisition costs, changes in contingent deferred consideration assessed as remuneration, share-based payments and related costs, depreciation of property, plant and equipment and amortisation of intangible assets. The Group uses adjusted EDITDA as an underlying measure of its performance.

2. Financial risk management

Overview

The Group's activities expose it to a variety of financial risks: market risk (principally foreign exchange risk and interest rate risk), credit risk and liquidity risk.

Credit risk

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate.

Although the Group's client base is large multinational corporations, management separately assesses each new customer before the Group's standard payment and delivery terms and conditions are offered. This assessment includes a review of credit ratings, if available, financial statements, credit agency information and industry information.

Customer credit limits are managed by the Group's credit control team and are impacted by the previous matters and the customer historical credit characteristics. The credit control team makes regular contact with customers when debts are overdue with follow-up procedures carried out as required. The Group establishes an allowance for impairment that represents its estimate of expected credit losses in respect of trade and other receivables.

The Group does not require collateral in respect of trade and other receivables.

The quantitative information on trade receivables and other receivables including concentration of credit risk is detailed in note 32.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's profit or loss, other comprehensive income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group currently does not use derivative financial instruments to hedge its exposure to currency or interest rate risk. All loans are currently variable rate in nature, with the terms being at prevailing market interest rates. The Group holds derivatives in respect of warrants over an interest in an associate which provides exposure to market risk.

The level of trading and borrowings in foreign currency in respect of foreign subsidiaries produces a natural hedge of a large proportion of the Group's exposures to foreign currency movements on trading and investments. Certain borrowings in foreign currencies are designated as net investment hedges of foreign operations.

The Group's equity investments and convertible loans are being carried at their estimated fair value and the Group's maximum exposure to risks associated with these investments is represented by their carrying amounts. Further details on equity investments and convertible loans are disclosed in note 32 to the financial statements.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group generates positive operating cash flows and is able to meet its liabilities as they fall due. In addition the Group has lines of credit identified in note 23 to the financial statements.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business (capital is defined as share capital, share premium, retained earnings and shares to be issued). The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

The Group is not subject to external requirements in respect of its capital, with the exception of the need to comply with the level of ordinary shares available for trading on the AIM and ESM, with which the Group has complied in the current year. Additional shares in the Group are made available to staff by the use of share option schemes as disclosed in note 34 to the financial statements and as purchase consideration in business combinations. The Board seeks to maintain a balance between the higher returns that might be possible with higher level of borrowings and the advantages and security afforded by a strong capital position.

3. Acquisitions of subsidiary and associate

There were no acquisitions in the current year.

Acquisitions made during the year ended 28 February 2018 – acquisition of subsidiary

On 7 December 2017, the Group and Company acquired the entire share capital of Telconomics09 S.L, based in Madrid, Spain. The acquisition will enable the Group and Company to accelerate their growth into the telecoms vertical.

In the 2.5 months to 28 February 2018, the subsidiary contributed revenue of £115k and net profit of £22k to the consolidated net profit for the year. If the acquisition had occurred on 1 March 2017, management estimates that revenue for the Group would have been £186,613k and net profit for the year would have been an estimated £10,304k. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 March 2017.

The following summarises the major classes of consideration transferred and the recognised fair value amounts of assets acquired and liabilities assumed at the acquisition date.

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities:

	Recognised values on acquisition £'000
Acquiree's net assets at the acquisition date:	
Intangible assets	234
Property, plant and equipment	6
Deferred tax asset	296
Trade and other receivables	327
Cash and cash equivalents	485
Trade and other payables	(139)
Deferred tax liability	(58)
Net identifiable assets and liabilities	1,151
Goodwill on acquisition	480
	1,631
Consideration paid, satisfied as follows:	
Cash	1,190
Shares issued (12,199 shares)	441
	1,631
Cash consideration paid	599
Cash (acquired)	(485)
Net cash outflow	114

Of the cash consideration £591k was outstanding at 28 February 2018; this was paid during the year ended 28 February 2019.

Shares issued

The fair value of the ordinary shares issued was based on the listed share price on 7 December 2017, the effective date of control (3,611 pence per share).

Goodwill

Goodwill has arisen on the acquisition and reflects the future economic benefits arising from assets that are not capable of being identified individually and recognised as separate assets. The goodwill reflects the anticipated profitability and synergistic benefits arising from the combination. The Group has carried out an impairment review of goodwill as at 28 February 2018 and 28 February 2019 and has not identified any impairment (see note 17).

Notes continued

3. Acquisitions of subsidiary and associate continued

Acquisitions made during the year ended 28 February 2018 – acquisition of subsidiary continued

Contingent deferred purchase consideration

The Group and Company have agreed to pay an additional consideration of up to £1,600k (£1,400k) on the achievement of certain performance targets over the three-year period post-acquisition. This consideration is conditional on future service conditions and has been assessed as being post-acquisition remuneration. An expense of £nil (2018: £nil) has been recognised in the current year.

Acquisition-related costs

The Group incurred acquisition-related costs of £46k related to external legal fees, due diligence costs and other acquisition costs which have been included in the Group's 2018 consolidated statement of comprehensive income.

Acquisitions made during the year ended 28 February 2018 – acquisition of associate

On 30 June 2016, the Group acquired a 15.30% interest in RxDataScience Inc. (RxD) and subsequently increased this to 26.49% as at 28 February 2017. RxD is not a publicly listed company.

During the year ended 28 February 2018 the Group increased its interest to 36.66% as certain milestones were met and continues to account for its interest as an associate.

	Goodwill on acquisition £'000	Share of identifiable net assets £'000	Total cash paid £'000
Additions during year ended 28 February 2018	972	181	1,153

4. Operating and business segments

Business segments

The Group's Board of Directors is considered to be the Chief Operating Decision Maker of the Group and reviews internal management reports on a regular basis. The reports provided to the Board of Directors focus on Group performance. The information provided to the Board does not report performance on a segmented income statement basis; however, contained within the Group management accounts is a split of revenue, detailing the various client engagement consulting and software sales and contribution figures throughout the Group. In the current year the Group management accounts also contained cost of sales information. In this regard voluntary comparative information has been presented. Staff work in both areas of the business with substantial investment being made by the Group in developing highly technical training which is provided to all staff to allow them to cover both software and consulting skills.

The Group has disclosed below certain information regarding its revenue and non-current assets by geographical location. In presenting this information, segment revenue has been based on the geographic location of customers and segment assets were based on the geographic location of the assets. Details regarding total revenues are presented in note 5. Cost of sales data for the year ended 28 February 2018 has been presented in line with the reclassified amounts set out in note 37.

The Group's two revenue streams are separated as follows:

- consulting activities involves providing services to capital markets; and
- software activities which includes the license of intellectual property and related services.

Information about reportable segments

	Managed services and consulting		Software		Total	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Revenue by industry						
Revenue	86,463	74,130	130,888	111,912	217,351	186,042
Cost of sales	(66,594)	(54,457)	(59,465)	(53,124)	(126,059)	(107,581)
Gross profit	19,869	19,673	71,423	58,788	91,292	78,461

4. Operating segments continued

Geographical location analysis

	Revenues		Non-current assets	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
UK	63,309	58,054	42,800	34,783
Rest of Europe	38,090	29,824	11,739	13,340
North America	94,511	79,673	129,584	120,529
Australasia	21,441	18,491	141	1,464
Total	217,351	186,042	184,264	170,116

Revenue generated and non-current assets located in Northern Ireland, the Group's country of domicile, are not material and, as such, have not been separately disclosed for either the current or prior year.

Major customers

The Group has no key customers who generated more than 10% of Group revenue in 2019 or 2018.

5. Revenue

Disaggregation of revenue

	Managed services and consulting		Software		Total	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Revenue by industry						
FinTech	86,463	74,130	80,239	68,727	166,702	142,857
MarTech	–	–	41,355	38,154	41,355	38,154
Other	–	–	9,294	5,031	9,294	5,031
	86,463	74,130	130,888	111,912	217,351	186,042
Type of good or service						
Sale of goods – perpetual	–	–	13,348	7,286	13,348	7,286
Sale of goods – recurring	–	–	48,615	41,202	48,615	41,202
Rendering of services	86,463	74,130	68,925	63,424	155,388	137,554
	86,463	74,130	130,888	111,912	217,351	186,042
Timing of revenue recognition						
At a point in time	–	–	13,348	7,286	13,348	7,286
Over time	86,463	74,130	117,540	104,626	204,003	178,756
	86,463	74,130	130,888	111,912	217,351	186,042

6. Other income

	2019 £'000	2018 £'000
Government grants	277	1,382

The Group is in receipt of a government grant amounting to £3,880k, awarded in June 2014. The first element was conditional on the recruitment of additional staff for the period to 31 August 2017. The second is conditional on the recruitment of additional staff for the period to 31 December 2019. The grant is recognised as deferred income as additional staff are recruited and is being amortised as the performance conditions are satisfied.

7. Sales and marketing expenses

	2019 £'000	2018 £'000
Payroll costs	27,453	24,914
Travel and subsistence	1,796	436
Marketing expenses	3,024	1,285
	32,273	26,635

Notes continued

8. Administrative expenses

	2019 £'000	2018 Restated[1] £'000
Rent, rates and insurance	6,420	4,382
Telephone	745	795
Accountancy, audit and legal expenses	1,569	1,081
Depreciation and amortisation	13,757	13,144
Payroll costs	10,742	10,928
Research and development credit	(995)	(821)
Listing expenses	270	265
Travel and subsistence	489	604
IT expenses	923	775
Acquisition-related costs and changes to contingent deferred consideration	3,975	3,570
Other	560	596
	38,455	35,319

1 See note 37 for details of reclassification.

	2019 £'000	2018 £'000
IFRS 3 acquisition costs	–	46
Changes to contingent deferred consideration (note 28)	3,230	2,980
Other acquisition-related costs	745	544
Acquisition-related costs and changes to contingent deferred consideration	3,975	3,570

9. Expenses and auditor's remuneration

Included in profit/loss are the following:

	2019 £'000	2018 £'000
Rents payable in respect of operating leases	3,528	2,556
Research and development costs expensed	2,089	1,807
Auditor's remuneration		
Audit of these financial statements	77	76
Amounts receivable by auditor and its associates in respect of:		
Audit of the subsidiary undertakings included in the consolidation	61	55
All other services	5	4
Taxation compliance services	82	79
Other tax advisory services	78	90
Expenses recharged	12	10
	315	314

10. Personnel expenses and numbers

The average weekly number of persons (including Directors) employed by the Group during the year is set out below:

	2019 Average no.	2018 Restated[1] Average no.
Administration	221	219
Sales	311	252
Technical	1,783	1,438
	2,315	1,909

1 See note 37 for details of reclassification.

10. Personnel expenses and numbers continued

The aggregate payroll costs of these persons were as follows:

	2019 £'000	2018 Restated[1] £'000
Wages and salaries	112,855	103,180
Social security costs	10,390	9,784
Other pension costs	4,065	3,401
Share based payments (see note 34)	1,452	1,586
Less capitalised development costs	(8,573)	(7,486)
	120,189	110,465
Disclosed as:		
Cost of sales	81,994	74,623
Sales and marketing costs	27,453	24,914
Administrative expenses	10,742	10,928
	120,189	110,465

1 See note 37 for details of reclassification.

11. Finance income and expense

	2019 £'000	2018 £'000
Interest income	37	1
Finance income	37	1
Loss on foreign currency translation of monetary assets	(469)	(1,386)
Change in fair value of NCI forward	(123)	–
Loss on foreign currency translation	(592)	(1,386)
Interest expense on bank loans and finance lease liabilities	(1,478)	(1,150)
Finance expense	(1,478)	(1,150)
Net finance expense recognised in profit or loss	(2,033)	(2,535)

Exchange gains and losses on net investments in foreign subsidiaries and related effective hedges are recognised in the foreign currency translation reserve.

