Data-driven performance

First Derivatives plc

Annual Report 2021

About First Derivatives

First Derivatives solves business-critical problems that haven't yet been solved.

Who we are

We are a group of data-driven businesses that unlock the value of insight, hindsight and foresight to drive organisations forward.

Learn more in **At a glance** from page 2

What we do

We give every business the ability to realise the true value of their data to achieve their potential.

Learn more in the **Business review** from page 18

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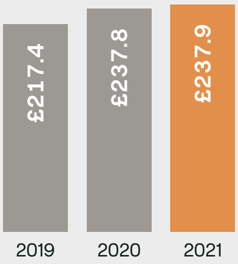
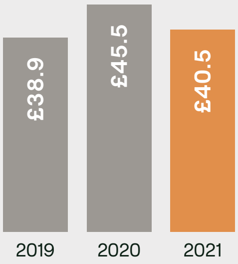
Highlights

Financial highlights



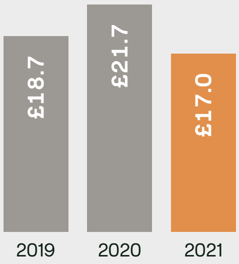
Revenue

£237.9m



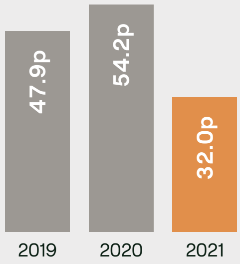
Adjusted EBITDA

£40.5m



Operating profit

£17.0m



Diluted earnings per share

32.0p

Operational highlights

- Delivered robust performance despite impact of COVID-19, underpinned by the strength of our customer propositions and enabled by high levels of customer retention
- Continued to invest in technology, product and people, reflecting our confidence in our business and the market opportunity
- Strengthened the leadership team across the business, providing the capability to scale the business and capitalise on growing market opportunities
- Momentum increased towards the end of the financial year and continued into FY22 with contract wins across the Group and substantially strengthened pipeline
- Launched KX Insights for cloud-native streaming analytics, with positive customer reaction and early commercial traction, with major sales campaigns planned during current year
- Multiple new contracts won in key target markets, with examples across automotive (Williams Racing), energy (major US gas and electricity utility), manufacturing (semiconductor manufacturer), telecoms (leading North American telco) and FinTech (MUFG)

In this report

Our business

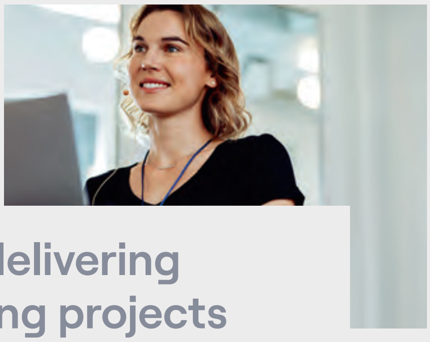
First Derivatives solves business-critical problems that haven't yet been solved.

KX

Elegantly simple and universally compatible

KX is the fastest, best-informed, real-time decision-making engine in the world. Capable of capturing any data, from any location and in any format, this unrivalled streaming analytics platform drives the most demanding business decisions with real-time continuous intelligence.

Widely adopted throughout the financial industry, where it is employed across a range of data-intensive arenas, KX is also deployed in industries as diverse as manufacturing, automotive, energy, utilities and telecommunications. It also powers the MRP Prelytix digital marketing platform.



First Derivative

Continuously delivering industry-shaping projects

For more than 25 years, First Derivative has continuously delivered industry-shaping projects for some of the largest global banks and financial institutions. With a depth of understanding and breadth of experience unequalled in the sector, First Derivative has a hard-won reputation for being able to solve the toughest operational, data and technology challenges for its clients.

Offering the industry's largest, fully capital markets dedicated team, First Derivative is leading the data-driven, digital revolution across the evolving capital markets sector. With technical, logistical and scalable expertise unsurpassed in the industry and a reputation for executional excellence, First Derivative pushes projects further, faster and always beyond expectations.

MRP

A leading global predictive intelligence organisation

MRP is a leading global predictive intelligence organisation, combining cutting-edge predictive analytics with a full suite of account-based marketing solutions. The MRP Prelytix platform is the industry's only enterprise-class predictive account based marketing (ABM) platform. It is purpose built to perform inside complex environments, empowering sales and marketing teams to produce measurable and high-performance conversion, pipeline velocity, and closed revenue.

What sets us apart

We are a group of data-driven businesses that unlock the value of insight, hindsight and foresight to drive organisations forward.

1

Focused on large and fast-growing markets driven by data

Businesses across the globe are transforming into truly data-driven organisations and the Group operates at the centre of this world, helping clients significantly enhance their commercial performance and operational efficiency.

KX helps customers use data analytics to drive competitive advantage, unlocking the insights and value held within both real-time and historical data. Firms in the financial services sector have long recognised and relied on the capabilities of the KX platform, and that experience and expertise is now being sought by organisations in a wide range of industry sectors where enormous volumes of data are being generated in real time.

Our recently launched cloud native enterprise-class streaming analytics platform, KX Insights, answers growing customer demand for flexible, scalable access to real-time data analytics without associated infrastructure costs.

Data also plays a critical role in the marketing world, which is why leading B2B sales and marketing organisations choose MRP, the Group's global predictive intelligence business. With MRP Prelytix, we offer the industry's only account based marketing (ABM) platform giving clients control of their data, visibility of their target markets and scale in the delivery of the highest impact engagement strategies.

Data is also transforming capital markets, a sector where our managed services and consulting business has, for 25 years, continuously delivered industry-shaping projects for some of the world's largest banks and financial institutions. No other firm has the unequalled depth of understanding and breadth of experience in accomplishing the operational, data and technology transformations required to help firms succeed in such a highly competitive and regulated sector.

2

Differentiated technology for extreme volume, complexity and latency data requirements

The KX Streaming Analytics platform is the only technology that can capture any data – any time – and run anywhere. Built on top of the world's fastest time-series database (kdb+), no one else comes close to our powerful real-time analytics capabilities. No matter the volume, velocity or variety of data, businesses are able to make the best-informed decisions, in the moment, in context, in real time and in the cloud.

3

Deep expertise and executional strength

Our highly skilled people work side by side, screen to screen and shoulder to shoulder with our clients. Offering unrivalled technical, logistical and scalable expertise, our clients trust us with their most complex and challenging projects, knowing that we have the specialist services and solutions, backed up by essential tools and technologies, to deliver excellent results.

4

Our global reach for scale and growth

15 locations

4 continents

2,500+ people

Data-driven performance

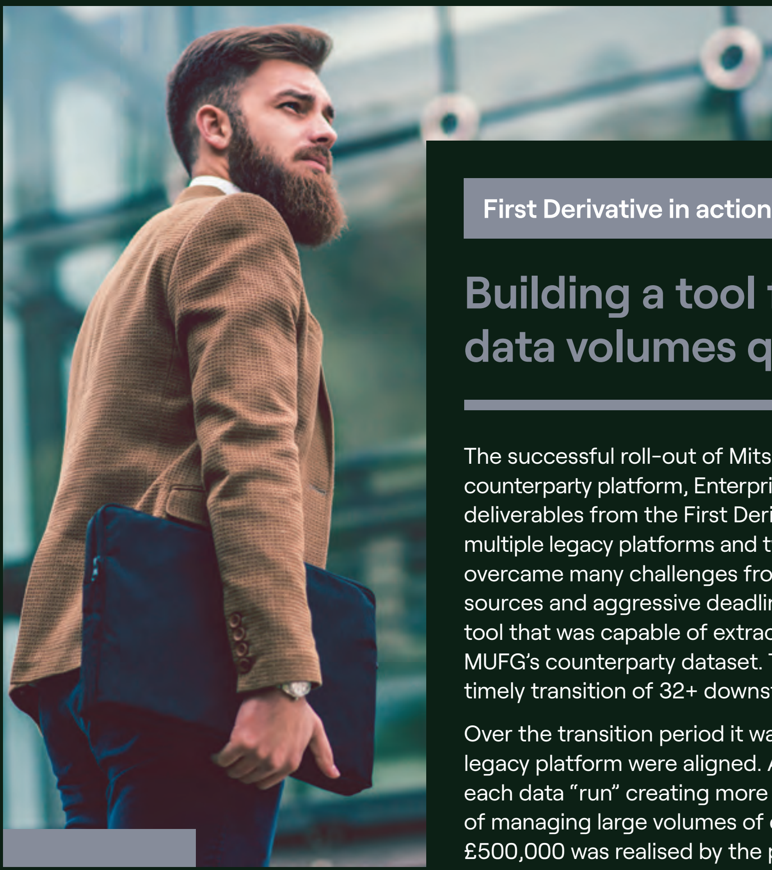
We give every business the ability to realise the true value of their data to achieve their potential.

KX in action

Innovative Japanese bank digitises wholesale business with AWS and KX

This Japanese investment bank has a strong, innovative strategy to stay competitive, grow revenue and help the firm enter new business. Like many other global banks, it managed hundreds of different databases scattered across departments running on-premises on physical servers. As part of its digital transformation strategy it sought to unify all databases into one cloud-based environment.

Utilising KX on AWS, the KX team worked hard to ensure all of the bank's data was in one place and ready to use on the cloud. The bank now has instant access to consolidated data for informed decision making and real-time monitoring and alerts for algorithmic trading volumes. It can also build models to develop trading strategies for traders. The KX solution can auto scale servers for queries while leveraging Amazon's S3 Data Storage for reduced storage costs and increased security.



First Derivative in action

Building a tool for MUFG to migrate large data volumes quickly and efficiently

The successful roll-out of Mitsubishi UFJ Financial Group's (MUFG's) new global counterparty platform, Enterprise Data Management (EDM), was dependent on two key deliverables from the First Derivative team: one, identifying a single client view across multiple legacy platforms and two, delivering an end-to-end migration process. The team overcame many challenges from conflicting business requirements, inconsistent data sources and aggressive deadlines to build a quick and reliable automated migration tool that was capable of extracting, reconciling and transforming the full scope of MUFG's counterparty dataset. The tool ran for a three-month period that allowed the timely transition of 32+ downstream systems to move across from legacy platforms.

Over the transition period it was crucial that production data in both EDM and the legacy platform were aligned. A full migration was scheduled three times a day with each data "run" creating more than 7.9 million data points. The solution was capable of managing large volumes of data quickly and seamlessly. A total net saving of £500,000 was realised by the project as a result of using the First Derivative solution with no additional costs incurred or incidents raised.

MRP in action

Juniper Networks drives better engagement and faster time to revenue with MRP

Gaining new insights into both its own and its channel partners' data was a key challenge for Juniper Networks. The company wanted a better way to maintain consistent messaging and execution while leveraging massive amounts of data more efficiently to measure and improve marketing and sales effectiveness across its channel partners. Starting with Juniper Networks' robust data on keywords proven to signal buying intent, MRP Prelytix then monitored them for activity and used that information to align marketing strategy toward accounts with high intent and propensity to act.

With an enhanced and trackable view of each stage of its pipeline, Juniper saw increased engagement through insight-driven content and prescriptive triggers and, crucially, faster time to revenue with the combination of intent data and predictive analytics to guide action.

Challenges met; new opportunities accelerating

"Across industries, we continue to see businesses transforming – whether to improve operational performance, outpace their competition or change the game entirely. The Group's strength in leveraging its expertise, technology and data to solve some of the toughest challenges in the financial and industry sectors makes us the partner of choice. We are well positioned to accelerate growth."

Donna Troy
Chairman

COVID-19 overshadowed the global agenda during the past year and I am proud of the coordinated manner in which the Group supported its employees, customers and other stakeholders to cope with the challenges they faced during this period. The impact of the pandemic, both economic and social, will reshape our business and personal lives for many years to come. Relevant to our business, we have seen a short-term impact as a result of lengthened sales cycles. However, as a longer-term benefit, across industries, we continue to see businesses transforming – whether to improve operational performance, outpace their competition or change the game entirely. The Group's strength in leveraging its expertise, technology and data to solve some of the toughest challenges in the financial and industry sectors makes us the partner of choice. We are well positioned to accelerate growth. In particular, KX, our real-time streaming analytics software business, was fully acquired in July 2019 and we are confident in our ability to capitalise on the enormous and fast-growing data analytics market.

Reflecting on the past year, we put comprehensive measures in place to support our employees' physical and mental wellbeing to enable them in turn to support our customers' mission-critical operations, and I believe this approach will increase satisfaction and loyalty across our stakeholder base.

While taking all the necessary actions to mitigate the impact of COVID-19, the Board did not allow it to deflect the Group from its long-term strategy and we continued to invest during the year, particularly in leadership, research and development and sales and marketing. We added three new Non-Executive Directors, all of whom have the proven skills and expertise to help drive our growth ambitions, as well as new Executive leadership at the Group level in the form of a Chief Operating Officer and Chief Marketing Officer.

This increased leadership capability was crucial to our decision, after the year end, to change the structure of the business into three business units, KX, MRP and First Derivative, the purpose of which is to maximise the potential opportunity for each in its respective markets and to significantly accelerate our growth. We will also make a step change in investment, focused on KX, through technology development, sales and marketing and scaling the Group's operations. As described in my Governance statement on page 42 these decisions were made following detailed analysis of the opportunities available to the Group and the achievement of multiple commercial milestones that validated the Board's view of the Group's potential.