12. Tax expense

a) Income tax recognised in the income statement

	2019 £'000	2018 £'000
Current tax expense		
Current year	4,547	4,450
Adjustment for prior years	(111)	(275)
	4,436	4,175
Deferred tax expense		
Origination and reversal of temporary differences	(1,091)	(188)
Adjustment for prior years	157	(667)
Change in tax rate	–	(1,431)
	(934)	(2,286)
Total tax expense	3,502	1,889

Notes continued

12. Tax expense continued

b) Amounts recognised in OCI

	2019			2018		
	Before tax £'000	Tax expense/ (benefit) £'000	After tax £'000	Before tax £'000	Tax expense/ (benefit) £'000	After tax £'000
Items that will not be reclassified to profit or loss						
Equity investments at FVOCI – net change in fair value	(4,322)	735	(3,587)	–	–	–
Items that are or may be reclassified subsequently to profit or loss						
Current tax impact of movement on hedge	876	(148)	728	1,202	368	1,570
Foreign currency translation differences	(3,077)	119	(2,958)	(13,561)	(180)	(13,741)
	(2,201)	(29)	(2,230)	(12,359)	188	(12,171)
	(6,523)	706	(5,817)	(12,359)	188	(12,171)

c) Amounts recognised in equity

	2019			2018		
	Before tax £'000	Tax expense/ (benefit) £'000	After tax £'000	Before tax £'000	Tax benefit £'000	After tax £'000
Deferred tax on share based payments	–	5,483	5,483	–	(3,088)	(3,088)
Deferred tax on losses	–	(1,063)	(1,063)	–	(823)	(823)
Current tax on losses	–	(128)	(128)	–	(114)	(114)
	–	4,292	4,292	–	(4,025)	(4,025)

	2019 £'000	2018 £'000
Reconciliation of effective tax rate		
Profit excluding income tax	16,677	12,097
Income tax using the Company's domestic tax rate of 19.0% (2018: 19.1%)	3,169	2,309
Tax exempt income	(1,650)	218
Expenses not deductible for tax purposes	1,117	(34)
Adjustments for prior years	46	(942)
Other differences	210	763
Foreign tax rate differences	513	673
Impact of change in tax rates	–	(1,431)
Unrelieved overseas taxes	97	333
Total tax expense	3,502	1,889

Reductions in the main rate of UK corporation tax to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were enacted on 26 October 2015. The Finance Act 2016 further reduced the 18% rate to 17% from 1 April 2020 following substantial enactment on 6 September 2016.

On 22 December 2017, the US Tax Cuts and Jobs Act (US Tax Act), was signed into law. The legislation significantly changes US tax law by, among other things, lowering corporate income tax rates. The US Tax Act reduces the US corporate income tax rate from a maximum of 35% to a flat 21% rate, effective from 1 January 2018.

Additional disclosures have been presented above, including to the prior period to separate tax reflected directly in equity and tax reflected through OCI.

12. Tax expense continued

On 29 March 2017, the UK government invoked Article 50 of the Treaty of Lisbon, notifying the European Council of its intention to withdraw from the European Union (EU). There is an initial two-year timeframe for the UK and the EU to reach an agreement on the withdrawal and the future UK and EU relationship although this timeframe has been extended. At this stage, there remains significant uncertainty about the withdrawal process; its timeframe; and the outcome of the negotiations about the future arrangements between the UK and the EU. As a result, there is significant uncertainty as to the period for which the existing EU laws for member states will continue to apply to the UK and which laws will apply to the UK after an exit. Following the negotiations between the UK and the EU, the UK's tax status may change and this may impact the Group. However, at this stage the level of uncertainty is such that it is impossible to determine if, how and when that tax status will change.

The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

13. Remuneration of Directors

The remuneration paid to the Directors was:

	2019 £'000	2018 £'000
Aggregate emoluments (including benefits in kind)	1,063	1,284
Company pension contributions	53	53
Share option expense	250	163
	1,366	1,500

During the period there were two Directors accruing benefits under a defined contribution pension scheme (2018: two).

The aggregate emoluments and Company pension contributions of the highest paid Director (excluding fees paid for provision of services) amounted to £509k and £33k respectively during the year (2018: £660k and £33k respectively).

The Directors are deemed to be the key management of the Group.

Disclosures in respect of Directors' emoluments as required by AIM Rules, Directors' interests in shares and Directors' share options are set out in the Report of the Remuneration Committee.

14. Dividends

	2019 £'000	2018 £'000
Dividends paid to the owners of the parent		
Final dividend relating to the prior year	4,383	3,499
Interim dividend paid	2,001	1,773
	6,384	5,272
Dividends paid to NCI	—	3,038
	6,384	8,310

The dividends recorded in each financial year represent the final dividend of the preceding financial year and the interim dividend of the current financial year.

The final dividend relating to the prior year amounted to 17.00p (previous year: 14.00p) per share and the interim dividend paid during the year amounted to 7.70p (previous year: 7.00p) per share. The cumulative dividend paid during the year amounted to 24.70p (previous year: 21.00p) per share.

After the respective reporting dates, the following dividends were proposed by the Directors. The dividends have not been provided for and there are no income tax consequences.

	2019 £'000	2018 £'000
19.3p per ordinary share (2018: 17.00p)	5,049	4,359

Notes continued

15. a) Earnings per ordinary share

Basic

The calculation of basic earnings per share at 28 February 2019 was based on the profit attributable to ordinary shareholders of £13,175k (2018: £10,208k), and a weighted average number of ordinary shares in issue of 25,909k (2018: 25,239k).

	2019 Pence per share	2018 Pence per share
Basic earnings per share	50.9	40.4

Weighted average number of ordinary shares

	2019 Number '000	2018 Number '000
Issued ordinary shares at 1 March	25,641	24,868
Effect of share options exercised	243	367
Effect of shares issued as purchase consideration	24	3
Effect of shares issued as remuneration	1	1
Weighted average number of ordinary shares at 28 February	25,909	25,239

Diluted

The calculation of diluted earnings per share at 28 February 2019 was based on the profit attributable to ordinary shareholders of £13,175k (2018: £10,208k) and a weighted average number of ordinary shares after adjustment for the effects of all dilutive potential ordinary shares of 27,523k (2018: 27,017k).

	2019 Pence per share	2018 Pence per share
Diluted earnings per share	47.9	37.8

Weighted average number of ordinary shares (diluted)

	2019 Number '000	2018 Number '000
Weighted average number of ordinary shares (basic)	25,909	25,239
Effect of dilutive share options in issue	1,614	1,778
Weighted average number of ordinary shares (diluted) at 28 February	27,523	27,017

At 28 February 2019 75 shares (2018: nil) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive and in 2018 200,000 were excluded as the related conditions had not been satisfied. The average market value of the Group's shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the year during which the options were outstanding.

15. b) Earnings before tax per ordinary share

Earnings before tax per share are based on profit before taxation of £16,677k (2018: £12,097k). The number of shares used in this calculation is consistent with note 14(a) above.

	2019 Pence per share	2018 Pence per share
Basic earnings before tax per ordinary share	64.4	47.9
Diluted earnings before tax per ordinary share	60.6	44.8

Reconciliation from earnings per ordinary share to earnings before tax per ordinary share:

	2019 Pence per share	2018 Pence per share
Basic earnings per share	50.9	40.4
Impact of taxation charge	13.5	7.5
Basic earnings before tax per share	64.4	47.9
Diluted earnings per share	47.9	37.8
Impact of taxation charge	12.7	7.0
Diluted earnings before tax per share	60.6	44.8

Earnings before tax per share is presented to facilitate pre-tax comparison returns on comparable investments.

15. c) Adjusted earnings after tax per ordinary share

Adjusted earnings after tax per share is based on an adjusted profit after taxation of £22,912k (2018: £19,505k). The adjusted profit after tax has been calculated by adjusting for the amortisation of acquired intangibles after tax effect of £3,370k (2018: £4,266k), share based payment and related charges after tax effect of £2,003k (2018: £2,430k), acquisition costs after tax effect of £3,838k (2018: £2,852k), share of loss of associate after tax effect of £23k (2018: £70k), the loss on foreign currency translation after tax effect of £503k (2018: £1,110k) and in 2018 the deferred tax credit following the US Tax Reform of £1,431k. The number of shares used in this calculation is consistent with note 15(a) above.

	2019 Pence per share	2018 Pence per share
Adjusted basic earnings after tax per ordinary share	88.4	77.3
Adjusted diluted earnings after tax per ordinary share	83.2	72.2

Notes continued

16. Property, plant and equipment

Group

	Leasehold improvements £'000	Plant and equipment £'000	Office furniture £'000	Total £'000
Cost				
At 1 March 2018	3,622	12,840	869	17,331
Additions	1,470	3,378	331	5,179
Exchange adjustments	–	(67)	1	(66)
At 28 February 2019	**5,092**	**16,151**	**1,201**	**22,444**
Depreciation				
At 1 March 2018	1,696	7,357	564	9,617
Charge for the year	419	2,132	193	2,744
Exchange adjustments	(16)	(64)	1	(79)
At 28 February 2019	**2,099**	**9,425**	**758**	**12,282**

	Leasehold improvements £'000	Plant and equipment £'000	Office furniture £'000	Total £'000
Cost				
At 1 March 2017	2,893	10,582	676	14,151
Additions	819	2,426	198	3,443
Acquired in business combinations	–	6	–	6
Exchange adjustments	(90)	(174)	(5)	(269)
At 28 February 2018	3,622	12,840	869	17,331
Depreciation				
At 1 March 2017	1,239	5,862	422	7,523
Charge for the year	516	1,585	145	2,246
Exchange adjustments	(59)	(90)	(3)	(152)
At 28 February 2018	1,696	7,357	564	9,617
Carrying amounts				
At 1 March 2017	1,654	4,720	254	6,628
At 28 February 2018	1,926	5,483	305	7,714
At 28 February 2019	**2,993**	**6,726**	**443**	**10,162**

The basis by which depreciation is calculated is stated in note 1.

The Group leases equipment under a number of finance lease arrangements. At 28 February 2019 the carrying amount of leased assets included in plant and equipment was £378k (2018: £nil) and related depreciation amounted to £65k (2018: £nil).

Details of security provided for borrowing in respect of property, plant and equipment are disclosed in note 23.

16. Property, plant and equipment continued

Company

	Leasehold improvements £'000	Plant and equipment £'000	Office furniture £'000	Total £'000
Cost				
At 1 March 2018	2,462	3,918	617	6,997
Additions	1,352	375	328	2,055
At 28 February 2019	**3,814**	**4,293**	**945**	**9,052**
Depreciation				
At 1 March 2018	958	1,969	306	3,233
Charge for the year	235	693	165	1,093
At 28 February 2019	**1,193**	**2,662**	**471**	**4,326**

	Leasehold improvements £'000	Plant and equipment £'000	Office furniture £'000	Total £'000
Cost				
At 1 March 2017	1,984	3,119	419	5,522
Additions	478	799	198	1,475
At 28 February 2018	2,462	3,918	617	6,997
Depreciation				
At 1 March 2017	652	1,480	195	2,327
Charge for the year	306	489	111	906
At 28 February 2018	958	1,969	306	3,233
Carrying amounts				
At 1 March 2017	1,332	1,639	224	3,195
At 28 February 2018	1,504	1,949	311	3,764
At 28 February 2019	**2,621**	**1,631**	**474**	**4,726**

The basis by which depreciation is calculated is stated in note 1.

No assets are held under finance leases.

Details of security provided for borrowing in respect of property, plant and equipment are disclosed in note 23.

Notes continued

17. Intangible assets and goodwill

Group

	Goodwill £'000	Customer lists £'000	Acquired software £'000	Brand name £'000	Internally developed software £'000	Total £'000
Cost						
Balance at 1 March 2018	103,903	12,539	27,375	738	51,293	195,848
Development costs	–	–	–	–	8,573	8,573
Additions	–	–	665	–	–	665
Exchange adjustments	3,487	358	628	13	(307)	4,179
At 28 February 2019	**107,390**	**12,897**	**28,668**	**751**	**59,559**	**209,265**
Amortisation						
Balance at 1 March 2018	–	6,783	16,186	505	22,630	46,104
Amortisation for the year	–	1,308	2,437	54	7,214	11,013
Exchange adjustment	–	212	195	7	(231)	183
At 28 February 2019	**–**	**8,303**	**18,818**	**566**	**29,613**	**57,300**

	Goodwill £'000	Customer lists £'000	Acquired software £'000	Brand name £'000	Internally developed software £'000	Total £'000
Cost						
Balance at 1 March 2017	113,436	13,613	28,567	777	43,578	199,971
Development costs	–	–	–	–	7,486	7,486
Additions	–	–	760	–	–	760
Acquired in business combinations	480	44	182	8	–	714
Exchange adjustments	(10,013)	(1,118)	(2,134)	(47)	229	(13,083)
At 28 February 2018	103,903	12,539	27,375	738	51,293	195,848
Amortisation						
Balance at 1 March 2017	–	6,008	13,829	463	16,280	36,580
Amortisation for the year	–	1,344	3,269	71	6,214	10,898
Exchange adjustment	–	(569)	(912)	(29)	136	(1,374)
At 28 February 2018	–	6,783	16,186	505	22,630	46,104
Carrying amounts						
At 1 March 2017	113,436	7,605	14,738	314	27,298	163,391
At 28 February 2018	103,903	5,756	11,189	233	28,663	149,744
At 28 February 2019	**107,390**	**4,594**	**9,850**	**185**	**29,946**	**151,965**

Leased intangible assets

No assets are held under finance leases.

The basis by which amortisation is calculated is stated in note 1. Amortisation is recognised through profit or loss in administration expenses.

Included within development costs capitalised in the year is £8,573k (2018: £7,486k) of capitalised employee costs for the year. Developed software includes £5,774k (2018: £4,917k) of software under development at 28 February 2019 not yet commissioned.

17. Intangible assets and goodwill continued

Group continued

Impairment testing of goodwill

The Group tests goodwill for impairment at each reporting date, or more frequently if there are indications that goodwill might be impaired. For the purposes of impairment testing, goodwill is allocated to companies which represent the lowest level within the Group at which goodwill is monitored. A summary of the goodwill allocated to each significant CGU is presented as follows:

	2019 £'000	2018 £'000
Subsidiaries		
Market Resource Partners LLC	11,389	10,899
Prelytix LLC	5,827	5,575
Kx Systems Inc.	74,106	71,194
	91,322	87,668
Multiple units without significant goodwill	16,068	16,235
	107,390	103,903

The recoverable amount of each CGU has been determined based on a value-in-use calculation using cash flows derived from financial projections covering a five-year period, with cash flows thereafter calculated using a terminal value methodology. A growth rate of 5–10% (2018: 7–10%) is applied for years two to five, followed by a growth rate of 2% (2018: 2%) thereafter. The pre-tax discount rates applied to cash flow projections of the CGUs was 12–17% (2018: 12–20%).

The key assumptions used in the estimation of the recoverable amount for significant CGUs are summarised as follows:

	2019			2018		
	Market Resource Partners LLC	Prelytix LLC	Kx Systems Inc.	Market Resource Partners LLC	Prelytix LLC	Kx Systems Inc.
Discount rate	14%	17%	15%	15%	17%	15%
Terminal value growth rate	2%	2%	2%	2%	2%	2%
Early growth rate	10%	7%	9%	8%	7%	9%

Projected cash flows are most sensitive to assumptions regarding future profitability and working capital investment. The values applied to these key assumptions are derived from a combination of external and internal factors, based on past experience together with management's future expectations about business performance.

Discount rates reflect the current market assessment of the risk specific to each CGU. The discount rate was estimated based on past experience and industry average weighted average cost of capital adjusted to reflect the current market assessment of risks specific to each CGU for which the cash flow projections have not been adjusted.

The value in use and excess value in use over the carrying amount inclusive of significant acquired intangible assets of the above CGUs are as follows:

	Value in use		Excess over carrying amount	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Subsidiaries				
Market Resource Partners LLC	24,428	26,479	11,098	14,094
Prelytix LLC	34,329	33,186	24,772	24,280
Kx Systems Inc.	116,713	103,607	32,093	19,960

Notes continued

17. Intangible assets and goodwill continued

Group continued

Sensitivity analysis

There was no impairment charge for the year ended 28 February 2019 (2018: £nil). Management has identified that a reasonably possible change in two key assumptions could cause the carrying amount to equal the recoverable amount. The following table shows the amounts by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

	Discount rate		Budgeted EBITDA growth rate	
	2019 %	2018 %	2019 %	2018 %
Change required for carrying value to equal recoverable amount				
Market Resource Partners LLC	**7.4**	14.2	**(11.0)**	(18.8)
Prelytix LLC	**53.9**	35.1	**(71.6)**	(56.3)
Kx Systems Inc.	**4.6**	2.9	**(26.1)**	(15.4)

Company

	Goodwill £'000	Acquired software £'000	Internally developed software £'000	Total £'000
Cost				
Balance at 1 March 2018	–	482	36,038	36,520
Development costs	–	–	6,579	6,579
Addition from subsidiary	1,947	–	–	1,947
Balance at 28 February 2019	**1,947**	**482**	**42,617**	**45,046**
Amortisation and impairment losses				
Balance at 1 March 2018	–	151	15,740	15,891
Amortisation for the year	–	60	5,101	5,161
Balance at 28 February 2019	**–**	**211**	**20,841**	**21,052**
Cost				
Balance at 1 March 2017	–	482	30,124	30,606
Development costs	–	–	5,914	5,914
Balance at 28 February 2018	–	482	36,038	36,520
Amortisation and impairment losses				
Balance at 1 March 2017	–	90	11,473	11,563
Amortisation for the year	–	61	4,267	4,328
Balance at 28 February 2018	–	151	15,740	15,891
Carrying amounts				
At 1 March 2017	–	392	18,651	19,043
At 28 February 2018	–	331	20,298	20,629
At 28 February 2019	**1,947**	**271**	**21,776**	**23,994**

Leased intangible assets

No assets are held under finance leases.

The basis by which amortisation is calculated is stated in note 1. Amortisation is recognised through profit or loss in administration expenses.

Included within development costs capitalised in the year is £6,579k (2018: £5,914k) of capitalised employee costs. Developed software includes £4,592k (2018: £2,774k) of software under development at 28 February 2019 not yet commissioned.

17. Intangible assets and goodwill continued
Company continued
Impairment testing of goodwill

Goodwill of £1,947k arose on the transfer of customer contracts for nil consideration to the Company from subsidiaries (Cowrie Financial Limited and Redshift Horizons Limited). The Company tests goodwill for impairment at each reporting date, or more frequently if there are indications that goodwill might be impaired. The recoverable amount of goodwill has been determined based on a value-in-use calculation using cash flows derived from financial projections covering a five-year period, with cash flows thereafter calculated using a terminal value methodology. A growth rate of 5–10% (2018: N/A) is applied for years two to five, followed by a growth rate of 2% (2018: N/A) thereafter. The pre-tax discount rates applied to cash flow projections of the goodwill was 12% (2018: N/A). There was no impairment charge for the year ended 28 February 2019 (2018: £nil).

18. Investment in subsidiaries and associate

The subsidiaries of the Group and Company are detailed as follows:

	Address of registered office	Class of share held	Ownership 2019	Ownership 2018
Activate Clients Limited*	Ireland	Ordinary	100%	100%
Cowrie Financial Limited*	United Kingdom	Ordinary	100%	100%
First Derivatives (Exchange) Limited*	Ireland	Ordinary	100%	100%
First Derivatives (Hong Kong) Limited*	Hong Kong	Ordinary	100%	100%
First Derivatives (Ireland) Limited*	Ireland	Ordinary	100%	100%
First Derivatives Canada Inc.*	Canada	Ordinary	100%	100%
First Derivatives Holdings Inc.*	United States	Ordinary	100%	100%
First Derivatives Holdings Pty Limited*	Australia	Ordinary	100%	100%
First Derivatives I Limited	United Kingdom	Ordinary	100%	100%
First Derivatives Investments LLP	United Kingdom	Ordinary	100%	100%
First Derivatives Japan Co. Limited	Japan	Ordinary	100%	100%
First Derivatives Mexico Limited	Mexico	Ordinary	100%	100%
First Derivatives No. 1 Inc.	United States	Ordinary	100%	100%
First Derivatives Pte Limited*	Singapore	Ordinary	100%	100%
First Derivatives Pty Limited	Australia	Ordinary	100%	100%
First Derivatives Services Limited	United Kingdom	Ordinary	100%	100%
First Derivatives South Africa (Pty) Limited*	South Africa	Ordinary	100%	100%
First Derivatives South Korea	South Korea	Ordinary	100%	–
First Derivatives US Inc	United States	Ordinary	100%	100%
Kx Systems Inc.*	United States	Ordinary	65.2%	65.2%
Market Resource Partners Limited*	N. Ireland	Ordinary	100%	100%
Market Resource Partners LLC*	United States	Ordinary	100%	100%
Prelytix LLC	United States	Ordinary	100%	100%
QuantumKDB Inc	United States	Ordinary	100%	100%
QuantumKDB Limited	Hong Kong	Ordinary	100%	100%
QuantumKDB Limited*	United Kingdom	Ordinary	100%	100%
Redshift Horizons Limited*	United Kingdom	Ordinary	100%	100%
Reference Data Factory LLC	United States	Ordinary	100%	100%
Telconomics09 S.L	Spain	Ordinary	100%	100%

* Owned directly by First Derivatives plc.

Notes continued

18. Investment in subsidiaries and associate continued

	Company 2019 £'000	Company 2018 £'000
Unlisted investments in subsidiaries at cost		
At 1 March	95,329	83,023
Additions	40,082	12,306
Transfers to Company goodwill	(1,947)	–
At end of period	133,464	95,329

On 28 December 2018 First Derivatives South Korea was established expanding the Group's presence in Asia.

During the year two of the Company's subsidiaries transferred their business to the Company. Additionally, the Company's investment has increased by £39,911k following the NCI's shareholders' exercise of the NCI put which will be settled on 29 June 2019. The NCI shareholders are considered to have in substance ceased to be shareholders of the subsidiary. The Company has also recognised the fair value of the exercise price as a liability as detailed in note 24.

During the prior year the Company increased its investment in First Derivatives Canada Inc., First Derivatives Pty Limited and Market Resource Partners LLC by £2,490k, £3,576k and £4,563k respectively following receipt of additional ordinary shares in exchange for settlement of a receivable from the subsidiaries of £2,490k, £3,576k and £4,563k respectively.