The decision to increase investment in the business is a signal that the Board believes its strategy is working and that, given the growing demand for continuous intelligence, now is the time to accelerate our ability to meet that demand. The Board will oversee execution of the investment plan and continue to assess how best to maximise growth and returns for stakeholders.

As we emerge from the pandemic, our actions during the past year leave us well positioned to execute on our growth strategy, with clear objectives, strong leadership, world-class technology and a market opportunity that I believe will enable growth for many years to come.

Governance

During the past year we have substantially increased our governance capability following the addition of three new Non-Executive Directors, each bringing expertise and experience in scaling world-leading technology companies. While the Group already had a strong and experienced Board with a mix of skills, tenure and gender, the Board now comprises eight Directors, of which six are independent Non-Executives, providing the Group with effective leadership for the benefit of its stakeholders.

The expansion of the Board has enabled us to form a technology sub-committee comprising Non-Executive Directors and Executive management to address opportunities and risks, as well as ensure we maintain our leadership position and are on track to achieve our goals.

This Annual Report also provides details of the Board's work in areas such as corporate sustainability and risk management which I believe are vital to the Group's future prospects. On corporate sustainability, the Board has embedded policies, processes and procedures into our business that prioritise our people, responsible operations, security and privacy, the environment and community support. Our work on risk management provides assurance that our approach to risk supports our strategy.

Summary and outlook

The past year has presented challenges and I am delighted to report that the business has met them head on, thanks to the efforts of the 2,500+ people who work across our global operations. We have used this time to strengthen the business and prepare for the opportunities that digital transformation presents, particularly for our KX business. As a result, the Board is confident that the additional investment it has approved for the current year and beyond will yield returns for all stakeholders.

Donna Troy
Chairman
17 May 2021

Assisting our people, customers and communities

The impact of COVID-19 presented many challenges for our business. The business performance and risk management issues are dealt with in the Business review and the Report of the Audit Committee, and detail how we mitigated the financial and operational challenges. Here we detail how we dealt with the impact on key stakeholders – our employees, clients and communities.

In February 2020 we implemented our pandemic plan across all regions, led by CEO Seamus Keating and comprising senior leaders across the Group. Our priorities were to ensure the safety and wellbeing of our employees, to support the mission-critical activities of our clients and to assist the communities in which we operate to cope with the pandemic. The effectiveness of our planning and the measures we introduced enabled us to transition seamlessly to the remote delivery of all the services we provide to clients.

Throughout the pandemic we communicated information from the COVID-19 response team to employees regularly, both via email and virtual meetings relevant to each location. As we emerge from the pandemic, we consider that our response has fostered stronger bonds with our stakeholders.

> "COVID-19 was a health, business and social challenge that the Group addressed comprehensively."

Our people

We put in place a range of measures to support our employees, particularly those who were working away from their home location. They covered health and safety, travel, assistance with working from home and mental and physical wellbeing.

Health and safety: We introduced daily check-ins for all employees to register their location and health status, enabling employees to raise any concerns and obtain assistance. We were also able to monitor any infections and introduce quarantines for staff who may have come into contact with the virus. We introduced deep cleaning practices in our locations.

Travel: Our immediate focus was on making arrangements to ensure our staff were in the most appropriate location, either returning them home or supporting them to extend their stay in the location in which they were based depending on personal and client requirements and local quarantine and travel restrictions. We also conducted an audit of employee visa conditions to ensure they were suitable and effective for the changing requirements.

Working from home: We issued advice to employees on how to work from home safely, including assessments of home working equipment and financial assistance provided to employees who needed to purchase items to support that goal.

Mental and physical wellbeing: We recognised early that changing working practices could impact on the mental and physical wellbeing of our staff and their families. On mental health we focused on creating business unit-level support networks and also introduced a regular weekly email with ideas on what to do during lockdown; provided a series of wellbeing seminars on topics such as resilience and work/life balance, with employees able to suggest topics; and shared internal and external seminars and guidance on issues such as how to work effectively from home and parenting during the pandemic. On physical health we provided access to virtual fitness and yoga classes and also encouraged groups dedicated to fitness activities such as cycling and running, as well as social activities such as cooking classes and quizzes.

Our clients

Many of our clients rely on our technology and services to run their operations and so it was essential that we were able to support them as they adapted their operations to cope with COVID-19. To do so, we rapidly transitioned our employees to working remotely. Where possible within the restrictions of local requirements, we opened offices to allow staff to collaborate in person while introducing measures to ensure their safety.

The implementation of our pandemic plan resulted in close liaison with clients to meet their needs, ensuring, for example, that remote access to their corporate networks for our employees was obtained quickly. Throughout the pandemic we have maintained close contact with our clients to ensure we meet their needs effectively and pre-empt any change in requirements. Some of our clients required more assistance, for example with increased trading volumes resulting in additional technology and services needs, and we ensured they were delivered promptly.

We were also proud to support the NHS in the UK by providing services to its Test and Trace initiative and note that one of our partners, Zipabout, provided services based on KX to train operating companies designed to limit the spread of COVID-19 on public transport.

Our communities

We recognised the impact that COVID-19 had on the communities in which we operate and acted to help. Our focus was on poverty and particularly hunger. We encouraged and supported employee fundraising initiatives throughout the year which raised more than £24,000 and we provided £15,000 of matched donations. We also donated an additional £50,000, distributed across a range of charities in Europe, North America and Asia.

How we create sustainable value and share returns

Our business model is founded on our strategic purpose and enshrined by our values to create a business that generates sustainable returns for our stakeholders. We employ our technology and people to help every business realise the true value of their data, solving business-critical problems that haven't yet been solved.

We provide rewarding careers and invest in our people to enable them to provide solutions that delight our customers, while generating earnings for shareholders, tax receipts for society and a positive impact on the local communities in which we are based.

Inputs

People
Our more than 2,500 people are at the core of our success, providing a vibrant culture centred around customer service and excellence. We recruit heavily from universities around the world and provide our employees with exciting careers that challenge and stimulate them to solve problems for our clients that are at the forefront of technology. Working on-site or based in one of our 15 locations around the world, we encourage a shared culture and work ethos that drives our success.

Training
Our award-winning training programmes equip our employees to excel. New graduate employees benefit from class-based and online training programmes streamed to their chosen career and supported by an assigned mentor, while the training needs of more experienced employees are met by multi-faceted programmes that encompass industry and external accreditation and are matched to their career needs and aspirations. By investing in our employees' careers we are able to deliver the highest standards of customer satisfaction.

R&D
Our technology leads the world in its use of data to unlock the value of insight, hindsight and foresight. To maintain its lead and make it easier to use and integrate with other technologies, we are committed to investing in research and development, through teams of data scientists that are passionate about pushing the boundaries.

Partnerships
Our partners help us in our mission to solve business-critical problems that haven't yet been solved. They are leaders in their field and working together we can provide solutions that delight our customers.

Creating value

Strategy
Set by the Board, our strategy is to exploit our market-leading position in capital markets and to use KX's performance advantages to grow in other markets. The Board has a breadth and depth of experience in developing and implementing growth strategies within technology markets and is supported in its implementation by a highly experienced Executive team with clear lines of responsibility and reporting.

Find our **strategy** on page 14

Financial
The Group has developed a culture of financial discipline, with a focus on profitability and cash generation. It also has a strong governance and risk management culture, which provides the confidence to take significant decisions on investment that will drive returns for the Group and its stakeholders.

Business divisions

KX

KX is the leading technology for real-time continuous intelligence.

First Derivative

First Derivative provides technology-led services in capital markets.

MRP

MRP is the only enterprise-class, predictive ABM solution.

Outputs

Returns for shareholders
Five-year view

Revenue compound annual growth rate (CAGR)
15%

Adjusted EBITDA CAGR
12%

Total cash generated from operations
£163.9m

Total dividends paid
£29.3m

Returns for the Group
1. Positive culture

77%
employee engagement*

2. Profits to reinvest in growth

£16m
planned in financial year 2022

Returns for society
Taxes paid

Financial year 2021
£1.3m

Last five years
£20.0m

Benefits for local communities

424
new jobs last year

2,967
new jobs over last five years

Donations by the Group to charity in the past year
£65,000

A further
£24,000
raised by employees for more than 16 charities

* See Employee Engagement, page 34.

Unlocking value

The Group operates in three distinct sectors, each with a large addressable market where it provides a differentiated offering by unlocking the value of insight, hindsight and foresight to drive organisations forward.

KX

KX is a horizontal technology for real-time continuous intelligence, deployable for edge, cloud and on-premise use cases. It is recognised for its speed and performance, enabling organisations to solve business-critical problems that haven't yet been solved. Licensed and priced on models aligned to consumption, KX provides proven customer value and demonstrable return on investment.

KX is independently verified as the world's best-performing in-memory, time-series database, originally developed to enable the financial industry to capture and analyse vast quantities of market data. The Group's client list contains all of the world's top ten investment banks and many leading finance institutions. In recent years KX has extended its presence into other markets that are challenged by large and increasing amounts of streaming data, particularly real-time data from sensors.

Due to its small code footprint, KX can run seamlessly at the edge, on-premise or in the cloud. There are also flexible development options, and KX scales easily to cope with any data challenge. These attributes make it an excellent market fit for streaming analytics, meeting the key "must haves" articulated by industry analyst Forrester as requirements for a streaming analytics platform. They include the ability to handle a variety of data from multiple sources; analyse in real time with ultra-low latency; integrate with enterprise architectures and technologies; perform time-series analysis; and run with zero downtime, high availability and disaster recovery.

Within capital markets KX is widely deployed across banks, many of which have developed applications that utilise the data captured and analysed by our technology. The Group has also a growing customer base for its range of applications, such as surveillance, foreign exchange platforms and regulatory reporting. We see considerable potential to cross and upsell these applications and to develop new applications that will resonate with clients. Most recently, KX released its Insights solution that enables its capital markets clients to transition their KX-based estate from on-premise to the cloud in an efficient and low-risk manner, generating incremental revenue under a multi-year contract.

In other markets we are at an early stage of commercialisation of our technology and we have identified automotive, utilities, energy and manufacturing as markets that are both high value and have a pressing need for the ultra-high performance KX delivers. KX typically works with partners (both independent software vendors and systems integrators) to target these market opportunities.

Strategic objectives

Our strategy is: (i) to build on KX's leading position in capital markets software; and (ii) to use KX's performance advantages to target other markets. To achieve these objectives, our goals are:

- to ensure KX is recognised as the leading technology for real-time continuous intelligence, based on its performance, business intelligence and interoperability;
- to be a thought leader and technology evangelist for streaming analytics with a broad and active developer community; and
- to establish partnerships with leading organisations in the streaming analytics ecosystem, including the hyperscale cloud providers and leading industry software and technology services providers.

Addressable market

The most relevant addressable opportunity for KX is the streaming analytics market, which according to Adroit Market Research is expected to grow at 30% per annum to be valued at $39bn by 2025. Research and Markets estimates that the streaming analytics market will grow at 27% per annum to reach $52bn by 2027.

The market growth is driven by the growth in data generally and in particular streaming data from devices and sensors. Industry analyst IDC estimates that enterprise-related sensor data is growing at 40% per annum and will soon surpass all other data types, including entertainment data. It expects that more data will be created over the next three years than was created in the past 30 years.

Gartner forecasts that the growth in data will see enterprises make greater use of AI and machine learning as part of a drive to automate or semi-automate business processes and decisions for greater efficiency.

In summary, KX operates in a large and fast-growing addressable market driven by the ability to achieve high return on investment from technologies that enable the analysis of increasing volumes of real-time data.

First Derivative

First Derivative is a technology-led managed service partner operating within the capital markets sector. It is focused on the delivery of professional services centred on the use of data.

First Derivative has an established track record providing high-quality services and offering value-add and cost savings through its expertise. Its propositions centre on: vendor managed services, providing implementation, development and support for leading third-party technologies; business services, delivering regulatory and compliance projects and enabling automation; and data services, providing data science and data management expertise including implementation, development and support services for KX.

First Derivative recruits and trains its own consultants, providing them with a combination of technical and domain skills in capital markets. We provide exciting career development opportunities and industry-leading training and development programmes.

Strategic objectives

The Group's strategic objective is to become a leading capital markets practice, focused on technology and data services.

Addressable market

In managed services and consulting, Gartner estimates the total spend on IT services in banking in 2021 will be $210bn, representing growth of 7.3% on 2020. This follows an expected contraction of 4.4% in 2019 in response to COVID-19. In addition, Gartner states that banks will spend a further $89bn on internal services, which represents an additional addressable market as the banks increasingly outsource elements of their support and development effort.

MRP

MRP is a market-leading platform for enterprise-class predictive account based marketing (ABM), delivering high response rates, pipeline conversion and revenue for business-to-business sales and marketing departments. It is delivered on a Software as a Service basis and built on KX to drive rapid performance on vast quantities of data.

MRP benefits from global capability, being the only platform of its type that is multi-lingual and multi-channel and operates at scale. The platform triggers actions based on intent data and predictive scoring, providing metrics that evidence its high return on investment. As well as its ABM capabilities, MRP is also suited to emerging use cases such as sales intelligence and customer data platforms, both of which are expected to become areas of key focus for enterprises.