Associate
Group

	2019 £'000	2018 £'000
Investment in associate	2,711	2,631

At 28 February 2019, the Group had the following investment in an associate:

	Country of incorporation	Class of share held	Ownership at 28 February 2019
RxDataScience Inc.	United States	Ordinary	36.66%

During the prior year the Group increased its interest in RxDataScience Inc. (RxD) to 31.00% on 20 April 2017, to 35.00% on 12 October 2017 and then to 36.66% on 19 January 2018. RxD is not publicly listed.

The Group's share of loss in associates for the period to 28 February 2019 was £23k (2018: £70k).

The following tables summarise the financial information of RxD as included in its own financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies.

	2019 £'000	2018 £'000
Percentage ownership interest	36.66%	36.66%
Non-current assets	2,253	1,768
Current assets	332	801
Non-current liabilities	–	–
Current liabilities	(134)	(10)
Net assets (100%)	2,451	2,559
Group's share of net assets (36.66%) (2018: 36.66%)	899	938
Goodwill	1,709	1,709
Exchange adjustments	103	(16)
Carrying amount of interest in associate	2,711	2,631

18. Investment in subsidiaries and associate continued

Associate continued

Group continued

	2019 £'000	2018 £'000
Revenue	**863**	197
Loss from continuing operations (100%)	**(63)**	(221)
Other comprehensive income (100%)	**–**	–
Total comprehensive income (100%)	**(63)**	(221)
Total comprehensive income (36.66%) (2018: 36.66%)	**(23)**	(70)

At the year end the Group holds 56,142 (2018: 56,142) warrants which are exercisable on the occurrence of an exit event at an exercise price of $0.01 per warrant.

19. Other financial assets

The effect of initially applying IFRS 9 on the Group and Company financial investments is described in note 1a. Due to the transition method chosen on applying IFRS 9, comparative information has not been restated to reflect the new requirements.

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Non-current investments				
Equity securities at FVOCI	**13,706**	–	**12,776**	–
Equity securities – available for sale	**–**	3,433	**–**	3,308
	13,706	3,433	**12,776**	3,308

Information about the Group and Company's exposure to market risk and fair value measurement is disclosed in note 32(b).

No strategic investments were disposed of during the current year, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

Equity securities designated at FVOCI

At 1 March 2018, the Group designated the investments shown below as equity securities at FVOCI because these equity securities represent investments that the Group intends to hold for the long term for strategic purposes. In the prior year, these investments were classified as available for sale.

	Group Fair value £'000	Company Fair value £'000
Investment in Quantile Technologies Ltd	9,500	9,500
Investment in Copa Fin	3,276	3,276
Other investments not individually significant	930	–
	13,706	**12,776**

The Group and Company have not recognised dividend income from their investments (2018: £nil).

Notes continued

20. Trade and other receivables

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Current assets				
Trade receivables	38,519	37,929	24,368	22,835
Receivables from subsidiaries	–	–	19,643	11,245
Convertible loans	2,087	–	–	–
Other receivables	2,751	3,301	2,523	2,744
Accrued income	7,234	6,187	1,047	2,133
Prepayments	5,993	4,419	5,060	4,239
Grant income receivable	1,331	1,010	301	51
	57,915	52,846	52,942	43,247

	Group 2019 £'000	Group 2018 Restated[2] £'000	Company 2019 £'000	Company 2018 Restated[2] £'000
Non-current assets				
Receivables from subsidiaries[1]	–	–	17,163	8,920
Convertible loans	1,376	1,944	376	323
Other loans	942	650	762	650
Trade and other receivables	3,357	3,685	3,357	3,686
Grant income receivable	45	315	–	–
	5,720	6,594	21,658	13,579

1 The repayment terms of the receivable from certain subsidiaries have been agreed as falling due after more than one year.

2 Comparative balances restated to separate convertible and other loans from trade and other receivables.

The Group's accrued income (contract asset) balance solely relates to revenue from contracts with customers. Movements in the accrued income balance was driven by transactions entered into by the Group within the normal course of business in the year.

Trade receivables, accrued income, non-current other receivables and non-convertible loans are shown net of an allowance for expected credit loss; this is disclosed in note 32.

The Group's and Company's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in note 32.

21. Cash and cash equivalents

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Bank balances	18,798	12,365	14,760	4,013

See note 32 for discussion of interest rate risk and sensitivity analysis.

22. Share capital

	Ordinary shares 2019 Number	Ordinary shares 2018 Number
In issue at 1 March	**25,641,015**	24,868,379
Exercise of share options (note 34)	**393,100**	759,297
Issued in business combinations (note 3)	**–**	12,199
Issued for settlement of contingent deferred consideration	**127,400**	–
Issued as remuneration	**743**	1,140
In issue at year end – fully paid	**26,162,258**	25,641,015

	2019 Number	2019 £'000	2018 Number	2018 £'000
Equity shares				
Issued, allotted and fully paid				
Ordinary shares of £0.005 each	**26,162,258**	**131**	25,641,015	128

Shares increased in the year due to the exercise of 393,100 share options (2018: 759,297) for cash consideration of £3,147k (2018: £7,119k) together with an associated transfer from the share option reserve of £684k (2018: £1,427k), the issue of 127,400 shares (2018: nil) at £2,701k as settlement of contingent deferred purchase consideration and the issue of 743 shares (2018: 1,140) as remuneration of £29k (2018: £28k). Additionally, in the prior year 12,199 ordinary shares were issued as purchase consideration at £441k.

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

Nature and purpose of reserves

Share option reserve – The share option reserve comprises the charge for unexercised share options granted to employees and includes share options granted in consideration for the acquisition of business combinations net of deferred tax assets relating to the tax deduction receivable when the options are exercised.

Currency translation adjustment reserve – The currency translation adjustment reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations and intercompany loans that are determined to form part of the net investment, as well as from the translation of liabilities that hedge the Group's net investment in a foreign subsidiary.

Fair value reserve – The fair value reserve comprises the cumulative net change in the fair value of equity securities designated at FVOCI (2018: available for sale financial assets). Additionally, the fair value reserve of the Company relates to the revaluation reserve which arose on revaluation of an available for sale investment at fair value relating to Kx Systems Inc. prior to significant influence being obtained. The balance is continued to be retained as the Company continues to retain this original investment.

Merger reserve – The merger reserve represents the fair value of the consideration given in excess of the nominal value of the ordinary shares issued on the acquisition of subsidiaries (interest of at least 90%) on share for share exchanges.

23. Loans and borrowings

This note provides information about the contractual terms of the Group and Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group and Company's exposure to interest rate, foreign currency and liquidity risk arising from these loans and borrowings see note 32.

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Current liabilities				
Secured bank loans	34,909	3,339	34,909	3,339
Finance lease liabilities	89	7	–	–
	34,998	3,346	34,909	3,339
Non-current liabilities				
Secured bank loans	–	25,205	–	25,205
Finance lease liabilities	289	–	–	–
	289	25,205	–	25,205

Terms and repayment schedule

The Group had the following loan facilities with Bank of Ireland at the end of the year:

- £339k loan (facility 1);
- £29,625k multi-currency loan (facility 2);
- £15,000k revolving cash facility (facility 3); and
- £6,000k sterling overdraft (bank overdraft).

During the current year the Group agreed bank facilities totalling £130,000k:

- £65,000k multi-currency loan (term loan); and
- £65,000k revolving cash loan (revolving loan).

These facilities were undrawn as at 28 February 2019.

The terms and conditions of outstanding loans were as follows:

				2019		2018	
	Currency	Nominal interest rate	Year of maturity	Face value £'000	Carrying amount £'000	Face value £'000	Carrying amount £'000
Facility 1	GBP	2.25%+LIBOR	2019	339	339	339	339
Facility 2	Multi	2.25%+LIBOR[1]	2020	20,370	20,370	22,905	22,905
Facility 3	GBP	2.25%+LIBOR[1]	2019	14,200	14,200	5,300	5,300
Bank overdraft	GBP	2.25%+LIBOR	2019	–	–	–	–
Term loan	Multi	2.75%+LIBOR[2]	2024	–	–	–	–
Revolving loan	Multi	2.75%+LIBOR[2]	2024	–	–	–	–
Finance lease liabilities	USD	5.925%	2024	378	378	7	7
Total interest bearing				35,287	35,287	28,551	28,551

1 The nominal interest rate varies as the Group meets financial targets and these have been assessed as being closely linked to the underlying contract with a minimum rate available of 2.25%+LIBOR.

2 The term loan and the revolving loan facility will have an interest rate for the first twelve months of LIBOR plus 2.75% following this; the nominal interest rate varies as the Group meets financial targets with a minimum rate available of 2.00%+LIBOR.

Facilities 1, 2, 3 and the bank overdraft are secured by a fixed charge over the Group's property with a carrying amount of £2,993k (2018: £1,926k) and a debenture over the trading assets in Group companies and have interest charged at 2.25% (2018: 2.25%) above LIBOR. The term and revolving loans are secured by a fixed charge over certain subsidiaries of the Group and have interest charged at 2.75% above LIBOR.

23. Loans and borrowings continued

Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	2019 Minimum lease payments £'000	2019 Interest £'000	2019 Principal £'000	2018 Minimum lease payments £'000	2018 Interest £'000	2018 Principal £'000
Less than one year	**103**	**14**	**89**	8	1	7
Between one and five years	**335**	**46**	**289**	–	–	–
	438	**60**	**378**	8	1	7

The finance leases are secured over the leased equipment.

Reconciliation of movements of liabilities to cash flows arising from financing activities

Group	2018 £'000	New finance leases £'000	Cash flows £'000	Non-cash foreign exchange movement £'000	2019 £'000
Secured bank loans	28,544	–	5,342	1,023	**34,909**
Lease liabilities	7	419	(48)	–	**378**
Total liabilities from financing activities	28,551	419	5,294	1,023	**35,287**

	2017 £'000	New finance leases £'000	Cash flows £'000	Non-cash foreign exchange movement £'000	2018 £'000
Secured bank loans	29,692	–	1,550	(2,698)	28,544
Lease liabilities	69	–	(62)	–	7
Total liabilities from financing activities	29,761	–	1,488	(2,698)	28,551

Company	2017 £'000	Cash flows £'000	Non-cash foreign exchange movement £'000	2018 £'000	Cash flows £'000	Non-cash foreign exchange movement £'000	2019 £'000
Secured bank loans	29,692	1,550	(2,698)	28,544	5,342	1,023	**34,909**
Total liabilities from financing activities	29,692	1,550	(2,698)	28,544	5,342	1,023	**34,909**

24. Trade and other payables

Current liabilities

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Trade payables	**6,638**	6,444	**4,727**	4,611
Other payables	**10,191**	10,445	**8,326**	8,248
Accruals	**699**	1,967	**661**	1,775
Deferred income	**19,537**	14,928	**6,186**	4,450
Government grants	**390**	286	**248**	147
Payables to subsidiaries	**–**	–	**36,218**	17,786
NCI forward	**40,091**	–	**40,091**	–
	77,546	34,070	**96,457**	37,017

Notes continued

24. Trade and other payables continued

Non-current liabilities

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
NCI put	–	30,036	–	–
Government grants	2,597	2,091	1,527	1,071
Accruals	703	–	–	–
	3,300	32,127	1,527	1,071

The NCI put at 28 February 2018 was the exercise price of the put (denominated in US dollars) for the remaining NCI of 34.8% of Kx Systems Inc. under which the holders could require the Company to purchase the remaining interest at a fixed price up to 31 October 2021 for cash with a notice period of 366 days. During the current year the Company renegotiated the agreement with the minority shareholders to include a premium of US$12m if the put was exercised before 28 June 2018. The put was exercised on 28 June 2018 and the transaction will be completed on 29 June 2019. At the date of exercise, the Group recognised an adjustment to remeasure the NCI put to the fair value of the exercise price with a corresponding charge recognised directly in equity in accordance with the Group's accounting policy. The Company recognised the forward contract as a liability as at 28 June 2018 at the fair value of the exercise price.