Strategic objectives

We aim to combine further advances in MRP's functionality to make MRP the leading self-service, AI-driven ABM platform on the market, which fits seamlessly into enterprise sales and marketing technology infrastructures. We will combine this with refinement of and investment in our go-to-market strategy to drive MRP's revenue growth.

Addressable market

According to KBV Research, the marketing automation market in which MRP currently operates will grow by more than 13% per annum to reach $6.6bn by 2025. KBV Research estimates that a separate market opportunity, sales intelligence, will grow by 12% per annum to reach $3.8bn by 2025.

Assessing our performance

The Group's strategy has been consistent – to position its software and services for continued and sustainable growth in the very large markets it addresses. These strategic priorities have been in place since 2014 and to meet them the Group has sought to strike a balance between making the investment necessary to deliver them and providing positive returns for shareholders in the short term.

1

Build on KX technology's leading position in capital markets software

KX's core FinTech market has enormous growth potential and we are committed to 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
- Create repeatable software solutions for clients across asset classes and geographies
- Capitalise on cross and upselling opportunities to grow our market share

Progress

- Increased our strategic importance to our clients by working to support their cloud strategies, including release of new functionality

2

Use KX's performance advantages to penetrate 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

- Identify use cases across target, high-value markets in automotive, energy, telecoms and manufacturing
- Work with customers and partners to develop compelling solutions
- Continue to invest in R&D, sales and marketing to deliver on significant opportunities
- Develop additional channels to market via systems integrators and OEM partnerships

Progress

- Added new systems integrators and OEM relationships
- Strengthened our relationships with hyperscale cloud providers
- Signed new contract wins in energy and automotive sectors

3

Become a leading global capital markets practice

We provide tightly defined, high-calibre services to capital markets clients, with technical, logistical and scalable expertise unsurpassed in the industry and a reputation for executional excellence in a multi-billion dollar addressable market

How we do it

Grow key accounts and managed services

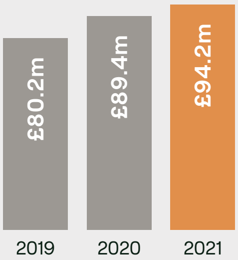
- Leverage our unique combination of domain and technical skills
- Use our growing scale and reputation to increase our client base
- Exploit our near-shore capabilities to deepen our relationships with key clients

Progress

- Transitioned service delivery to remote working while winning new clients and transformation projects

Key performance indicators

The first three KPIs relating to revenue growth all align with the strategy pillars.

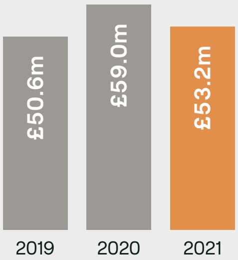


FinTech software revenue

Strategic alignment

1

FinTech is the original market for KX, where our brand is strong and the technology has been used for many years. However, we continue to believe we can use KX's performance capabilities and brand awareness to generate accelerating growth, particularly through licensing applications that use the power of KX to deliver additional value for our clients. We continued to grow rapidly during the year, including winning a contract with a major European bank which has made a significant commitment to use KX within its capital markets trading division.

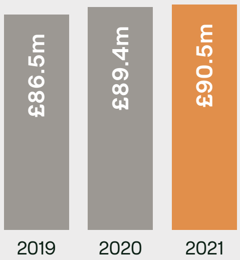


Software revenue in markets outside FinTech

Strategic alignment

2

The Board recognises that this KPI is likely to be the least predictable of those it monitors, as it is starting from a low base and can be subject to differences around the timing of contract signature. However, over time the Board is increasingly convinced that the Group can generate meaningful returns for stakeholders from the investment it has made in multiple industries. In recent years the Group has invested heavily in enabling the adoption of KX across sectors and in sales and marketing and expects to see accelerating growth as a result.



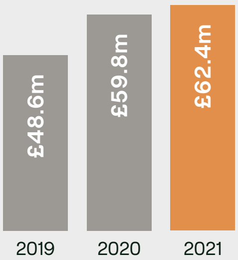
Managed services and consulting revenue

Strategic alignment

3

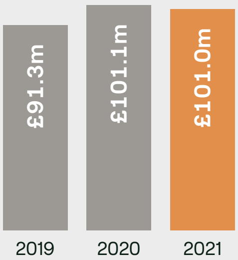
Our managed services and consulting revenue is derived from the FinTech market, principally from providing services requiring deep domain skills to large investment banks. Despite the impact of COVID-19 we achieved revenue growth during the year, reflecting the mission-critical nature of the services the Group provides.

The Board uses the following measures to assess growth and value delivered to stakeholders.



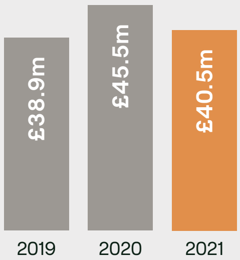
Recurring software revenue

KX prioritises recurring software sales under either pure Software as a Service contracts, where the service is provided remotely by KX to the client, or under annual licensing terms. This enables greater predictability of revenue and increases the Board's confidence to invest for future growth. During the year the Group continued to grow its recurring revenue, which now represents 27% of total revenue (2020: 25%).



Gross profit

To deliver on its strategic growth ambitions, the Group has invested heavily across its operations, including delivery capability as well as research and development and sales and marketing. Despite lower growth rates resulting from COVID-19, the Board committed to continue to invest in increasing the Group's ability to win market share, including in the formation of a customer success team which resulted in some senior staff being removed from revenue-generating roles.



Adjusted EBITDA

Adjusted EBITDA is considered the best measure of underlying performance, stripping out costs that are considered to be non-operational in nature and enabling the Board and investors to most easily determine the impact of the Group's strategy on performance. Despite the impact of COVID-19 the Group continued to invest in sales and marketing and administration costs to scale the Group, which resulted in a reduction in adjusted EBITDA during the year.

Building trust and transparency

Our stakeholders are crucial to our ability to deliver our strategy and the Board seeks to engage with them in a range of ways to promote trust and transparency. This engagement enables the Board to understand and thereby properly consider the views of these stakeholders as part of its decision-making processes.

The input gathered through this approach helped inform Board decisions through the year. Examples of decisions taken during the year and how stakeholder views were taken into account include:

1. **Acceleration of investment.** As laid out in the Chairman's review, Business review and Chairman's governance statement, during the year the Board evaluated the business case for accelerating the level of investment in the business, particularly within KX. Throughout these discussions it considered the impact on a range of key stakeholders, particularly customers, partners, shareholders and providers of finance facilities.
2. **Response to COVID-19.** The global pandemic impacted relationships with key stakeholders in many ways, as illustrated in this report in the section on page 8 that deals with the ways in which we responded. The Board's top priorities were the health and wellbeing of its employees and supporting customers and partners. Our proactive handling of the challenges posed by COVID-19 ensured consistent and fair treatment of our stakeholders and prompt resolution of these challenges as they arose, enabling us to continue to support the essential operations of our customers, many of whom have congratulated us on our response. This has, in turn, strengthened our relationships with key customers.

Input of stakeholder views to the Board is provided by a range of means, including detailed reports and presentations from members of the Executive team throughout the year, the presence of a designated workforce representative on the Board, and specific briefings on the impact on stakeholders where the Board believes they would be impacted by a decision under consideration. More detailed information relative to particular stakeholders is provided opposite.

Employees

Reason why we engage: We believe that our people are vital to the success of our business and have award-winning recruitment, retention and training programmes that underline our commitment in these areas. We will continue to develop and deliver software and services that exceed the expectations of our clients and underpin our growth strategy. Our people strategy promotes fair rewards, career development and diversity and inclusion as pillars of our commitment to employees, while promoting wellbeing and effective engagement across the Group.

Method of engagement: A Workforce Engagement Director, Keith MacDonald, is responsible for representing the interests of employees and ensuring that their interests are taken into account by the Board. A key input into our employee engagement strategy is an annual employee engagement survey, conducted by an independent organisation, which is analysed and shapes our agenda on employee engagement. The results of our latest survey are detailed on page 34. In addition, we encourage direct interaction between employees and the Board at dedicated "Meet the Board" events which are held across our locations to encourage direct dialogue between employees and Directors.

Key developments during the year: The results of our latest employee engagement survey, detailed on page 34, continue to show greater levels of employee participation and improvements across many of the areas we believe are crucial to effect positive change across the Group. The Group has a Survey Actions Working Group that analyses the results and implements change designed to improve the breadth and depth of the issues that matter most to our employees.

Shareholders

Reason why we engage: As owners of the Group, the support of shareholders for the long-term strategic plans of the Group is crucial. The Group engages regularly with its shareholders to provide updates on its progress and future plans and to understand the views of shareholders so that the Board can take them into account during its decision-making processes.

Method of engagement: During the past year the CEO, the CFO and Board and Executive team members have all taken part in one-to-one meetings with investors and potential investors to communicate the Group's investment case and strategy. While these meetings are regularly scheduled following the publication of interim and full year results, the Group has an investor communication programme that also involves ad hoc meetings and appearances at investor conferences, as well as engaging directly with existing and potential investors.

Key developments during the year: In addition to the regular activities detailed above, the Chairman engaged directly with shareholders on the topic of senior management rewards, by writing to shareholders to explain in detail the Board's process around the Group's Long Term Incentive Plan and inviting feedback and dialogue on it.

Customers

Reason why we engage: To achieve the Group's growth strategy requires cross and upselling to existing customers as well as attracting new customers to each of its business units. Our engagement with customers and potential customers helps to shape our development strategy and allocation of resources and capital and feedback from these groups is regularly reported to the Board.

Method of engagement: The Board is briefed regularly on engagement with customers by the CEO and senior members of the Executive team, as well as receiving regular reports on such matters. The Group holds regular customer events, which Directors are able to attend and engage directly with existing and potential customers to understand their concerns. In particular, the technology sub-committee meets with and considers the needs of customers and seeks to ensure that our technology development strategy takes their requirements into account.

Key developments during the year: During the year we established a customer success team, taking experienced employees from front-line roles and tasking them with responsibility for pre and post-sales engagement. The aim of this initiative was to ensure that our customers were able to realise the expected benefits of our technology as rapidly and effectively as possible, while feeding back any lessons learned during the engagement to our teams to benefit future implementations of our technology. This strategy is working effectively, assisting with cross and upselling activities.

Partners

Reason why we engage: Partners are key to promote the use of KX technology, both across industries (for example with hyperscale public cloud providers) and in sectors where it seeks to build a market position and has limited domain expertise (for example automotive, telecoms, energy and manufacturing). Effective partnerships are expected to be a key driver of future growth for KX.

Method of engagement: Given the commercial importance of partner relationships, KX has a dedicated team working to recruit and develop target partners. This team handles the formal accreditation and commercial agreements between KX and the partner and manages the working relationship, working closely with the sales and development teams within KX.

Key developments during the year: KX signed a number of important new partnerships during the year, with a particular focus on concluding formal relationships with hyperscale public cloud providers ensuring that we have agreements with Google, Amazon Web Services and Microsoft Azure, as well as Databricks. Agreements were also concluded with systems integrators such as Tata Consultancy Services and Tech Mahindra, and with OEM partners such as Ericsson, where KX is part of its Industry 4.0 partner ecosystem. A number of partnership opportunities are currently under discussion and are expected to be finalised during the current year.

Communities

Reason why we engage: The Group recognises that it is part of the community in the areas in which it has a significant presence around the world and as such has a responsibility to act as an effective corporate citizen and to provide suitable environments for the wellbeing of its employees. We support employee initiatives designed to benefit and support their communities and also provide direct assistance where we believe it appropriate.

Method of engagement: Many of our staff volunteer to support local organisations in their community across a range of charitable pursuits, whether directly in terms of contributing their time and skills or indirectly through fundraising activities. In addition, the Group provides educational and career support aimed at assisting individuals in local communities to enter the technology industry, including initiatives such as work placements and higher level apprenticeships aimed at offering school leavers an alternative to attending university full time, enabling them to undertake an undergraduate degree whilst working and gaining experience across the Group.

Key developments during the year: Community charitable support was at the forefront of our and our employees' initiatives in the past year, in particular poverty and hunger issues. The Group and its employees supported local charities both at the global level through UNICEF and at local level through charities such as the Trussell Trust, Food Bank Singapore, Mississauga Food Bank and many others. More details can be found on page 38. During the year we also introduced a Give As You Earn scheme that enabled tax-efficient giving to any UK charity by our UK-based employees.

Other stakeholders

The Group recognises that it plays an important role in relation to many other stakeholders, including suppliers, governmental agencies and the wider public, which 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. The Group regularly interacts with these stakeholders to understand their views and communicate its strategy and policies.

Unlocking potential to create value

The Board has approved a new structure for the Group with three business units, KX, First Derivative and MRP, each with its own distinct commercial proposition, go-to-market strategy, addressable market and target growth rate.

FD comprises three businesses – KX, First Derivative and MRP – that unlock the value of data to drive organisations forward. During the year, the Group delivered a robust financial performance, responding effectively to the challenges resulting from COVID-19. Revenue was flat at £237.9m and, after continuing to invest in line with our growth strategy, adjusted EBITDA of £40.5m was achieved, down 11%.

We made good operational progress:

Technology – we prioritised interoperability, ease of use and cloud native capabilities as we seek to build our base of recurring revenue. Most notably, we recently released KX Insights, a cloud-first platform that fully leverages the benefits of cloud architecture natively to deliver fast, scalable real-time data insights without the added burden of infrastructure, complicated upgrades or the need to optimise for different cloud environments. KX Insights has been certified to run natively on all major hyperscale cloud providers including AWS, Azure and Google Cloud. Our roadmap goes beyond this, as we plan to package streaming data analytics workloads into cloud native microservices. Existing customers who move to this new subscription will benefit from faster migrations to the cloud by integrating these new components into their applications.

Furthermore, these components will be combined to create a cloud native horizontal platform, applicable to a wide range of use cases and industries and appealing to a broad community of users. New subscription customers will consume the whole KX Insights platform as an end-to-end application that will seamlessly unify streaming data with the universe of stored data. Key roadmap goals are to reduce deployment times to accelerate "time to value" and to appeal to as wide a developer community as possible, which will be achieved by abstracting our proprietary programming language away from the end user.

This platform will also support advanced analytics and SQL querying, opening up more use cases to KX and further promoting adoption and ease of use.

Commercial – we made progress with cross-selling and up-selling to existing customers, adding a number of new customers and signing several new partnership agreements across our target markets. In capital markets, we signed deals with major financial institutions including a European bank and a stock exchange in South America for the use of KX; in other target markets notable deals included a major utility in the US for use cases built on the analysis of streaming meter data, an electronics manufacturer for anomaly detection and predictive alerts for yield management and a major telco for revenue assurance and usage querying. We formalised our partner agreements with the hyperscale cloud providers to enable seamless scaling of KX and recently signed an agreement with Databricks for the use of KX as a high-performance solution for its customers.

Scaling the Group – to support our growth plans we invested in our leadership capabilities and systems. At the Group level we added three new Non-Executive Directors, each bringing expertise and experience in scaling world-leading technology companies, and new Executive appointments in a Chief Operating Officer and Chief Marketing Officer. At our business units we appointed a Chief Technology Officer and Chief Revenue Officer for KX; in MRP and First Derivative, we appointed new leaders.

Progress across these key strategic priorities was a key determining factor in the Board's decision to accelerate its growth strategy.

Investment in growth strategy

During the year the Board conducted a review of the opportunities arising from the evolution of the market for streaming analytics and the market-leading performance capabilities of KX. It was concluded from independent market analysis, as well as our discussions with strategic partners and existing and potential customers, that demand for continuous intelligence was increasing and that KX has a key role to play in enabling performant access to the data that decisions are based on.

During the past year we have seen increasing focus from leading industry analysts such as Gartner and Forrester on the use of real-time streaming analytics to improve business operations and increase efficiency. This coincides with growing demand post-COVID-19 for greater automated decision-making based on real-time data as part of digital transformation initiatives. Gartner forecasts that by 2022 most business systems will feature real-time data capabilities and this, together with rapidly growing streaming data volumes, underpins the requirement for performant access to the data through technologies such as KX.

To deliver on this opportunity, the Board has approved additional investment of £16m in the current year, of which £11m represents operating cost. This investment is focused on KX, and will:

- **Accelerate the KX technology road map:** focused on enabling KX to operate natively on the cloud, and further increasing its ease of use and interoperability.
- **Greatly increase the go-to-market capability of the business:** by increasing our sales team depth and industry/geographical coverage, growing our contribution from strategic partners and investing in brand marketing.
- **Further increase our ability to scale rapidly:** to deliver the growth envisaged by the Board.

Together with this investment the Board has approved a new structure for the Group with three business units, KX, First Derivative and MRP, each with its own distinct commercial proposition, go-to-market strategy, addressable market and target growth rate. Subject to shareholder approval at the forthcoming Annual General Meeting, the Group will be renamed FD Technologies plc. These changes enable clearer commercial focus on the opportunities for each business while our financial reporting will also provide greater insight for stakeholders.

KX – the leading technology for real-time continuous intelligence

Its ultra-high-performance analytics capability enables KX to be the technology that powers continuous intelligence. Our goal is to see widespread adoption of our technology across industries, with complete deployment freedom spanning down to the device level, installed within the customer's operations or operating seamlessly across cloud infrastructures. This power and flexibility, together with the cost of ownership and return on investment benefits, provide the opportunity for KX to become the market-leading technology for real-time streaming analytics.

This opportunity is forecast to be valued at $39bn per annum by 2025, growing at 30% per annum, according to Adroit Market Research, which resonates with our own assessment of the opportunities in our target markets.

To position KX to benefit fully from this growth opportunity, in the current financial year an additional £16m will be invested, comprising:

- An additional £7m in sales and marketing to build out our sales capabilities and strengthen our brand and market awareness.
- A further £5m in R&D to accelerate the cloud capabilities of KX and its interoperability and ease-of-use.
- Infrastructure investment of £4m in FY22, including new ERP and CRM systems, to support the delivery of growth.

Industry

Electronics manufacturer accelerates ROI on smart factory transformation project

This leading American electronics manufacturer partnered with KX to develop its manufacturing analytics software to accelerate its return on investment in smart factory digital transformation. Although they have the domain expertise in test and measurement, they needed a complementary technology solution that offered high-performance data mining and machine learning models that work for electronics manufacturing.

KX was selected to enable its full stack Analytics-as-a-Service platform to ingest, transform and analyse test equipment data. Analysing an average of 100k+ readings per second the KX Platform delivered near real-time automated computation of process performance, through high-speed data ingestion, processing, and analytics. Benefits included improved manufacturing operational KPIs, better real-time detection of anomalies and real-time predictive alerts.

Business review continued

KX – the leading technology for real-time continuous intelligence continued

As part of this reorganisation, all KX services other than pre-sales, implementation and support services revenue will be delivered by and reported within First Derivative. We will also phase out sales of our technology on a perpetual license basis. As a result, KX revenue will predominantly comprise high-margin recurring license revenue which, if we achieve our plans for KX, will be growing at market-leading rates. To enable stakeholders to assess our performance against our targets, we will provide additional non-statutory metrics, including annual recurring revenue and net revenue retention rates.

KX is targeting growth in exit ARR of at least 25% per annum through FY25 and a gross margin of at least 80% by FY25.

First Derivative – technology-led services in capital markets

First Derivative is formed by merging FD's former managed services and consulting business with the KX services capability to form a technology and data services provider in our primary market of FinTech. It has three key offerings:

- **Vendor services:** implementation, support and managed services for third-party vendor systems including Calypso and Murex.
- **Business services:** regulation and compliance, client services and automation.
- **Data services:** data preparation, data management, data science, KX services and cloud migration support.

While not requiring significant further investment, First Derivative will benefit from sharper focus on its target markets where it has the greatest in-depth expertise, and which are areas of key focus for our clients. This approach has already returned the business to growth in H2 2021, despite the impact of COVID-19, and we believe it can return to double-digit revenue growth during the current year.

MRP – the only enterprise-class, predictive ABM solution

MRP is at the forefront of Account Based Marketing (ABM), with its Prelytix platform enabling sales and marketing organisations to grow new business by identifying and engaging the most likely buyers of our clients' products and services. Powered by KX to provide deep and timely insights into customer and potential customer behaviour, Prelytix provides a high return on investment and is rated among the leaders in its space by industry analysts such as Forrester and Ovum. Prelytix subscribers are supported by MRP through the provision of engagement services that together drive industry-leading return on investment for our clients.

Our assessment of the current addressable market for MRP is $12bn per annum in 2022, growing at a rate in excess of 20% per annum.

The Board expects MRP will benefit from recovery in its end markets, which were impacted by COVID-19, and as a result of planned product launches. MRP is targeting growth in platform revenue of at least 20% per annum through FY25 and a 70% gross margin by FY25.

People

Strengthening leadership at the Group and business unit level to support our growth strategy was a key focus during the year. We appointed three Non-Executive Directors, each bringing expertise and experience in scaling world-leading technology companies – Ayman Sayed, CEO of BMC Software; Thomas Seifert, CFO of Cloudflare; and Steve Fisher, former CTO of eBay and who also held senior technology leadership roles at salesforce.com. We also made Group senior Executive appointments, including Kathy Schneider, formerly of Sungard and Level 3, as Chief Marketing Officer.

We also made significant additions to the Executive teams within our business units, with the recruitment of high-calibre individuals including: within KX, Eric Raab, who has a wealth of CTO experience gained at high-growth technology companies including

Utilities

Utilismart converts utility data to decisions in real-time with KX

Utilismart Corporation is a dynamic company with a portfolio of solutions that facilitates digital transformation in utilities. Utilismart helps utilities gain abilities in meter data management, outage management, engineering analysis, billing, asset management, member engagement, grid visualisation, rate analysis and more. KX and Utilismart shared the same vision to develop the next generation, utility-enabled database that converts data into decisions and insights back to their utility customers instantly.

Processing meter data at over one million-meter readings per second, KX helps Utilismart scale and process more device data over a shorter period than ever before. With query response times improved significantly, KX puts mission-critical data at the fingertips of engineers and operation staff enabling them to address events safely and quickly while improving utility service reliability.

Information Builders and Yodle, as Chief Technology Officer and Alan Coad, formerly leading enterprise sales at Google Cloud and Pivotal, as Chief Revenue Officer; at MRP, Scott Matthews, who has a track record building successful SaaS companies including Crowdtwist, as Chief Executive Officer; and at First Derivative, David Collins, formerly of GFT and Capco, as Managing Director. All have previous experience in high-growth enterprise technology companies.

We also appointed Ryan Preston as CFO in January 2021, succeeding Graham Ferguson who wished to devote more time to his other interests including supporting the development of Northern Ireland-based SMEs. Ryan was formerly the Group's Deputy CFO.

The Group employs more than 2,500 people, up from more than 2,400 at the same time last year. While we initially paused recruitment in response to COVID-19, we resumed hiring to keep pace with growing demand, and during the year added 424 new employees. Attrition rates were at the lower end of the typical range.

The past year has placed unprecedented demands on employees, who have demonstrated great commitment and flexibility to support our clients and each other. The Board thanks them for their efforts and continued engagement.

COVID-19

The pandemic was a significant factor throughout our financial year, impacting both our operations and the business environment. Operationally, our priorities were the safety and health of our employees and supporting the mission-critical activities of our clients. The effectiveness of our planning and the measures we introduced enabled us to transition seamlessly to the remote delivery of all the services we provide to clients. We put in place measures that supported our employees' physical and mental wellbeing and liaised closely with clients to meet their needs effectively and pre-empt any change in requirements.

To safeguard the business we put in place mitigating measures including suspending non-essential travel, deferring Executive bonuses and suspending dividend payments. The Group did not utilise any Government financial assistance measures related to COVID-19 and nor did it furlough any employees during the year. To ensure liquidity, in March 2020 we drew down £34.2m from our available finance facility with the funds placed on deposit. Given the Group's strong cash generation in the first half of the year, this was repaid in the second half.

The business impact was felt predominantly in changes in customer behaviour, including a lengthening of sales cycles, particularly in the early months of the pandemic, which resulted in lower growth rates across our businesses and a reduction in adjusted EBITDA. As we emerge from the pandemic, we expect to see an acceleration of digital transformation in general, and continuous intelligence in particular, opening up many new opportunities for KX.

Current trading and outlook

The Board is providing guidance for the current financial year which reflects the improved momentum across our business units, as well as the cost impact of the accelerated growth detailed today.

The Board anticipates that revenue for the current financial year will be in the range £255m to £260m, with adjusted EBITDA in the range £31m to £33m. The factors affecting this guidance include:

- **KX:** while the pipeline is considerably stronger than at the same point in 2020 and we expect growth in exit ARR of at least 25%, growth in recurring software revenue is expected to be offset by a planned reduction in perpetual license revenue.
- **First Derivative and MRP:** we expect improved performance such that adjusted EBITDA for each division will exceed pre-COVID-19, FY20 levels.

Incremental increase in operating expenses of £11m as a result of the additional investment to accelerate growth announced today, together with an additional £5m of R&D cost, the majority of which is expected to be capitalised.

The Board considers that the actions announced today position the Group to deliver on exciting growth opportunities in KX while driving profitability in First Derivative and MRP. It has set growth targets that, if achieved, should generate strong returns for investors driven by high levels of recurring software revenue as KX builds on its market-leading position within continuous intelligence.

Financial review

Revenue and margins

The table below shows the movement in FY21 from the historical analysis of the Group's performance between software & services and managed services & consulting, to the new segmental analysis of KX, First Derivative and MRP. KX comprises the FinTech and Industry segments of software & services, including services revenue from pre-sales, implementation and support. First Derivative comprises the managed services and consulting segment, along with other KX services which represented £28.9m of revenue in FY21, as detailed in the first shaded column below. MarTech revenue, formerly included in software and services, is now reported under MRP, as detailed in the second shaded column. FY20 is reported on the same basis for KX, First Derivative and MRP. In addition we have provided performance metrics for each Business Unit which will further highlight how we are delivering growth.