Following the exercise of the NCI put, the Group and Company account for the instrument as a forward contract with any subsequent changes in the fair value, including changes due to foreign exchange movements, recognised in finance income or expense.

The Group's deferred income (contract liability) balance solely relates to revenue from contracts with customers. Movements in the deferred income balance were driven by transactions entered into by the Group within the normal course of business in the year.

The Group and Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 32.

25. Deferred taxation

Group

Deferred tax assets and liabilities are attributable to the following:

	Assets 2019 £'000	Assets 2018 £'000	Liabilities 2019 £'000	Liabilities 2018 £'000
Property, plant and equipment	–	–	(5,066)	(4,545)
Share based payments	1,806	7,269	–	–
Trading losses	11,311	9,022	–	–
Other financial assets at fair value	58	–	(793)	–
Intangible assets	243	341	(4,968)	(5,266)
Short-term temporary differences	1,699	1,461	–	–
Other	235	260	–	–
Tax assets/(liabilities) before set-off	15,352	18,353	(10,827)	(9,811)
Set-off of tax	–	–	–	–
Net tax assets/(liabilities)	15,352	18,353	(10,827)	(9,811)

25. Deferred taxation continued

Group continued

Movement in deferred tax balances differences during the year:

	Balance at 1 March 2018 £'000	Impact of change in accounting policy £'000	Recognised in income £'000	Recognised in equity £'000	Recognised in OCI £'000	**Balance at 28 February 2019 £'000**
Property, plant and equipment	(4,545)	–	(571)	–	50	**(5,066)**
Share based payments	7,269	–	20	(5,483)	–	**1,806**
Trading losses	9,022	323	905	1,063	(2)	**11,311**
Other financial assets at fair value	–	–	–	–	(735)	**(735)**
Intangible assets	(4,925)	–	429	–	(229)	**(4,725)**
Short-term temporary differences	1,461	–	187	–	51	**1,699**
Other	260	–	(36)	–	11	**235**
	8,542	323	934	(4,420)	(854)	**4,525**

	Balance at 1 March 2017 £'000	Recognised in income £'000	Recognised in equity £'000	Recognised in OCI £'000	Recognised on acquisition £'000	Balance at 28 February 2018 £'000
Property, plant and equipment	(4,234)	(324)	–	13	–	(4,545)
Share based payments	4,204	(23)	3,088	–	–	7,269
Trading losses	6,177	1,204	823	522	296	9,022
Intangible assets	(8,330)	1,678	–	1,785	(58)	(4,925)
Short-term temporary differences	3,906	(722)	–	(1,723)	–	1,461
Other	204	473	–	(417)	–	260
	1,927	2,286	3,911	180	238	8,542

The basis by which taxation is calculated is stated in note 1.

As at 28 February 2019, the Group has losses carried forward generated in the United Kingdom, Ireland, Canada, Australia, South Africa and Spain which total £45m and have no expiration period.

The Group also has US federal and state income tax net operating loss (NOL) carryforwards of £14,306k and £9,631k which will expire, if not utilised, in the tax years 2030–2039.

The Group has provided a valuation allowance of £4m on the deferred tax assets related to federal and state NOL carryforwards in one of the US entities as it is not expected to generate taxable profits to utilise the NOLs. If there is a change and it is determined that the entity will be able to realise these NOLs, then additional deferred tax assets and a related income tax benefit of up to £805k could be recognised.

The Group has carryforward losses in a Hong Kong entity of £153k (2018: £nil) on which a deferred tax asset has not been recognised as the entity is not expected to generate taxable profits to utilise these losses. If there is a change and it is determined that the entity will be able to realise these losses, then additional deferred tax assets and a related income tax benefit of up to £25k could be recognised.

Notes continued

25. Deferred taxation continued

Company

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Property, plant and equipment	**–**	–	**(3,581)**	(3,326)
Share based payments	**1,736**	6,888	**–**	–
Net fair value movement on available for sale assets	**–**	–	**–**	(32)
Trading losses	**6,360**	5,072	**–**	–
Other financial assets at fair value	**58**	–	**(825)**	–
Other	**330**	308	**–**	–
Tax assets/(liabilities) before set-off	**8,484**	12,268	**(4,406)**	(3,358)
Set-off of tax	**–**	–	**–**	–
Net tax assets/(liabilities)	**8,484**	12,268	**(4,406)**	(3,358)

Movement in deferred tax balances during the year:

	Balance at 1 March 2018 £'000	Impact of change in accounting policy £'000	Recognised in profit and loss £'000	Recognised in equity £'000	Recognised in OCI £'000	**Balance at 28 February 2019 £'000**
Property, plant and equipment	(3,326)	–	(255)	–	–	**(3,581)**
Share based payments	6,888	–	34	(5,186)	–	**1,736**
Net fair value movement on available for sale assets	(32)	32	–	–	–	**–**
Trading losses	5,072	89	–	1,199	–	**6,360**
Other financial assets at fair value	–	(32)	–	–	(735)	**(767)**
Other	308	–	22	–	–	**330**
	8,910	89	(199)	(3,987)	(735)	**4,078**

	Balance at 1 March 2017 £'000	Recognised in profit and loss £'000	Recognised in equity £'000	Balance at 28 February 2018 £'000
Property, plant and equipment	(3,126)	(200)	–	(3,326)
Share based payments	3,649	(23)	3,262	6,888
Net fair value movement on available for sale assets	(32)	–	–	(32)
Trading losses	4,268	–	804	5,072
Other	124	184	–	308
	4,883	(39)	4,066	8,910

The basis by which taxation is calculated is stated in note 1. There are no unprovided or unrecognised deferred tax balances.

26. Current tax

	Group		Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Current tax receivable	**1,461**	872	**1,337**	872
Current tax payable	**1,004**	1,195	**–**	–

27. Employee benefits

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Accrued holiday pay	**1,825**	1,832	**1,476**	1,448
Employee taxes	**4,120**	3,179	**3,643**	2,851
	5,945	5,011	**5,119**	4,299

28. Contingent deferred consideration

Contingent deferred consideration liabilities are payable as follows:

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
At 1 March	**5,688**	4,028	**1,038**	500
Increase in contingent deferred consideration	**3,230**	2,980	**3,289**	1,038
Settled in year	**(8,018)**	(897)	**(3,259)**	(500)
Foreign exchange impact	**171**	(423)	**3**	–
At end of period	**1,071**	5,688	**1,071**	1,038

The movement in contingent deferred consideration relates to the charge for the year for amounts conditional on future service conditions, assessed as being post-acquisition remuneration, and is payable in cash and a variable number of shares to the current value of the liability. The earn-out period for remaining contingent deferred consideration ended during the current year and is due to be settled subsequent to year end. As at 28 February 2019 the amount payable in respect of this was £1,071k (2018: the maximum total amount payable was £5,688k and the minimum total amount payable was £nil).

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Within one year	**1,071**	5,688	**1,071**	1,038
More than one year	**–**	–	**–**	–
	1,071	5,688	**1,071**	1,038

The amount of contingent deferred consideration was variable dependent on the future performance of the relevant subsidiary meeting specified turnover targets and is payable in cash 0% (2018: 55%) and shares 100% (2018: 45%).

29. Commitments

The Group previously entered into a contingent loan commitment with an associate of up to £1.1m. As at 28 February 2019 £1.1m remained committed (2018: £1.1m). There were no capital or other commitments at the current or prior year end.

Non-cancellable operating lease rentals are payable as follows:

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Less than one year	**3,271**	3,063	**1,510**	1,183
Between one and five years	**11,653**	10,072	**5,767**	4,446
More than five years	**12,503**	11,864	**5,934**	6,456
	27,427	24,999	**13,211**	12,085

The Group leases 17 premises under operating lease arrangements.

Group

During the year £3,528k was recognised as an expense in the income statement in respect of operating leases (2018: £2,556k).

Company

During the year £1,457k was recognised as an expense in the income statement in respect of operating leases (2018: £944k).

30. Pension contributions

The Group makes contributions to the personal pension schemes of certain employees. The pension charge for the year amounted to £4,065k (2018: £3,401k). Contributions amounting to £584k (2018: £411k) were payable to the schemes at the year end and are included in creditors.

31. Related party transactions

Parent and ultimate controlling party

There is no one party which is the ultimate controlling party of the Group and Company.

Group

Key management personnel compensation

Key management personnel have been deemed to be the Directors of the Company. The remuneration of the Directors is set out in note 13.

The Group is charged rent monthly for the business use of apartments located in London owned by Brian Conlon. The charge incurred during the financial year amounted to £55k (2018: £55k). Rent deposits of £26k (2018: £26k) have been paid to Brian Conlon in respect of these apartments. The balance owed to Brian Conlon at 28 February 2019 is £nil (2018: £nil).

A 15-year lease was previously entered into for the rental of office space for the head office in Newry. The lessor is Oncon Properties, a partnership in which Brian Conlon is a partner. A £148k (2018: £140k) rental charge was incurred in the year. The balance owed to Oncon Properties at 28 February 2019 is £nil (2018: £nil) and an amount of £168k (2018: £168k) had been prepaid.

During the current year, a 15-year lease was entered into for the rental of additional office space in Newry. The lessor is Marcus Square Developments Limited, a private limited company in which Brian Conlon is a director. A £199k (2018: £nil) rental charge was incurred in the year. The balance owed to Marcus Square Developments Limited at 28 February 2019 is £nil (2018: £nil).

During the current year, a 15-year lease was entered into for the rental of office space in Belfast. The lessor is Armagh House Limited, a private limited company in which Brian Conlon is a director, and was acquired by Marcus Square Developments Limited during the year. A £405k (2018: £nil) rental charge was incurred in the year. The balance owed to Armagh House Limited at 28 February 2019 is £nil (2018: £nil) and an amount of £567k (2018: £nil) had been prepaid.

The Group holds an interest in an associate, together with other instruments as disclosed in note 18.

Company

Other related party transactions

	Sales to subsidiaries		Costs charged by subsidiaries	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Subsidiaries	13,709	8,488	29,462	22,976

	Receivables outstanding		Payables outstanding	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Subsidiaries	36,806	20,165	36,218	17,786

Development costs of £419k (2018: £281k) were recharged from a subsidiary to the Company.

Interest is charged on intercompany loans at market rates.

Dividends paid by the Company to the Directors during the period were as follows:

	2019 £'000	2018 £'000
B G Conlon	1,940	1,649
R G Ferguson	25	24
K MacDonald	11	10
S Keating	6	5
V Gambale	3	2
D Troy	–	–
	1,985	1,690

32. Financial instruments

Fair values

a) Accounting classifications and fair values

Group

The following table shows the carrying amounts and fair values of financial assets and liabilities. The carrying amount of all financial assets and liabilities not measured at fair value is considered to be a reasonable approximation of fair value.

	Carrying value						
28 February 2019	FVTPL £'000	FVOCI £'000	Financial assets at amortised cost £'000	Other financial liabilities £'000	Total £'000	Fair value £'000	Level
Financial assets measured at fair value							
Equity securities	–	13,706	–	–	13,706	13,706	3
Warrants in associate[2]	–	–	–	–	–	–	
Convertible loans	3,463	–	–	–	3,463	3,463	3
	3,463	13,706	–	–	17,169	17,169	
Financial assets not measured at fair value							
Trade and other receivables	–	–	54,179	–	54,179	[1]	
Cash and cash equivalents	–	–	18,798	–	18,798	[1]	
	–	–	72,977	–	72,977		
Financial liabilities measured at fair value							
Contingent deferred consideration	1,071	–	–	–	1,071	1,071	2
Other derivatives[2]	–	–	–	–	–	–	
	1,071	–	–	–	1,071	1,071	
Financial liabilities not measured at fair value							
Secured bank loans	–	–	–	34,909	34,909	[1]	
Finance leases	–	–	–	378	378	[1]	
Trade, accruals and other payables	–	–	–	58,322	58,322	[1]	
Employee benefits	–	–	–	1,825	1,825	[1]	
	–	–	–	95,434	95,434		

1 Fair value not disclosed as the carrying amounts are considered to be a reasonable approximation of fair value.

2 Derivatives assessed as having minimal value.

Notes continued

32. Financial instruments continued
Fair values continued
a) Accounting classifications and fair values continued
Group continued

28 February 2018	Carrying value: Loans and receivables Restated* £'000	Carrying value: Liabilities at amortised cost Restated* £'000	Carrying amount Restated* £'000	Fair value £'000	Level
Financial assets measured at fair value					
Equity securities – available for sale	–	–	3,433	3,433	3
Warrants in associate[2]	–	–	–	–	
	–	–	3,433	3,433	
Financial assets not measured at fair value					
Trade and other receivables	55,021	–	55,021	[1]	
Cash and cash equivalents	12,365	–	12,365	[1]	
	67,386	–	67,386		
Financial liabilities measured at fair value					
Contingent deferred consideration	–	–	(5,688)	(5,688)	3
Other derivatives[2]	–	–	–	–	
	–	–	(5,688)	(5,688)	
Financial liabilities not measured at fair value					
Secured bank loans	–	(28,544)	(28,544)	[1]	
Finance leases	–	(7)	(7)	[1]	
Trade, accruals and other payables	–	(48,892)	(48,892)	[1]	
Employee benefits	–	(1,832)	(1,832)	[1]	
	–	(79,275)	(79,275)		

1 Fair value not disclosed as the carrying amounts are considered to be a reasonable approximation of fair value.

2 Derivatives assessed as having minimal value.

* Comparative balances restated to exclude tax balances (trade and other receivables: £872k; employee benefits: £3,179k) as they are not in scope of IFRS 13 and 7 disclosures.

32. Financial instruments continued

Fair values continued

a) Accounting classifications and fair values continued

Company

The following table shows the carrying amounts and fair values of financial assets and liabilities. The carrying amount of all financial assets and liabilities not measured at fair value is considered to be a reasonable approximation of fair value.

	Carrying value						
28 February 2019	FVTPL £'000	FVOCI £'000	Financial assets at amortised cost £'000	Other financial liabilities £'000	Total £'000	Fair value £'000	Level
Financial assets measured at fair value							
Equity securities	–	12,776	–	–	12,776	12,776	3
Convertible loans	376	–	–	–	376	376	3
	376	12,776	–	–	13,152	13,152	
Financial assets not measured at fair value							
Trade and other receivables	–	–	69,164	–	69,164	[1]	
Cash and cash equivalents	–	–	14,760	–	14,760	[1]	
	–	–	83,924	–	83,924		
Financial liabilities measured at fair value							
Contingent deferred consideration	1,071	–	–	–	1,071	1,071	2
Derivatives[2]	–	–	–	–	–	–	
	1,071	–	–	–	1,071	1,071	
Financial liabilities not measured at fair value							
Secured bank loans	–	–	–	34,909	34,909	[1]	
Trade, accruals and other payables	–	–	–	90,023	90,023	[1]	
Employee benefits	–	–	–	1,476	1,476	[1]	
	–	–	–	126,408	126,408		

1 Fair value not disclosed as the carrying amounts are considered to be a reasonable approximation of fair value.

2 Derivatives assessed as having minimal value.

Notes continued

32. Financial instruments continued
Fair values continued
a) Accounting classifications and fair values continued
Company continued

28 February 2018	Carrying value Loans and receivables Restated* £'000	Carrying value Liabilities at amortised cost Restated* £'000	Carrying amount Restated* £'000	Fair value £'000	Level
Financial assets measured at fair value					
Equity securities – available for sale	–	–	3,308	3,308	3
Financial assets not measured at fair value					
Trade and other receivables	52,587	–	52,587	1	
Cash and cash equivalents	4,013	–	4,013	1	
	56,600	–	56,600		
Financial liabilities measured at fair value					
Contingent deferred consideration	–	–	(1,038)	(1,038)	3
Derivatives[2]	–	–	–	–	
	–	–	(1,038)	(1,038)	
Financial liabilities not measured at fair value					
Secured bank loans	–	(28,544)	(28,544)	1	
Trade, accruals and other payables	–	(32,420)	(32,420)	1	
Employee benefits	–	(1,448)	(1,448)	1	
	–	(62,412)	(62,412)		

1 Fair value not disclosed as the carrying amounts are considered to be a reasonable approximation of fair value.

2 Balance relates to NCI put over the Group's subsidiary which is recognised at immaterial value as the agreed price was equal to the fair value of the underlying investment.

* Comparative balances have been restated to exclude tax balances (trade and other receivables: £872k, employee benefits: £2,851k) as they are not in scope of IFRS 13 and 7 disclosures.

b) Measurement of fair values
The following techniques have been applied in measuring Level 3 fair values, together with the significant unobservable inputs used.

Financial instruments at fair value
Equity investments and convertible loans – The Group and Company have invested in a number of investments in unlisted companies and a venture capital fund. The Group and Company have applied a discounted cash flow valuation technique to assess the fair value of the unlisted companies and convertible loans as at year end.

The valuation model calculates the equity value considering the forecast revenue and costs, together with forecast exit value after applying market multiples and discounted using a risk-adjusted discount rate.

Significant inputs	Range in inputs 2019	Range in inputs 2018	Change in input	Impact on fair value 2019 £'000	Impact on fair value 2018 £'000
Forecast annual revenues – with adjustments applied to Company forecasts	10–50%	10–50%	+/(-)15%	3,180/(3,184)	1,649/(1,649)
Risk-adjusted discount rate	30–50%	40–45%	-/(+)5%	3,381/(2,695)	1,188/(897)
Market multiple exit values – revenue	2.5–5x	2.5–5x	+/(-)15%	1,967/(1,967)	482/(482)

32. Financial instruments continued

Fair values continued

b) Measurement of fair values continued

Financial instruments at fair value continued

Warrants – The Group holds warrants in the associate. These were considered at 28 February 2019 and 28 February 2018 to have a minimal fair value due to the contingent nature.

Contingent deferred consideration – The Group and Company have agreed to pay additional consideration dependent on the relevant subsidiary achieving certain performance targets post-acquisition. The earn-out period for remaining contingent deferred consideration ended during the current year with the carrying value reflecting final amounts payable.

Reconciliation of Level 3 fair value:

Group

	Convertible loans £'000	Unquoted equities £'000	Contingent consideration £'000
Balance at 1 March 2017		3,121	(4,028)
Purchases		312	–
Settlements		–	897
Charge included in profit or loss			
– Change in fair value (unrealised)		–	(2,980)
Foreign exchange loss		–	423
Balance at 28 February 2018/1 March 2018	–[1]	3,433	(5,688)
Adjustment on initial application of IFRS 9	1,944	–	–
Balance at 1 March 2018 under IFRS 9	1,944	3,433	(5,688)
Purchases	–	5,951	–
Advances	1,505	–	–
Settlements	–	–	8,018
Charge included in profit or loss			
– Change in fair value (unrealised)	–	–	(3,230)
Gain included in OCI			
– Change in fair value (unrealised)	–	4,322	–
Foreign exchange gain	14	–	(171)
Transfer out of Level 3	–	–	1,071
Balance at 28 February 2019	3,463	13,706	–

1 Under IAS 39 the conversion feature was a derivative which was separately recognised FVTPL and as at 28 February 2018 was assessed as having minimal value.

Transfer out of Level 3

The remaining contingent deferred consideration was transferred out of Level 3 to Level 2 fair value as the earn-out period for remaining contingent deferred consideration ended during the current year. The carrying value reflects final amounts payable and is due to be settled subsequent to year end.

Notes continued

32. Financial instruments continued
Fair values continued
b) Measurement of fair values continued
Reconciliation of Level 3 fair value continued:
Company

	Convertible loans £'000	Unquoted equities £'000	Contingent consideration £'000
Balance at 1 March 2017		3,121	–
Purchases		187	–
Settlements		–	–
Charge included in profit or loss			
– Change in fair value (unrealised)		–	(1,079)
Foreign exchange loss		–	41
Balance at 28 February 2018/1 March 2018	–[1]	3,308	(1,038)
Adjustment on initial application of IFRS 9	323	–	–
Balance at 1 March 2018 under IFRS 9	323	3,308	(1,038)
Purchases	–	5,146	–
Advances	39	–	–
Settlements	–	–	3,259
Charge included in profit or loss			
– Change in fair value (unrealised)	–	–	(3,289)
Gain included in OCI			
– Change in fair value (unrealised)	–	4,322	–
Foreign exchange gain	14	–	(3)
Transfer out of Level 3	–	–	1,071
Balance at 28 February 2019	**376**	**12,776**	**–**

1 Under IAS 39 the conversion feature was a derivative which was separately recognised FVTPL and as at 28 February 2018 was assessed as having minimal value.

Transfer out of Level 3

The remaining contingent deferred consideration was transferred out of Level 3 to Level 2 fair value as the earn-out period for remaining contingent deferred consideration ended during the current year. The carrying value reflects final amounts payable and is due to be settled subsequent to year end.

Exposure to credit risk
The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date:

	Group Carrying amount		Company Carrying amount	
	2019 £'000	2018 Restated* £'000	**2019 £'000**	2018 Restated* £'000
Trade and other receivables	**54,179**	53,077	**69,164**	52,264
Cash and cash equivalents	**18,798**	12,365	**14,760**	4,013
Convertible loans	**3,463**	1,944	**376**	323
	76,440	67,386	**84,300**	56,600

* Comparative balances have been restated to exclude corporation tax receivable and separate convertible and other loans from trade and other receivables.

32. Financial instruments continued

Exposure to credit risk continued

The maximum exposure to credit risk for trade and other receivables and convertible loans at the reporting date by geographical region:

	Group		Company	
	2019 £'000	2018 Restated* £'000	2019 £'000	2018 Restated* £'000
Europe	8,630	8,653	5,366	4,868
America	24,240	23,867	35,691	23,831
United Kingdom	23,021	20,310	25,584	21,150
Australasia	1,751	2,191	2,899	2,738
	57,642	55,021	69,540	52,587

The maximum exposure to credit risk for trade and other receivables and convertible loans at the reporting date by type of counterparty:

	Group		Company	
	2019 £'000	2018 Restated* £'000	2019 £'000	2018 Restated* £'000
End-user customer	48,883	47,136	28,771	32,042
Convertible and other loans	4,405	4,538	1,138	1,296
Other	4,354	3,347	39,631	19,249
	57,642	55,021	69,540	52,587

* Comparative balances have been restated to exclude corporation tax receivable and separate convertible and other loans from trade and other receivables.

No receivable balance was in excess of 10% of the Group's total trade and other receivables balance at the year end.