	2021								2020				
		Former reporting				New segmental reporting							
	Group £m	Software & Services £m	Managed Services & Consulting £m	Software to First Derivative £m	Software to MRP £m	KX £m	First Derivative £m	MRP £m	Group £m	KX £m	First Derivative £m	MRP £m	Group change
Revenue	237.9	147.4	90.5	28.9	44.2	74.3	119.4	44.2	237.8	71.2	119.3	47.3	0%
Cost of sales	(136.9)	(66.1)	(70.8)	(19.5)	(26.1)	(20.5)	(90.3)	(26.1)	(136.6)	(22.4)	(88.3)	(26.0)	0%
Gross profit	101.0	81.3	19.7	9.5	18.0	53.8	29.1	18.0	101.1	48.8	31.0	21.3	(0%)
Gross margin	42%					72%	24%	41%	43%	68%	26%	45%	
R&D expenditure	(15.9)	(15.8)	(0.1)	0.0	(1.9)	(13.9)	(0.1)	(1.9)	(13.1)	(12.0)	0.0	(1.2)	21%
R&D capitalised	13.4	13.3	0.1	0.0	1.8	11.5	0.1	1.8	10.4	10.4	0.0	0.0	28%
Net R&D	(2.6)	(2.6)	0.0	0.0	(0.1)	(2.4)	0.0	(0.1)	(2.7)	(1.5)	0.0	(1.2)	(6%)
Sales and marketing costs	(39.3)	(30.8)	(8.5)	(2.3)	(7.9)	(20.6)	(10.8)	(7.9)	(35.4)	(15.7)	(10.8)	(8.9)	11%
Adj. admin expenses	(18.7)	(11.9)	(6.8)	(1.0)	(4.3)	(6.6)	(7.8)	(4.3)	(17.5)	(6.1)	(7.6)	(3.8)	6%
Adjusted EBITDA	40.5	36.1	4.4	6.1	5.7	24.3	10.5	5.7	45.5	25.5	12.6	7.4	(11%)
Adj. EBITDA margin	17%					33%	9%	13%	19%	36%	11%	16%	

Group revenue was unchanged at £237.9m (2020: £237.8m), driven by growth in KX balanced by lower revenue in MRP and a flat performance in First Derivative. Group gross profit was also unchanged at £101.0m, representing gross margin of 42%, down marginally from 43% in the prior period. Lower services utilisation in First Derivative and MRP was balanced by margin improvement in KX. As stated in our results and trading updates during the year, we continued to invest in R&D and sales and marketing which resulted in adjusted EBITDA declining by 11% to £40.5m.

KX

	KX total			FinTech			Industry		
	2021 £m	2020 £m	Change	2021 £m	2020 £m	Change	2021 £m	2020 £m	Change
Revenue	74.3	71.2	4%	65.3	59.5	10%	9.0	11.7	(23%)
Perpetual	10.7	11.9	(10%)	7.9	7.8	2%	2.8	4.0	(32%)
Recurring	37.7	34.2	10%	35.0	31.4	12%	2.7	2.8	(4%)
Total licenses	48.4	46.0	5%	43.0	39.2	10%	5.4	6.8	(21%)
Services	25.9	25.2	3%	22.3	20.3	9%	3.6	4.9	(26%)
Gross profit	53.8	48.8	10%						
Adjusted EBITDA	24.3	25.5	(5%)						

KX revenue increased by 4% to £74.3m, driven by growth in recurring license revenue of 10% to £37.7m, with recurring license revenue representing 51% of total revenue (2020: 48%). Pre-sales, implementation and support services revenue increased by 3% to £25.9m, despite investment in our customer success team which resulted in some senior staff being removed from short-term revenue-generating roles to focus on pre-and post-sales engagement with customers. Perpetual license revenue decreased by 10% as we started the transition to focus on recurring revenue, to further increase revenue predictability.

Growth was strongest in our core FinTech market, where recurring revenue increased by 12%. We won a number of new contracts, including a major European bank which made a significant commitment to use KX within its capital markets trading operation and a major Japanese bank which consolidated all its on-premise data into KX on AWS to enable real-time monitoring and alerts. Industry revenue declined by 23% to £9.0m, reflecting a lengthening of sales cycles as potential customers focused on transitioning their existing operations to remote working rather than transformational projects.

Gross profit increased by 10% as a result of the increase in software license revenue in the revenue mix, while adjusted EBITDA fell by 5% principally due to a 31% increase in sales and marketing costs.

Performance metrics	2021	2020
Exit annual recurring revenue (ARR) £m	37.6	37.5
Net revenue retention (NRR)	99%	105%
Gross profit margin	72%	68%
R&D expenditure as % of revenue	19%	17%
Sales and marketing spend as % of revenue	28%	22%
Adjusted EBITDA margin	33%	36%

We increased our spend on R&D and sales and marketing as a proportion of revenue as we continue to invest to benefit from the growing opportunities for streaming analytics and continuous intelligence.

First Derivative

The table below shows the performance of First Derivative, which incorporates the revenue shown as managed services and consulting with KX services revenue other than pre-sales, implementation and support services revenue, which remains within KX. The KX services revenue within First Derivatives principally consists of development work for clients and associated services.

	2021 £m	2020 £m	Change
Revenue	119.4	119.3	0%
Managed services	21.3	20.9	2%
Other services	98.1	98.4	(0%)
Gross profit	29.1	31.0	(6%)
Adjusted EBITDA	10.5	12.6	(17%)

Despite the impact of COVID-19, First Derivative revenue was unchanged from the prior year at £119.4m, reflecting the long-term and mission-critical nature of the services we provide and the strength of client relationships. We transitioned quickly to remote working to deliver our services and, while the pandemic impacted levels of new project work in the short term, we saw a strengthening of demand towards the end of the period, continuing into the current year. The lockdown in December 2020 led to onboarding delays for a number of projects, without which we would have reported growth for the year – these projects are now running and provide confidence that First Derivative will deliver growth in the current year.

To drive predictable growth, First Derivative is seeking to increase the number of managed service contracts it signs, under which it takes responsibility for the delivery of a service typically on a multi-year contract. Recent examples of such deals include a multi-year application support and development contract signed with a major Japanese bank. Across its practices, First Derivative is seeking to take greater responsibility for the delivery of packages of work, which should provide increased value to our clients and translate to increased gross margins for First Derivative over time.

Performance metrics	2021	2020
Gross profit margin	24%	26%
Adjusted EBITDA margin	9%	11%

Gross and EBITDA margins held up well as we managed the cost in First Derivative in response to COVID-19 and would have improved on the prior year but for delays to project onboarding towards the end of the financial year as a result of the lockdowns in Europe in late 2020/early 2021.

Financial review continued

Revenue and margins continued

MRP

The table below shows the performance of MRP, which previously was included within the Group's software revenue under MarTech.

	2021 £m	2020 £m	Change
Revenue	44.2	47.3	(7%)
Platform	24.2	25.6	(5%)
Services	19.9	21.7	(8%)
Gross profit	18.0	21.3	(15%)
Adjusted EBITDA	5.7	7.4	(22%)

MRP provides global sales and marketing leaders with an enterprise class predictive Account Based Marketing (ABM) platform and supporting products and services to enable them to identify and engage potential customers earlier and more effectively, driving greater revenue and market share. MRP's Prelytix platform uses KX's data analytics capabilities to deliver predictive analytics derived from billions of data points, enabling clients to dynamically assess their marketplace and to activate a wide range of sales and marketing tactics informed by real-time insights. Our focus is on growing recurring software revenue, which is derived from a combination of subscriptions to MRP's Prelytix platform and data-driven engagement between our clients and their prospects using Prelytix. We also provide marketing products and services to enable clients to engage with prospective customers and to progress them through their sales funnel.

COVID-19 impacted the entire year and all of the geographies in which MRP operates. In H1, some existing clients paused subscription renewals and services spend as a result of macroeconomic uncertainty and their desire to focus on serving existing customers rather than driving new sales. In H2, while customer spending in Europe and the Asia Pacific region improved, North America was weaker than expected, partly driven by cuts in marketing budgets and also by the ongoing impact of COVID-19. Against this backdrop for the year, software revenue held up well, while services revenue experienced a 10% reduction.

Towards the period end and in early FY22 we have seen an encouraging rebound in spending, particularly in North America, with both new customer wins representing significant multi-year commitments and existing customers increasing their spend with MRP. Our development roadmap for MRP includes ongoing upgrades to the Prelytix platform, along with new and enhanced products that provide the potential to accelerate growth and help us achieve our target growth rate in software revenue through to FY25.

Performance metrics	2021	2020
Software revenue £m	24.2	25.6
Gross profit margin	41%	45%
Adjusted EBITDA margin	13%	16%

Software revenue held up well despite the impact of COVID-19, declining by 4% for the reasons discussed above. Gross and adjusted EBITDA margins declined as we continued to invest to support MRP's growth opportunity.

Adjusted EBITDA

The reconciliation of operating profit to adjusted EBITDA is provided below:

	2021 £m	2020 £m
Operating profit	17.0	21.7
Acquisition and non-operational costs	1.3	2.0
Share based payment and related costs	2.4	3.1
Depreciation and amortisation	19.8	18.7
Adjusted EBITDA	40.5	45.5

Profit before tax

Adjusted profit before tax decreased by 22% to £20.2m (2020: £25.9m) held back by higher depreciation and software amortisation charges due to the impact of increased R&D in recent years. This was balanced by increased finance income related to the sale of the Group's stake in Quantile Technologies, which is excluded from adjusted profit before tax. Reported profit before tax decreased by 39% to £11.1m (2020: £18.3m) with a major non-operational factor being exchange rate differences which represented a £3.2m charge for the period compared with a £1.0m benefit in the prior year. This was driven by a higher than typical level of dollar balances held, due to lower investments/acquisitions and improved cash collection in the US.

The reconciliation of adjusted EBITDA to reported profit before tax is provided below:

	2021 £m	2020 £m
Adjusted EBITDA	40.5	45.5
Adjustments for:		
Depreciation	(6.9)	(6.3)
Amortisation of software development costs	(9.3)	(8.7)
Financing costs	(4.2)	(4.6)
Adjusted profit before tax	20.2	25.9
Adjustments for:		
Amortisation of acquired intangibles	(3.6)	(3.7)
Share based payment and related costs	(2.4)	(3.1)
Acquisition and non-operational costs, associate disposal costs and changes in deferred consideration	(1.3)	(2.0)
Profit/(loss) on foreign currency translation	(3.2)	1.0
Share of profit of associate	(0.1)	0.1
Finance income	1.6	–
Reported profit before tax	11.1	18.3

Earnings per share

Reported profit after tax decreased by 40% to £9.0m (2020: £14.9m) and reported diluted earnings per share decreased by 41% to 32.0p per share (2020: 54.2p). Exchange rate differences accounted for a major part of this decline.

The adjusted profit after tax for the period of £16.6m (2020: £21.3m) represented a decrease of 22%. The calculation of adjusted profit after tax is detailed below:

	2021 £m	2020 £m
Reported profit after tax	9.0	14.9
Adjustments from profit before tax	9.0	7.6
Tax effect of adjustments	(1.4)	(1.3)
Adjusted profit after tax	16.6	21.3
Weighted average number of ordinary shares (diluted)	28.1m	27.5m
Adjusted EPS (fully diluted)	59.0p	77.4p

Balance sheet

Total assets increased by £14.2m with cash and cash equivalents increasing by more than 100% to £55.2m (2020: £26.1m). Loans and borrowings fell to £92.8m (2020: £105.2m) of which £65.1m related to bank loans (2020: £75.5m) and the remainder to lease liabilities.

Financial review continued

Cash generation and net debt

The Group generated £46.7m of cash from operating activities before taxes paid (2020: £34.4m) representing 115% conversion of adjusted EBITDA (2020: 75%). The performance during the period benefited from lower growth rates which improved working capital as well as an increased focus on cash collection, while there was an also a benefit from revenue recognised in 2020 where the cash was collected in early 2021. We continue to expect cash generated from operating activities to represent 80-85% of adjusted EBITDA in a year where growth reaches our target levels.

The Group also benefited from an £11.3m inflow from investments, of which £11.0m represents an inflow from the partial sale of our holding in Quantile Technologies. The investment occurred as part of FD's strategy of assisting companies that were adopting KX in new and innovative ways. This programme has been de-emphasised in recent years and the Group has instead focused its efforts on signing partnership agreements with OEMs, systems integrators and hyperscale cloud providers.

At the period end, net debt was £9.9m (2020: £49.4m). The factors impacting the movement in net debt are summarised in the table below:

	2021 £m	2020 £m
Opening net debt (excluding lease liabilities)	(49.4)	(16.5)
Cash generated from operating activities	46.7	34.4
Taxes paid	(1.3)	(3.0)
Dividends paid	–	(7.4)
Capital expenditure: property, plant and equipment	(1.5)	(2.3)
Capital expenditure: intangible assets	(13.8)	(11.0)
Acquisition of subsidiaries	–	(42.9)
Investments	11.3	(1.6)
Issue of new shares	8.3	10.1
Interest, foreign exchange and other	(10.3)	(9.2)
Closing net debt (excluding lease liabilities)	**(9.9)**	(49.4)

Dividend

The Board did not declare an interim dividend due to uncertainty regarding COVID-19. In light of the decision to increase investment in KX, the Board has decided not to recommend the payment of a final dividend for the full year.