Impairment losses

Trade receivables and accrued income

Expected credit loss assessment

The expected credit loss allowance for trade receivables and accrued income at the reporting date was:

Group	Weighted average loss rate 2019 %	Gross carrying amount 2019 £'000	Loss allowance 2019 £'000
Not past due	0.96	41,259	396
Past due 0–30 days	3.90	3,025	118
Past due 31–120 days	18.18	1,451	264
Past due 121–180 days	39.79	568	226
Past due 181–365 days	52.78	638	337
Past due 366 days +	93.76	2,468	2,315
Total		49,409	3,656

Company	Weighted average loss rate 2019 %	Gross carrying amount 2019 £'000	Loss allowance 2019 £'000
Not past due	0.53	22,915	121
Past due 0–30 days	2.84	1,105	31
Past due 31–120 days	7.74	860	67
Past due 121–180 days	19.25	428	82
Past due 181–365 days	46.10	564	260
Past due 181 days +	91.11	1,175	1,071
Total		27,047	1,632

Notes continued

32. Financial instruments continued
Exposure to credit risk continued
Impairment losses continued
Trade receivables and accrued income continued
Comparative information under IAS 39

The ageing of trade receivables and accrued income at the reporting date was:

Group	Gross 2018 Restated* £'000	Impairment 2018 £'000
Not past due	26,893	–
Past due 0–30 days	4,576	–
Past due 31–120 days	7,670	–
Past due 121–365 days	4,894	152
Past due 366 days +	3,065	2,830
Total	47,098	2,982

Company	Gross 2018 Restated* £'000	Impairment 2018 £'000
Not past due	13,048	–
Past due 0–30 days	2,351	–
Past due 31–120 days	5,820	–
Past due 121–365 days	3,901	152
Past due 366 days +	1,764	1,764
Total	26,884	1,916

* Comparative balances have been restated to include accrued income of £6,187k for Group and £2,133k for Company.

The movement in the allowance for impairment in respect of trade receivables and accrued income during the year was as follows:

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Balance at 1 March under IAS 39	2,982	3,061	1,916	1,045
Adjustment on initial application of IFRS 9	1,164		402	
Balance at 1 March under IFRS 9	4,146		2,318	
Net remeasurement of loss allowance	12	1,380	(196)	1,412
Foreign exchange impact	(12)	23	–	–
Amounts written off	(490)	(1,482)	(490)	(541)
Closing balance	3,656	2,982	1,632	1,916

The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities.

32. Financial instruments continued
Exposure to credit risk continued
Impairment losses continued
Trade receivables and accrued income continued

The following significant changes in the gross carrying amounts of trade receivables contributed to the changes in the impairment loss allowance during the financial year:

Group

- The growth of the business resulted in increases in current trade receivables of £1.1m and accrued income by £1.0m, growth rates which were lower than the 17% increase in Group revenue. This was achieved by improved debt collection which resulted in a decrease in debtor days from 82 in FY18 to 75 in FY19. The 7% reduction in debtor days also minimised the required increase in the expected credit loss provision.

Company

- The growth of the business resulted in increases in trade receivables of £1.5m with accrued income decreasing by £1.1m. This was achieved by improved debt collection which resulted in a decrease in debtor days from 67 in FY18 to 59 in FY19. The 11% reduction in debtor days also minimised the required increase in the expected credit loss provision.

Non-convertible loans and other receivables

Expected credit loss assessment

The following table provides information about exposure to credit risks and ECLs for non-convertible loans and other receivables at the reporting date:

Group		Equivalent to external credit rating (S&P)	Weighted average loss rate 2019 %	Gross carrying amount 2019 £'000	Loss allowance 2019 £'000
Other receivables	Medium grade financial services	A+ to BBB-	3.73	3,487	130
Non-convertible loans	Medium grade financial services	A+ to BBB-	3.85	793	31
Non-convertible loans	Non-investment grade pharma	BB+ to B-	1.09	187	7
Total				4,467	168

Company		Equivalent to external credit rating (S&P)	Weighted average loss rate 2019 %	Gross carrying amount 2019 £'000	Loss allowance 2019 £'000
Other receivables	Medium grade financial services	A+ to BBB-	3.73	3,487	130
Non-convertible loans	Medium grade financial services	A+ to BBB-	3.85	793	31
Total				4,280	161

None of the balances in respect of the Group and Company are credit impaired.

The Group and Company did not have any loans and other receivables that were past due at 28 February 2019 (2018: £nil).

The movement in the allowance for impairment in respect of non-convertible loans and other receivables during the year was as follows:

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Balance at 1 March under IAS 39	–	–	–	–
Adjustment on initial application of IFRS 9	161		161	
Balance at 1 March under IFRS 9	161		161	
Net remeasurement of loss allowance	7	–	–	–
Closing balance	168	–	161	–

32. Financial instruments continued
Exposure to credit risk continued
Impairment losses continued
Receivables from subsidiaries
Company

The Company has intercompany receivable balances totalling £37,130k at year end. Management has assessed that the estimated credit loss on such balances is low based on the cash-generating ability of the relevant subsidiaries and latest forecasts. On this basis management determined that it is appropriate to apply a twelve-month expected credit loss model in calculating the estimated credit provision. Applying a twelve-month probability of default rate of 0.87% to the entire balance, a provision of £324k has been recognised as at 28 February 2019 (2018: £nil).

Government grants
At the year end £311k (2018: £164k) for the Group and £301k (2018: £51k) for the Company are receivable from Invest Northern Ireland in respect of grants receivable and £1,065k (2018: £1,162k) for the Group is receivable from Irish Revenue Commissioners in relation to RDEC. Both are government agencies and based on historical payment history; with all amounts previously recognised subsequently being received; no expected credit loss is recognised in relation to this balance.

Cash and cash equivalents
The Group and Company held cash and cash equivalents of £18,798k (2018: £12,365k) and £14,760k (2018: £4,013k) respectively at 28 February 2019 which represents their maximum exposure on the assets. The cash and cash equivalents are held with bank and institutional counterparties which are rated AA- to AA+ based on credit agency ratings.

Liquidity risk
Group

The following are contractual maturities of financial liabilities, including estimated interest payments.

28 February 2019	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000	6–12 months £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
Secured bank loans	(34,909)	(35,591)	(20,700)	(14,891)	–	–	–
Finance leases	(378)	(438)	(51)	(52)	(103)	(232)	–
Trade and other payables	(58,322)	(58,683)	(58,683)	–	–	–	–
Contingent deferred consideration	(1,071)	(1,071)	(1,071)	–	–	–	–
Commitment to associate	–	(1,053)	(579)	(474)	–	–	–
	(94,680)	(96,836)	(81,084)	(15,417)	(103)	(232)	–

28 February 2018	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000	6–12 months £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
Secured bank loans	(28,544)	(29,881)	(1,958)	(2,272)	(25,651)	–	–
Finance leases	(7)	(8)	(8)	–	–	–	–
Trade and other payables	(48,892)	(48,892)	(18,856)	–	(30,036)	–	–
Contingent deferred consideration	(5,688)	(5,688)	–	(5,688)	–	–	–
Commitment to associate	–	(1,007)	(560)	(447)	–	–	–
	(83,131)	(85,476)	(21,382)	(8,407)	(55,687)	–	–

The above contracted cash flows include interest on secured bank loans, the terms of which are set out in note 23.

32. Financial instruments continued
Exposure to credit risk continued
Impairment losses continued
Liquidity risk continued
Company

The following are contractual maturities of financial liabilities, including estimated interest payments.

28 February 2019	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000	6–12 months £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
Secured bank loans	**(34,909)**	**(35,591)**	**(20,700)**	**(14,891)**	**–**	**–**	**–**
Trade and other payables	**(90,023)**	**(90,384)**	**(90,384)**	**–**	**–**	**–**	**–**
Contingent deferred consideration	**(1,071)**	**(1,071)**	**(1,071)**	**–**	**–**	**–**	**–**
	(126,003)	**(127,046)**	**(112,155)**	**(14,891)**	**–**	**–**	**–**

28 February 2018	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000	6–12 months £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
Secured bank loans	(28,544)	(29,881)	(1,958)	(2,272)	(25,651)	–	–
Trade and other payables	(32,420)	(32,420)	(32,420)	–	–	–	–
Contingent deferred consideration	(1,038)	(1,038)	–	(1,038)	–	–	–
	(62,002)	(63,339)	(34,378)	(3,310)	(25,651)	–	–

The above contracted cash flows include interest on secured bank loans, the terms of which are set out in note 23.

Currency risk
Group

The Group's exposure to currency risk was as follows:

	28 February 2019			28 February 2018		
	CAD £'000	**EUR £'000**	**USD £'000**	CAD £'000	EUR £'000	USD £'000
Trade receivables	**220**	**4,742**	**12,934**	230	3,483	10,079
Trade and other payables	**(50)**	**(844)**	**(41,506)**	(14)	(329)	(31,154)
Net balance sheet exposure	**170**	**3,898**	**(28,572)**	216	3,154	(21,075)

The above excludes bank loans designated in a net investment hedge of £19,819k (2018: £22,354k).

Company

The Company's exposure to currency risk was as follows:

	28 February 2019			28 February 2018		
	CAD £'000	**EUR £'000**	**USD £'000**	CAD £'000	EUR £'000	USD £'000
Trade receivables	**220**	**4,718**	**12,460**	230	3,483	9,824
Secured bank loans	**–**	**–**	**(19,819)**	–	–	(22,354)
Trade and other payables	**(50)**	**(643)**	**(41,303)**	(14)	(250)	(997)
Net balance sheet exposure	**170**	**4,075**	**(48,662)**	216	3,233	(13,527)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2019	2018	**2019**	2018
USD 1	**1.32**	1.31	**1.33**	1.39
EUR 1	**1.13**	1.14	**1.17**	1.13
CAD 1	**1.73**	1.69	**1.75**	1.77

32. Financial instruments continued
Exposure to credit risk continued
Impairment losses continued
Currency risk continued
Sensitivity analysis

A 10% strengthening of sterling against the above currencies at the end of the period would decrease Group profit or loss by £2,450k (2018: £1,771k). A 10% weakening of sterling against the above currencies at the end of the period would increase Group profit or loss by £2,205k (2018: £1,594k). The movement on the net investment hedge would be offset by the movement in the net investment. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10% strengthening of sterling against the above currencies at the end of the period would decrease Company profit or loss by approximately £4,442k (2018: £1,008k). A 10% weakening of sterling against the above currencies at the end of the period would increase Company profit or loss by approximately £3,997k (2018: £907k). This analysis assumes that all other variables, in particular interest rates, remain constant.

Interest rate risks

At the reporting date the interest profile of the Group's and Company's interest bearing financial instruments was:

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Variable rate instruments				
• Financial assets	18,798	12,365	14,760	4,013
• Financial liabilities	(34,909)	(28,544)	(34,909)	(28,544)
	(16,111)	(16,179)	(20,149)	(24,531)
Fixed rate instruments				
• Financial assets	3,463	1,944	376	323
• Financial liabilities	(378)	(7)	–	–
	3,085	1,937	376	323

A 10% reduction in interest rates at the end of the period would increase Group equity and profit and loss by approximately £103k (2018: £84k). A 10% increase in interest rates at the end of the period would decrease Group equity and profit or loss by approximately £113k (2018: £93k). This analysis assumes that all other variables remain constant.

33. Impact of restatement
The Group has restated its reserves and other comprehensive income to correct:

- discretionary dividends to NCI as a deduction from retained earnings (previously this was included in the net exchange movement in foreign subsidiaries within other comprehensive income and therefore reflected in the currency translation adjustment reserve). The impact of this for the year ended 28 February 2018 was £3,038k and £5,550k in respect of amounts paid prior to 1 March 2017;
- the value of consideration given in excess of the nominal value of ordinary shares issued on the acquisition of subsidiaries (interest of at least 90%) on share for share exchanges (previously this was included in share premium) has been transferred to a merger reserve in accordance with the requirements of Section 612 of the Companies Act 2006. The impact of this was an adjustment of £7,677k as at 1 March 2017 and £8,118k as at 1 February 2018; and
- Corporation tax receivable of £872k has also been reclassified from trade and other receivables to a separate line item on the balance sheet. There was no impact on the balance sheet as at 1 March 2017.

The Group has restated each of the affected financial statement line items for the prior period. The following tables summarise the impacts on the Group and Company's financial statements.

33. Impact of restatement continued

Consolidated balance sheet

1 March 2017	As previously reported £'000	Adjustments £'000	As restated £'000
	Impact of reclassification		
Total assets	253,165	–	**253,165**
Total liabilities	121,434	–	**121,434**
Share premium	72,275	(7,677)	**64,598**
Merger reserve	–	7,677	**7,677**
Currency translation adjustment reserve	8,335	5,550	**13,885**
Retained earnings	40,772	(5,550)	**35,222**
Other reserves	10,349	–	**10,349**
Total equity	131,731	–	**131,731**

28 February 2018	As previously reported £'000	Adjustments £'000	As restated £'000
	Impact of reclassification		
Trade and other receivables	53,718	(872)	**52,846**
Current tax receivable	–	872	**872**
Other assets	200,834	–	**200,834**
Total assets	254,552	–	**254,552**
Total liabilities	116,453	–	**116,453**
Share premium	81,286	(8,118)	**73,168**
Merger reserve	–	8,118	**8,118**
Currency translation adjustment reserve	(6,874)	8,588	**1,714**
Retained earnings	49,218	(8,588)	**40,630**
Other reserves	14,469	–	**14,469**
Total equity	138,099	–	**138,099**

Consolidated statement of comprehensive income

28 February 2018	As previously reported £'000	Adjustments £'000	As restated £'000
	Impact of reclassification		
Profit for the year	10,208	–	**10,208**
Net exchange loss on net investment in foreign subsidiaries	(16,779)	3,038	**(13,741)**
Other items	1,570	–	**1,570**
Total comprehensive income for the period attributable to owner of the parent	(5,001)	3,038	**(1,963)**

There was no impact on the Group's reported profit after tax, its basic or diluted earnings per share, or the total operating, investing or financial cash flows for the year ended 28 February 2018.

33. Impact of restatement continued

Company balance sheet

1 March 2017	Impact of reclassification As previously reported £'000	Adjustments £'000	As restated £'000
Total assets	179,985	–	**179,985**
Total liabilities	73,645	–	**73,645**
Share premium	72,275	(7,677)	**64,598**
Merger reserve	–	7,677	**7,677**
Other reserves	34,065	–	**34,065**
Total equity	106,340	–	**106,340**

28 February 2018	Impact of reclassification As previously reported £'000	Adjustments £'000	As restated £'000
Trade and other receivables	44,119	(872)	**43,247**
Current tax receivable	–	872	**872**
Other assets	152,890	–	**152,890**
Total assets	197,009	–	**197,009**
Total liabilities	75,327	–	**75,327**
Share premium	81,286	(8,118)	**73,168**
Merger reserve	–	8,118	**8,118**
Other reserves	40,396	–	**40,396**
Total equity	121,682	–	**121,682**

There was no impact on the Company's reported profit after tax, or on the total operating, investing or financial cash flows for the year ended 28 February 2018.

34. Share based payments

Options have been granted as set out below under the Group's equity-settled share option schemes which are open to all Executive Directors and employees of the Group. Options that vest at annual intervals over a three or four-year period are deemed to consist of three separate options for valuation purposes. Options with TSR conditions vesting at the end of a three-year period are deemed to be a single option for valuation. Vested options are exercisable following the satisfaction of the service criteria for a period not exceeding ten years from the date of grant.

Reconciliation of outstanding share options

The number and weighted average exercise prices of share options have been analysed into four exercise price ranges as follows:

Exercise price: £1.21	**Weighted average exercise price 2019**	**Number of options 2019**	Weighted average exercise price 2018	Number of options 2018
Maximum options outstanding at beginning of period	**1.21**	**94,500**	1.21	105,500
Lapsed during the period	**–**	**–**	–	–
Exercised during the period	**1.21**	**(45,500)**	1.21	(11,000)
Granted during the period	**–**	**–**	–	–
Maximum options outstanding at end of period	**1.21**	**49,000**	1.21	94,500
Exercisable at end of period	**1.21**	**49,000**	1.21	94,500

The options outstanding at 28 February 2019 above have an exercise price of £1.21 (2018: £1.21) and a weighted average contractual life of 0.01 years (2018: 1.0 years).

34. Share based payments continued

Reconciliation of outstanding share options continued

Exercise price: £2.27	Weighted average exercise price 2019	Number of options 2019	Weighted average exercise price 2018	Number of options 2018
Maximum options outstanding at beginning of period	**2.27**	**44,584**	2.50	120,334
Lapsed during the period	**–**	**–**	–	–
Exercised during the period	**2.27**	**(6,000)**	2.63	(75,750)
Granted during the period	**–**	**–**	–	–
Maximum options outstanding at end of period	**2.27**	**38,584**	2.27	44,584
Exercisable at end of period	**2.27**	**38,584**	2.27	44,584

The options outstanding at 28 February 2019 above have an exercise price of £2.27 (2018: £2.27) and a weighted average contractual life of 1.0 years (2018: 2.0 years).

Range of exercise price: £4.27–9.00	Weighted average exercise price 2019	Number of options 2019	Weighted average exercise price 2018	Number of options 2018
Maximum options outstanding at beginning of period	**6.77**	**909,667**	6.77	1,226,550
Lapsed during the period	**–**	**–**	8.68	31,000
Exercised during the period	**6.81**	**(216,333)**	6.93	(347,883)
Granted during the period	**–**	**–**	–	–
Maximum options outstanding at end of period	**6.77**	**693,334**	6.77	909,667
Exercisable at end of period	**6.77**	**693,334**	6.51	813,088

The options outstanding at 28 February 2019 above have an exercise price in the range of £4.27 to £9.00 (2018: £4.27 to £9.00) and a weighted average contractual life of 3.8 years (2018: 4.7 years).

Range of exercise price: £12.28–25.37	Weighted average exercise price 2019	Number of options 2019	Weighted average exercise price 2018	Number of options 2018
Maximum options outstanding at beginning of period	**16.70**	**1,727,336**	14.70	1,603,500
Lapsed during the period	**14.39**	**(24,333)**	14.69	(1,500)
Exercised during the period	**13.12**	**(125,267)**	13.84	(324,664)
Granted during the period	**22.20**	**125,000**	21.76	450,000
Maximum options outstanding at end of period	**17.40**	**1,702,736**	16.70	1,727,336
Exercisable at end of period	**14.87**	**572,243**	14.67	270,825

The options outstanding at 28 February 2019 above have an exercise price in the range of £12.28 to £25.37 (2018: £12.28 to £25.37) and a weighted average contractual life of 7.2 years (2018: 8.0 years).

The weighted average share price at the date of exercise for share options exercised for the year ended 28 February 2019 was £39.86 per share (2018: £31.89).

34. Share based payments continued

Measurement of fair values

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using an adjusted Black Scholes model, with the following inputs:

Grant of options during the year ended 28 February 2019

Grant date	13/12/18	13/12/18
Fair value at grant date	5.85	6.71
Share price at grant date	22.20	22.20
Exercise price	22.20	22.20
Number of options	100,000	25,000
Expected volatility (weighted average volatility)	30.0%	30.0%
Option life (expected weighted average life)	3.0 years	4.0 years
Expected dividends	0.1%	0.1%
Risk-free interest rate (based on government bonds)	3.0%	3.0%

Measurement of fair values

Grant of options during the year ended 28 February 2018

Grant date	17/05/17	17/05/17
Fair value at grant date	4.53	3.10
Share price at grant date	25.37	25.37
Exercise price	25.37	17.25[1]
Number of options	250,000	200,000
Expected volatility (weighted average volatility)	17.5%	17.5%
Option life (expected weighted average life)	3.5 years	3.5 years
Expected dividends	0.1%	0.1%
Risk-free interest rate (based on government bonds)	3.0%	3.0%

1 The share option award on 17 May 2017 with an exercise price of £17.25 was part of contractual employment arrangements.

The adjustments made to the standard Black-Scholes model are those required to reflect more clearly the Company's experience relating to key assumptions.

Employee expenses

	2019 £'000	2018 £'000
Expense relating to:		
Share options granted in 2013/14	–	74
Share options granted in 2014/15	40	195
Share options granted in 2015/16	188	399
Share options granted in 2016/17	718	560
Share options granted in 2017/18	455	358
Share options granted in 2018/19	51	–
Total amount recognised as employee benefit expense in share based payment reserve	1,452	1,586

	2019 £'000	2018 £'000
Total expense recognised as employee benefit expense	1,452	1,586
National Insurance contributions on employee benefit expense	1,021	1,124
Share based payment and related costs	2,473	2,710

35. Contingent liabilities

Government grants

A portion of grants may become repayable should the conditions of offer cease to be met. The repayment of the employment grant is contingent on the maintenance of employment levels to March 2020 and September 2022 in relation to the respective grants.

36. Subsequent events

On 29 March 2019 the Group repaid its bank loans (facilities 1, 2 and 3) and drew down on the new term and revolving loans.

37. Impact of reclassification

Certain comparative amounts have been reclassified in the current year financial statements to enable comparability. The Group has reanalysed the classification of costs in its consolidated statement of comprehensive income and has restated this accordingly. The purpose of these changes is to enable easier comparison with the Group's peers and to reflect the separation of sales and marketing activities and classification thereof within operating costs. These activities are now formally carried out by separately identifiable individuals and/or suppliers rather than being reflected in cost of sales activities.

The following table summarises the impacts on the Group's consolidated statement of financial position.

Consolidated statement of comprehensive income

	Impact of reclassification		
For the year ended 28 February 2018	As previously reported £'000	Adjustments £'000	**As restated £'000**
Revenue			
Total revenue	186,042	–	**186,042**
Software licenses and services	–	111,912	**111,912**
Managed services and consulting	–	74,130	**74,130**
Cost of sales			
Total cost of sales	(134,402)	26,821	**(107,581)**
Software licenses and services	–	(53,124)	**(53,124)**
Managed services and consulting	–	(54,457)	**(54,457)**
Gross profit	51,640	26,821	**78,461**
Operating costs			
Research and development costs	–	(9,293)	**(9,293)**
Of which capitalised	–	7,486	**7,486**
Sales and marketing costs	–	(26,635)	**(26,635)**
Administrative expenses	(38,320)	3,001	**(35,319)**
Impairment loss on trade and other receivables*	–	(1,380)	**(1,380)**
Other income	1,382	–	**1,382**
Total operating costs	(36,938)	(26,821)	**(63,759)**
Operating profit	14,702	–	**14,702**
Other items	(4,494)	–	**(4,494)**
Profit for the year	10,208	–	**10,208**

* For comparability the charge for impairment of trade and other receivables has been reclassified from administrative expenses to a separate line item on the consolidated statement of comprehensive income under IAS 1 as an amendment arising on implementation of IFRS 9.

Directors and advisers

Directors

S Keating – Non-Executive Chairman*+

B G Conlon – Chief Executive Officer

R G Ferguson – Chief Financial Officer

K MacDonald – Non-Executive Director*

V Gambale – Non-Executive Director*+

D Troy – Non-Executive Director+

* Member of the Audit Committee.

\+ Member of the Remuneration Committee.

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JJ Kearns

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