Glossary of terms

The Group uses the following definitions for its key metrics:

- **Exit annual recurring revenue (ARR):** is the value at the end of the accounting period of the software and subscription recurring revenue to be recognised over the proceeding twelve months.
- **Net retention rate (NRR):** is based on the actual revenues in the quarter annualised forward to twelve months and compared to the annualised revenue from the four quarters prior. The customer cohort is comprised of customers in the quarter that have generated revenue in the prior four quarters.
- **Adjusted admin expenses:** is a measure used in internal management reporting which comprises administrative expenses per the statement of comprehensive income of £42.0m (2020: £41.8m) adjusted for depreciation and amortisation of £19.8m (2020: £18.7m), share based payments and related costs of £2.4m (2020: £3.1m), acquisition and non-operational costs of £1.3m (2020: £2.0m) and net of impairment (loss)/gain on trade and other receivables of £0.2m (2020: gain of £0.3m) and other income of £0.1m (2020: £0.2m).

Managing risk

Effective risk management is a key factor in the successful delivery of the Group's strategy. The Board, advised by the Audit Committee, is responsible for assessing and managing risk and setting policies and procedures to monitor and mitigate against the Group's exposure to it.

The Group operates in a constantly changing economic and technological environment and as a result is exposed to a spectrum of risks and uncertainties. The risks discussed below could have a material effect separately, or in combination, on our day-to-day operations and our earnings, cash flows and financial position. Accordingly, investors should carefully consider these risks. The Board's responsibility for identifying, evaluating and managing these risks and the measures in place to monitor and mitigate against them are assessed regularly by the Audit Committee and formally reviewed by the Board. The framework supporting this process and the major risks as currently identified are discussed in more detail below.

Risk framework

The Group recognises that risk represents opportunity to the organisation, and in order to achieve its strategic objectives it has an appetite to assume a certain degree of risk as determined by the Board. During the year the Group, led by the Audit Committee, reviewed its risk framework and processes to ensure that they are appropriate to achieve its objectives. The framework below was adopted by the Group during the year.

Board

Responsible for setting the risk appetite and ensuring appropriate risk management controls are in place to identify and mitigate risk.

Audit Committee

Advises the Board and takes responsibility for risk identification, risk assessment and reviewing risk management and internal controls (including policies, procedures and monitoring mitigating activities). The Audit Committee also makes recommendations to the Board, oversees the risk register (including emerging risks) and annually reviews the effectiveness of risk management processes.

The Audit Committee and Board completed an assessment of the Company's emerging and principal risks during the year. The controls and measures in place to monitor and mitigate these risks, including new mitigating actions where required, are assessed regularly by the Audit Committee and formally reviewed by the Board.

Executive Risk Committee/Management

Maintains the Group risk register, reviews emerging and existing risks identified in each business unit's (KX, MRP, First Derivative and Central) risk register and evaluates mitigating controls from the business unit's managers, legal, finance, tax, IT, HR and the external auditor.

Risk factors

Risk	Potential impact	Mitigation
Attracting and retaining talent in a competitive environment As a software and consultancy provider, the Group is dependent on the skill, experience and commitment of its employees, which places huge importance on the recruitment, development and retention of key staff. It is also important to align the current and future resourcing levels and capabilities with the changing needs of the business and our customers. The success of the Group is built upon effective teams that consistently deliver superior performance. If the Group cannot attract, retain or develop suitably qualified, experienced and motivated employees, this could have an impact on business performance. Change over prior year Unchanged	The long-term performance of the Group would be adversely affected if we fail to attract, develop and retain staff in a highly competitive labour environment and if the required staffing levels of sufficient calibre are not achieved and sustained. There is the potential to impact the achievement of the Group's strategic objectives in the event that the current and future resourcing levels and capabilities are not aligned with the needs of our customers. There is also the potential for short-term revenue impact if staffing levels fall below the level required to service customer demand.	The Group maintains a constant focus on this area with competitive remuneration packages and a strong commitment to training and career development. The Group has structured succession plans in place. Our policies and procedures are reviewed and regularly updated by Group Human Resources, Divisional Leads and the Executive Team. The Group also has systems in place to accurately forecast demand requirements including the level of recruitment and the types of skills/expertise required to meet client requirements. Should a mismatch occur, the Group has contingency plans in place that would cover the period until sufficiently skilled additional staff can be recruited and trained.
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. This could result in the enforced outage of critical IT systems arising from non-malicious infrastructure failures or successful cyber attacks and/or significant data leakage. Change over prior year Unchanged	This risk has implications in terms of potential litigation and regulatory actions as well as commercial implications including loss of customer confidence, reputational damage, contractual impact and negative publicity.	As a provider of software to leading financial services organisations around the world, the Group is required to operate stringent IT and cybersecurity 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 IT security controls covering some of our hosted trading products such as KX for Flow.
Changing market dynamics External factors, outside the direct influence of the Group, including economic cycles and market trends, could significantly impact on performance in a competitive and cyclical market environment. These factors could also impact the suitability of our products, services and solutions to meet current and future client requirements. This makes it more difficult to forecast future demand from clients. Change over prior year Unchanged	The Group's resourcing decisions could lead to excess staff levels reducing profitability in the short term, or underinvestment in our products, services and solutions, leading to missed commercial opportunities and/or client dissatisfaction. This may result in First Derivative losing its position as a key player in the market. Demand for our services could decease and consequently, revenues decline in the event of a global economic downturn or political unrest.	The Group addresses the impact of these external factors through a focus on strong financial management, a broad spread of products and customers across the divisions, regular reviews of our products and services, and careful geographic expansion. In addition, the Group's expansion into new industries reduces our exposure to sector-specific impacts.

Risk	Potential impact	Mitigation
Challenges and risks associated with the COVID-19 pandemic In addition to the unprecedented level of economic disruption and uncertainty, the COVID-19 pandemic has affected all areas of business and the personal lives of our employees and our customers. While this risk has materialised at this point, the Group is still potentially exposed to further evolution of this pandemic. Change over prior year Unchanged	The financial performance of the Group could be impacted, due to the prolonged impact of this current pandemic which could lower future growth rates due to an inability to effectively implement sales and marketing activities and disrupt delivery of products and services.	The Group has a Pandemic Policy which was implemented in February 2020 as the COVID-19 virus showed signs of developing into a pandemic. The Policy requires measures to be implemented across the Group to protect our employees, customers and partners in accordance with official government advice in each of the regions in which we operate. It also requires that we communicate the Policy to our employees and customers, and put in place mitigating measures, including self-isolation for at-risk employees and remote working where required. The Policy is actively reviewed as the Group continues to respond to the risks and uncertainties arising from COVID-19. During the pandemic, a global team representing all of the Group's operations has ensured regular two-way communication with employees across the Group and continues to coordinate the pandemic response across the business.
Intellectual property infringement The Group's intellectual property (IP) is centred around the software and services it develops for customers. The Group has to manage the risk of infringing a third party's intellectual property rights in the development of its software and services. If this risk is not managed effectively, it could result in a violation or breach of protected intellectual property. Change over prior year New risk	This risk has implications in terms of potential litigation and regulatory actions as well as commercial implications resulting from loss of customer confidence and negative publicity.	The Group has policies and procedures in place to protect against the risk of Intellectual Property infringement. These policies and procedures are reviewed on a periodic basis by Senior Management. The Group enters into formal non-disclosure agreements with employees, independent contractors and third parties in the ordinary course of its business. Staff are made aware of the importance of client confidentiality and the requirements in this area. The Group actively monitors the use of third-party software in its product offerings. The choice of third-party components is subject to technical review and assessment at design stage. Employment and consultancy contracts have clauses to protect intellectual property rights.
Technology changes Technological advancements in the software industry, which are constantly evolving and ever changing, could result in increased competition or potential obsolescence of our current products. The ability of the Group to provide its services effectively and competitively is dependent on technology and information systems that are appropriately integrated and that meet current and anticipated future business, regulatory and security requirements. Change over prior year Unchanged	In order to remain competitive, it is essential that the Group's products, services, technology and solutions are up to date and our development plans are flexible. This risk has implications in terms of the ability of our products, services, technology and solutions to address current and future customer requirements. Failure to address these risks means that the IT systems may not be capable of meeting the Group's strategic intent and future requirements, whilst further mitigating against systems failures and the increasing threat of external interference.	The Group makes significant ongoing investments in technological research and development to proactively develop new and enhanced capabilities within our software offerings. This allows for the identification of, and adaptation to, any technological changes that occur externally, thereby ensuring that the Group's products continue to meet our clients' requirements and our technology and information systems meet our requirements. In addition to our central Research and Development team, the Group constantly evaluates technology trends and new software product opportunities. During 2021 The Board formed a technology sub-committee, comprised of Non-Executive Directors and executive management, to address this risk, as well as to address emerging opportunities to ensure our technology maintains its leadership position.

Principal risks and uncertainties continued

Risk factors continued

Risk	Potential impact	Mitigation
International operations The Group operates across multiple countries and continents, consequently there is a risk that an interruption of international trade could materially disrupt the strategic operations of the Group. There is potential for disruption caused by legislation or new working practices resulting from the UK's exit from the European Union. Change over prior year Unchanged	Interruptions in international operations could prevent the Group from operating in certain jurisdictions and/or prevent migration of talent from one jurisdiction to another, and therefore adversely affect the Group in meeting its strategic objectives. Failure to address and monitor these risks could impact the financial performance of the Group.	The Group has policies and procedures in place to constantly monitor international relations, macroeconomics, geopolitical events and global trends in all of the jurisdictions in which it operates. The Group is confident that it has the foresight and flexibility in its operations to mitigate the impact of any potentially negative consequences stemming from international operations (including Brexit). The impact of Brexit which has been assessed and considered by the Board is not currently having a significant impact on the business operations. The Group does not produce physical goods, nor does it rely on suppliers that may be subject to disruption. Within its consultancy business it has assisted many of its capital markets clients with their Brexit preparations and in doing so has assisted in developing best practice. The Group is confident that it has the flexibility in its operations to continue to cope successfully with Brexit.
Management of growth As the Group continues to experience strong growth, there is a risk that if this growth accelerates exponentially (without being controlled and managed effectively), the Group may not be in a position to maintain the high standards of customer service that our customers are accustomed to. Change over prior year Unchanged	If the correct level of investment in people and technology is not maintained it is possible that the quality of the Group's service offering will drop and/or cost control and operational effectiveness will deteriorate.	The Group has a programme of continual investment in all aspects of the business (operational, financial and management controls, reporting systems and procedures and training programmes). This is constantly reviewed and monitored to ensure that the Group can continue to maintain the high standards of customer service. As a result of the constant focus, the Group can ensure that the level of investment is relative to the growth of the Group and that that optimum operational efficiency is achieved.
Retention of key client relationships Through world-class software products and associated services coupled with high-calibre managed services and consulting, we strive to maintain strong relationships with all clients. There is a risk that competitors may attempt to target key/potential customers offering a lower cost structure which could result in a material reduction in profit margins and/or business volumes. Change over prior year Unchanged	Events outside of the Group's control such as changes in ownership or business priorities could adversely affect future revenues from existing client relationships.	The Group is constantly increasing its portfolio of clients and diversifying into new industries and sectors, in order to reduce reliance on a number of specific client relationships. The Group has a growing presence in geographic regions outside of the UK and US. The low levels of client attrition is a testament to the Group's success in limiting this risk and retaining key client relationships. The Group continues to increase market share in the sectors and markets in which it operates, for example in manufacturing, utilities and automotive.

Risk	Potential impact	Mitigation
Internal controls The Group's resources and finances must be managed in accordance with rigorous standards and stringent controls. A failure to meet those standards and implement appropriate controls may result in the Group's resources being improperly utilised or its financial statements being inaccurate or misleading. There is also a risk that the Group could suffer financial loss owing to fraudulent activity, unauthorised access to or misuse of Group bank accounts and/or other resources leading to the loss of funds. Change over prior year New risk	The lack of appropriate internal controls across the Group means that it is possible that key risks will not be appropriately mitigated. There is also a potential for inaccurate reporting and fraudulent events to occur which could damage the Group's reputation.	The Group has processes and procedures in place which act as controls to mitigate risk. The Group is implementing a new ERP system which will further enhance internal controls. As part of the ERP implementation existing processes are being reviewed and documented updated as required.
Compliance with legal and regulatory obligations Compliance with legal and regulatory obligations is a requirement across the territories in which the Group operates. Complying with the spirit as well as the letter of such regulations is a core value of the Group. Change over prior year New risk	Non-compliance with all legal and regulatory obligations of the Group could result in regulatory fines and/or reputational damage.	The Group has a dedicated legal and contracts team that have the knowledge and are equipped with the knowledge and expertise to ensure that any contracts agreed are in the best interests of the Group. All contracts go through a formal review process to ensure accuracy and consistency with the strategic objectives of the Group as a whole.
Business continuity The Group is exposed to risks that, should they materialise, may give rise to the interruption of critical business processes that could adversely impact the Group and/or its customers. There is also a risk that the IT systems and infrastructure may be affected by loss of service or system availability which impacts the provision of services to customers. Change over prior year New risk	Failure to address this risk could result in key processes and systems being unavailable in the event of a significant incident affecting their availability.	The Group has resiliency built into its critical IT systems/processes and has implemented recovery capabilities as well as testing to ensure availability is not interrupted or adversely affected.

Corporate responsibility

This year, we have undertaken a further assessment of our corporate responsibility strategy and have broadened it to emphasise our focus on sustainability, an umbrella term that encapsulates environmental, social and governance (ESG), climate change and a wide range of green financing and related greenhouse emissions reduction themes. While these have always been central to our corporate responsibility vision, we believe that it is appropriate to highlight them more formally given the increasing emphasis placed on them by our diverse range of stakeholders.

We have considered how best to anchor the Group with a framework that will endure this period of change. After careful research and analysis, we made the decision to focus on the United Nations Global Compact (UN GC) and United Nations Sustainable Development Goals (UN SDGs) to form the basis of our corporate responsibility and sustainability framework.

Our corporate responsibility principles

Here we provide a high-level summary of the principles that guide our business strategy. A more detailed description of our business practices is provided in the section on UN SDGs.

UN GC principles	First Derivatives business practices
Human rights	First Derivatives is a business based on people and, therefore, we place significant emphasis on all aspects of the welfare and wellbeing of our employees. The foundation of Group policies is the rights of employees and the upholding and enforcement of relevant laws for the many jurisdictions in which we operate. Additionally, the Group seeks to promote the same respect and consideration for rights across its supply chain and endeavours through third-party due diligence assessment to only conduct business with parties that uphold the rights of their employees.
Labour	First Derivatives is committed to the elimination of all forms of forced and compulsory labour, the effective abolition of child labour and the elimination of discrimination in respect of employment and occupation. **Statement on modern slavery** Our statement on modern slavery is available on the Group website here: **firstderivatives.com/modern-slavery-statement**. Further details on our Anti-Slavery Policy are provided under the UN SDGs section below.
Environment	First Derivatives is committed to minimising the impact of its operations on the environment and understands the importance of reporting on that impact through recognised corporate responsibility standards. **Environmental impact** As a provider of software and professional services, the Group's direct operations have minimal impact on the environment, broadly limited to its own energy use. The Group does not manufacture or mine and does not transport goods and so consequently its operations have no impact in terms of land, water or air emissions. The Group does not provide company vehicles to employees or Directors and does not operate its own data centres. Nonetheless, the Group does seek to minimise the limited impact its operations have on the environment through a range of policies focused on environmental, corporate social responsibility and ethical and sustainable business. **Remote working practices** As a result of the recent COVID-19 pandemic, the Company has experienced a significant reduction in employee travel, both international travel and commuter travel, both of which have been replaced substantially by remote working. As we emerge from the pandemic, the Company continues to consider how it can best manage its environmental impact from travel through its working practice arrangement in line with its clients' needs.
Anti-corruption	First Derivatives is committed to working against corruption in all its forms, including extortion and bribery. **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.

Our sustainability principles

Below we have prioritised those matters that are material to our business and added corresponding commentary along with signalling that identifies which of the UN SDGs these priorities cover.

Overview of our priorities

We believe that acting responsibly is key to delivering long-term success. It goes right to the heart of our values and culture as an organisation – for example, our people strategy, which is centred around health, fair rewards, diversity and inclusion, is critical to attract, develop and retain the best talent. We ensure the views of our employees are taken into account and we remain conscious at all times of the need to ensure that we build on our strong record of employee engagement.

We are also acutely conscious of the importance of safeguarding the environment to protect our planet and we are committed to augmenting the efforts below to ensure that we adopt best practices across the entire spectrum of our activities.

Delivering on these matters means developing and executing policies that empower and develop our people, ensure we operate responsibly, safeguard data and act to protect the environment.

These aims are baked into our operations through a range of policies that are set and monitored by the Board to ensure not just that we comply with the relevant legislation but that we go beyond that to assure all our stakeholders that we are acting with their long-term interests at heart. They also act to deliver our strategy and business model by mitigating risks such as attracting and retaining talent and as such are vital to the delivery of our business model.

Therefore, our priorities based on the nature of our business may be summarised around the following high-level themes:

Our people

- Recruitment
- Training and development
- Reward
- Support
- Diversity and inclusion
- Employee engagement

Security and privacy

- Security business practices
- Privacy business practices

Responsible operations policies

- Anti-Slavery Policy
- Anti-Bribery and Anti-Corruption Policy
- Whistleblowing Policy

Environment

- Environmental Policy
- Environmental benefits created by the software business
- Energy use

Charitable and community support

- Charity Policy
- Payroll giving
- Training and development

Our people

Given the nature of our activities, people are 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.

We continue to seek ways to improve our employee environment. Our employee engagement survey is designed to identify ways to increase our employee satisfaction and retention. We continue to use the results of the survey to further enhance our people strategy and the way we communicate with employees.

We believe that our business practices in these areas support the following SDGs:

- **Goal 3.** Ensure healthy lives and promote wellbeing for all at all ages.
- **Goal 4.** Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
- **Goal 5.** Achieve gender equality and empower all women and girls.
- **Goal 8.** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
- **Goal 10.** Reduce inequality within and among countries.
- **Goal 16.** Promote peaceful and inclusive societies for sustainable development and provide access to justice for all.

Recruitment

The HR team 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 9,791 (2020: 8,880) people applying for a job with the Group during the year. From these applications, we selected 424 (2020: 446) people to commence employment with us during the year, of which 147 (2020: 291) were new employees at graduate level and 277 (2020: 155) were experienced hires.

Training and development

We equip our people with the right skills. We expanded our investment in external training during the past year, which included 36 (2020: 35) employees pursuing a machine learning qualification and 143 (2020: 250) employees studying for a risk management certification. We also have 51 employees completing an AWS qualification; 30 employees completing a BA degree; and 30 employees completing a project management qualification.

We provide an industry-recognised, two-year Capital Markets Training Programme (CMTP) primarily designed for, and focused on, our graduate intakes although many of those joining us as experienced hires have also benefited from the extensive knowledge base we have developed. During the financial year we had 147 (2020: 281) graduate hires commencing the CMTP. In total these employees completed 45,120 (2020: 89,920) hours of internal training with First Derivatives managers and trainers. These same employees have also completed a total of 3,525 (2020: 7,025) internal training modules in the areas of finance, technology and consulting. In total we have invested £0.5m (2020: £0.5m) in training during the year.

Corporate responsibility continued

Our people continued

Training and development continued

We continue to partner with third parties to enhance our compliance training for all employees. We have financially supported the completion of 341 (2020: 604) external training certifications for employees in the areas of Risk Management, Cloud Technologies, Project Management, Business Analysis and other business key areas. Through our investment in the Thomson Reuters Regulation & Compliance platform our employees completed 5,358 (2020: 5,368) modules in total in GDPR, Information Security, Anti-Bribery & Corruption and other important compliance areas.

Reward

At First Derivatives 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. Our reward system is intended to be competitive in the market to assist recruitment and retention and all employees benefit from healthcare, pension and life assurance as well as family-friendly policies to cover maternity, paternity and adoption pay. We also support employees through flexible working arrangements. The benefits package is designed to underpin our collegiate culture, and all benefits help support and care for employees and their families.

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 and we provide complimentary healthcare plans and private health insurance. We continue to improve our health and wellbeing strategy, with a particular focus on mental health including a Global Mental Health Signposting initiative detailing relevant external confidential support in each of our regions. We support global awareness days, with a calendar of events in locations globally which allowed employees to engage proactively in the programmes and our mental health awareness campaign entitled #MindMatters.

The #MindMatters initiative involves sharing key information and resources on various factors that have an impact on mental health wellbeing and, uniquely, employees share personal stories on coping with mental health illnesses. In addition, we embedded our Employee Assistance Programme (EAP) in each location which enables our employees to benefit from many health and personal wellbeing services provided by external professionals. Utilisation of the EAP is positive and continues to support the underpinning of our #MindMatters campaign on mental health.

Diversity and inclusion

At First Derivatives 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.

We now have three networks that help to drive our diversity and inclusion strategy:

- FD Pride, our LGBT+ network;
- FDWN, our women's network; and
- FD Multicultural Network.

Our employees have embraced these networks enthusiastically and we look forward to continuing to influence the FD culture going forward.

This year we launched FD Impact, a mentorship programme, which connects a female university undergraduate with a First Derivatives mentor. The objective of this programme is to attract more women to consider joining the Group in the future once they finish their studies and is an important pillar of our diversity and inclusion strategy. The feedback from the programme was overwhelmingly positive with many of the female participants applying to join the Group on one of our placement or graduate programmes or becoming an FD Brand Ambassador at their universities during their final year of studies.

Employee engagement

The Board approved the launch of the Group's inaugural employee engagement survey in 2019. The survey was conducted with the assistance of Willis Towers Watson (WTW), an independent organisation providing broking, advisory and technology solutions to clients worldwide. We worked closely with WTW to design and implement a bespoke survey, utilising its engaging, confidential and user-friendly online survey tool, and the survey was issued to all permanent employees across the globe.

The second annual survey was issued in September 2020, maintaining the same survey questions within the 13 categories identified in 2019 but also taking the opportunity to include additional questions under the work organisation and conditions category to gather feedback on employee experience of the support provided during the pandemic. Having a second set of results against the 13 categories in 2020 has provided valuable comparative year-on-year data.

In 2020, the survey was completed by 77% of employees across the Group. This compares with 66% who participated in last year's inaugural survey. This increase of 11% in the participation rate demonstrates a strong interest from our employees in effecting change across the Group. This provided a statistically robust dataset upon which we continue to base our decision making. The global participation rate and initial survey results were announced to all employees by our CEO, Seamus Keating. Our business leaders then led the dissemination of results and feedback for each part of the organisation.

We are particularly pleased that we have maintained sustainable engagement (an indication of employees being engaged, enabled and energised) as our highest scoring category in 2020 and that we also increased our score in this category from 79% in 2019 to 81% in 2020. Improvements in participation and sustainable engagement scores are notable, especially given the backdrop of the pandemic on our professional and personal lives this year.

Overall, the survey reflected improvements across the majority of categories since 2019, with our most improved categories as follows:

Category	2020 favourable %	2019 comparison %
Change	63%	+7%
Communication	68%	+7%
Senior leadership/management	56%	+6%

The survey revealed that we have work to do in improving the work/life balance of the team as well as reviewing how we reward our employees and manage performance across the business – the following three categories are those with no improvement since last year and highlight areas for focus in the year ahead:

Category	2020 favourable %	2019 comparison %
Work organisation and conditions	76%	-1%
Reward and benefit	49%	-1%
Performance management	50%	0%

The survey results continue to provide us with invaluable data in understanding what employees value most in the workplace and informing our decision making. All of the research underpins the importance of employee engagement in driving performance, personal satisfaction and business outcomes. Those organisations with high levels of engagement consistently outperform those with lower engagement across both the short and long term. Employee engagement, therefore, remains a priority for the Executive team and is the key driver of our people strategy.

People and corporate privacy and security

The Group is committed to the highest standards of security and privacy and is conscious that these matters are of great importance to stakeholders such as employees, customers and partners.

We regard the development and maintenance of privacy and security infrastructure as critical to promoting sustainable development of the industrialised world because it helps to promote individual wellbeing, supports equality, avoids discrimination, and empowers all genders through confidentiality of their information. Privacy and security are also essential to successful partnerships, which can then progress towards sustainable development through cooperation with confidence that shared information is managed safely.

We believe that our business practices in these areas support the following SDGs:

- **Goal 5.** Achieve gender equality and empower all women and girls.
- **Goal 9.** Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.
- **Goal 17.** Strengthen the means of implementation and revitalise the global partnership for sustainable development.

Security business practices

We work with many large organisations that manage sensitive and confidential data and as such our adherence to high levels of IT and cybersecurity is essential. All of our employees receive training on IT security and are provided with a copy of the Group's IT Security Policy, which is multi-layered to cover 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.

The Group operates a cybersecurity awareness programme to help to establish a security-conscious culture, making sure users understand what cyber threats are, the potential impact a cyber-attack could have and the steps required to reduce risk and prevent cyber-crime infiltration. In addition to cybersecurity training it is mandatory for each employee to complete the following courses: Anti-Money Laundering and Counter-Terrorist Financing, Anti-Bribery and Anti-Corruption, General Data Protection Regulation (GDPR) and the Group's Global Code of Conduct.

Privacy business practices

The Group operates a Privacy Policy, which includes ensuring compliance with GDPR, to protect the personal information held by the Group relating to stakeholders including clients, partners, prospective employees and digital/mobile visitors. Such information is only collected and used when the individuals have provided their consent and only for the purposes for which that consent was provided. Such information is kept confidential and access is limited to those required to process it or provide a product or service, and FD does not sell or trade such information. Information held is reviewed annually and only retained if required unless legal or regulatory requirements dictate a longer holding period.

First Derivatives is a "Data Processor" under GDPR. This means that the Group is responsible for processing data on behalf of a "Data Controller", e.g. a client of the Group. The Group adheres to the six key principles of data processing under the legislation and all employees or others who process or use any personal data must ensure that they follow these principles at all times.

Corporate responsibility continued

Responsible operations policies

The Group takes seriously its responsibilities to operate ethically and responsibly and to ensure it has a range of policies in place, with further details provided below.

We believe that our business practices in these areas support the following SDGs:

- **Goal 3.** Ensure healthy lives and promote wellbeing for all at all ages.
- **Goal 9.** Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.
- **Goal 10.** Reduce inequality within and among countries.

Anti-Slavery Policy

We believe our risk of encountering modern slavery is low, but our policy is designed to prevent it occurring, reflecting our commitment to acting ethically and with integrity in all our business relationships.

We choose suppliers and contractors which we believe share our commitment. We comply with all applicable employment legislation and we invest heavily in the health and wellbeing of our employees, and provide modern slavery awareness training for our procurement, human resources, finance, legal and facilities teams along with other individuals.

Anti-Bribery and Anti-Corruption Policy

The Group has robust policies, processes and procedures in place to embed anti-bribery and anti-corruption practices in the business both internally and with third parties.

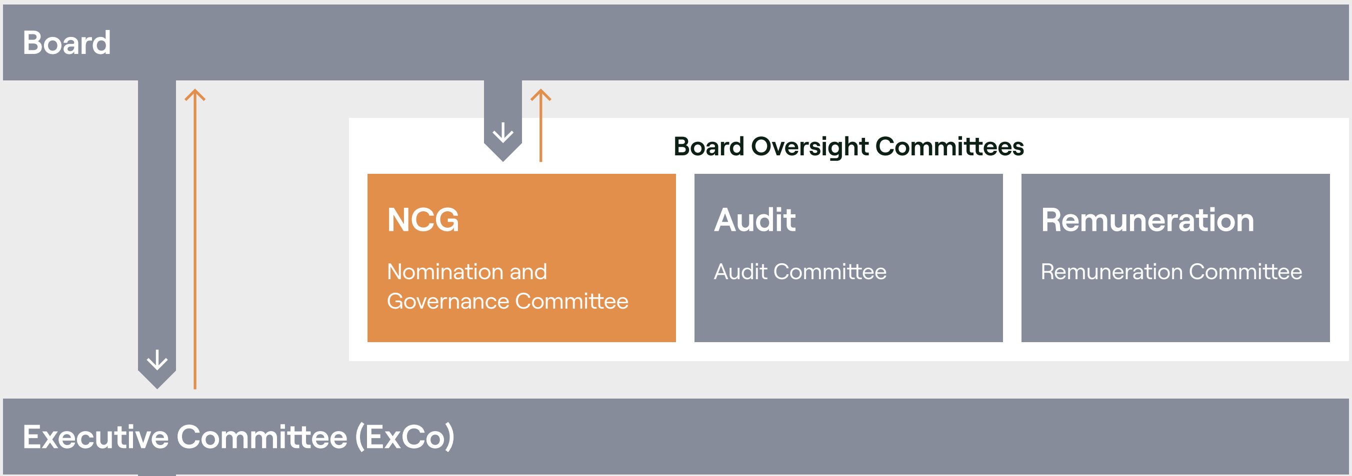
For third-party contracts, the Group has a dedicated bid management function for client contracts and a procurement function for all supplier contracts that ensure high standards of due diligence and risk assessment are undertaken in all business dealings. In the event that any concerns are raised of inappropriate business practice related to bribery and corruption, there is an escalation process to senior management.

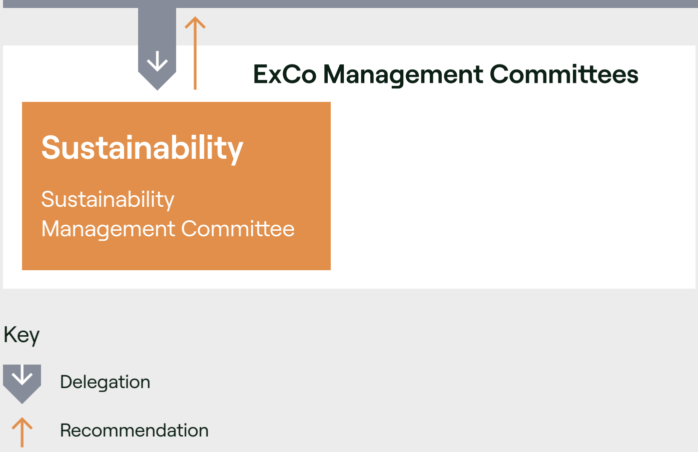
Whistleblowing Policy

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.

Governance structure for sustainability

Our governance structure for these matters is summarised in the table below.





Delegated authority process

The Board delegates sustainability authority as follows:

- Board sets strategy and policy for sustainability;
- Board delegates oversight to the Nomination and Governance Committee;
- Board delegates management responsibility to the ExCo; and
- ExCo delegates oversight to the Sustainability Management Committee, which comprises a group of senior executives representing key functions across the Group.

Benefits of the corporate responsibility and sustainability framework

UN GC

The UN GC provides foundation principles to guide the integrity of our business practices, focused on human rights, labour, environment and anti-corruption practices that we embed in our business policies, processes and procedures.

For further information see the UN Global Compact website.

UN SDGs

The UN SDGs provide a further level of granularity that allows the Group to identify those themes that are most relevant to its activities with the following benefits:

1. **Independence:** The 193 member states of the United Nations (UN) established the Sustainable Development Goals (SDGs) in 2015 to provide a common set of economic, social and environmental outcomes that governments, non-profits, companies and investors can work together to achieve by 2030.
2. **Transparency:** The SDGs consist of 17 goals available in the public domain as an open-source classification framework.
3. **Granularity:** The 17 goals consist of 169 associated targets and 247 indicators to measure progress, thus providing further detailed classifications to accommodate the evolution and change in sustainability market practices.

For further information see the UN SDGs website.

Environment

The Group takes its environmental responsibilities seriously and embeds them in its operating model. In this section, we provide further details on our policy and how its different business activities are having a positive impact on the environment.

We believe that our business practices in these areas support the following SDGs:

- **Goal 9.** Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.
- **Goal 11.** Make cities and human settlements inclusive, safe, resilient and sustainable.
- **Goal 12.** Ensure sustainable consumption and production patterns.
- **Goal 13.** Take urgent action to combat climate change and its impacts.

Environmental Policy

Our Environmental Policy details measures that we take to minimise our impact on the environment, while encouraging suppliers and customers to do the same. They include compliance with the letter and spirit of environmental regulations in the geographies in which we operate; continuous monitoring to improve our environmental performance; evaluating the environmental impact of business decisions; measures to reduce waste produced and recycle where possible; incorporating energy efficiency measures in our buildings to reduce electricity consumption; participation in initiatives such as Cycle to Work; employee training and awareness; and other ad hoc measures.

We continue to put in place measures designed to minimise our impact on the environment. Examples include the installation of advanced heating and cooling systems, introducing branded reusable coffee cups to reduce the use of disposable ones and optimising our Business Travel Policy to eliminate unnecessary travel and minimise the environmental impact of necessary travel.

Environmental benefits within the software business

The strengths of KX are not just limited to its unrivalled performance and power, it is also incredibly efficient, enabling customers to reduce their total compute footprint while still benefiting from the world's fastest streaming analytics platform.

The International Energy Agency (IEA) report "Data Centres and Data Transmission Networks" in June 2020 reported that data centres alone accounted for 1% of the world's electricity consumption in 2019. We are rightly proud of the undoubted environmental benefits that our KX technology delivers through its energy and environmental efficiency and we have continued to focus efforts on ensuring KX remains the most efficient streaming analytics technology available today.

Additional work undertaken by our R&D teams across the last financial year include making KX cloud native, allowing customers to scale their systems down during quiet periods, paying only for what they use which significantly reduces the computational load going through datacenters. In addition, we have benchmarked ourselves as up to 50 times more efficient than competing streaming analytics technologies and have seen reductions in electricity, cooling, space and hardware requirements in the range of 80-90% against our competitors.

Energy use

Ahead of any detailed emissions analysis that the Group may make in the future, it is required to report its energy use and impact under the Streamlined Energy and Carbon Reporting (SECR) regulations.

For the year ended 28 February 2021 the UK energy used was 1,013,140 kWh (2020: 1,130,686 kWh). Using the UK government's GHG Conversion Factors Guidance to calculate the quantity of emissions provides scope 2 emissions of 257 (2020: 287) tonnes of carbon dioxide equivalent. The SECR regulations require a statement of relevant intensity ratios, which are an expression of the quantity of emissions in relation to a quantifiable factor of the business activity. The Group has identified two such intensity ratios, set out below:

Intensity ratios for the year to 28 February 2021 (tonnes of CO_2e per unit)

Total revenue	Employees
0.00 (2021)	**0.10 (2021)**
0.00 (2020)	0.12 (2020)

Corporate responsibility continued

Charitable and community support

We believe that our business practices in these areas support the following SDGs:

- **Goal 3.** Ensure healthy lives and promote wellbeing for all at all ages.
- **Goal 4.** Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
- **Goal 5.** Achieve gender equality and empower all women and girls.
- **Goal 10.** Reduce inequality within and among countries.
- **Goal 16.** Promote peaceful and inclusive societies for sustainable development and provide access to justice for all.

Charity Policy

The Group actively encourages its employees to become involved in charitable pursuits; it gives matched donations related to employee charity raising as well as making its own direct charitable donations.

To coordinate these activities, it has established a Charity Policy with the aim of being a good neighbour in the communities in which it operates and to use the energies and talents of its employees in charitable fundraising activities.

A team comprising employees from across the Group has been formed to coordinate these activities. Employee-organised charitable events during the year raised more than £24,000 (2020: £21,000) for more than 17 (2020: 30) separate charities.

The Group provided matched donations of £15,000 related to employee charity fundraising and due to the pandemic made an additional donation of £50,000 allocated across the same employee-inspired charities.

Employees also participated in a variety of volunteering activities. Investment in our youth has been continually supported via employees providing mentoring, careers advice and student seminars on careers in business, finance and technology.

Payroll giving

In addition to fundraising events, the Group also encourages individual employees to contribute to charities of their choice through a payroll giving scheme under which donations are taken tax free from their monthly salary.

Training and development

The Group also engages with its local communities by supporting initiatives to train and develop talent. Examples include support at both school and university level to assist with developing business and technology skills and to shape curricula to ensure they are relevant to modern business requirements.

Corporate governance

In this section

Board of Directors

Donna Troy
Chairman (Independent)

Donna joined the Board of First Derivatives in January 2018 as a Non-Executive Director and was appointed Non-Executive Chairman in January 2020. She 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 while implementing global go-to-market strategies in business from start-up to $8bn in revenue.

Donna holds a Bachelor of Science degree, summa cum laude, in Computer Science from North Carolina State University and in 2017 was inducted into the North Carolina State University Computer Science Alumni Hall of Fame.

Other appointments
Donna is currently on the board of directors at TIBCO, Aptean and Marlin Technology Corporation.

Committee membership
Nomination and Governance Committee

Remuneration Committee

Seamus Keating
Chief Executive Officer

Seamus was appointed as CEO in January 2020. He was first appointed to the Board as an independent Non-Executive Director in December 2012 and was appointed Non-Executive Chairman in 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 a non-executive director of BGL Group Limited.

Committee membership
None

Ryan Preston
Chief Financial Officer

Ryan joined the Board of First Derivatives in January 2021 and has responsibility for the Group's financial operations. Ryan was formerly chief financial officer of Independent News & Media plc and at OVO Energy Retail, having spent the early part of his career in senior finance roles at Tesco. He was appointed Deputy Chief Financial Officer at First Derivatives in January 2020.

Other appointments
None.

Committee membership
None

Keith MacDonald
Senior Independent Director, Designated Workforce Engagement Director (Independent)

Keith has been a Director of First Derivatives 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 corporate finance. 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 and mentor of a number of deep tech companies and chairman of the Science Creates incubator in the UK, which houses companies engaged in quantum computing, biomedical research and similar fields. He also serves as a director of the MAPS Group of aircraft leasing entities.

Committee membership
Audit Committee (Chair)

Virginia Gambale
Non-Executive Director (Independent)

Virginia joined the Board of First Derivatives 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 lead director of Nutanix, and board director of Virtu Financial and Regis Corporation.

Committee membership
Audit Committee

Nomination and Governance Committee (Chair)

Ayman Sayed
Non-Executive Director (Independent)

Ayman joined the Board of First Derivatives in July 2020. He brings to the Group extensive experience in enterprise technology and a track record of driving business success through growth strategies focused on product innovation. He is currently president and CEO of BMC Software Inc., a global enterprise software company headquartered in Houston, Texas.

Prior to his current role he was president and chief product officer of CA Technologies Inc., a Fortune 500 company acquired by Broadcom Inc., where he was responsible for the vision, strategy, development and success of the company's portfolio of products and solutions. Ayman holds a Bachelor's degree in Electrical Engineering from Cairo University.

Other appointments
In addition to his role at BMC Software, Ayman is also a director of Elisity Inc.

Committee membership
Nomination and Governance Committee

Remuneration Committee (Chair)

Thomas Seifert
Non-Executive Director (Independent)

Thomas joined the Board in July 2020. Thomas is chief financial officer of Cloudflare Inc., where he is also responsible for the company's business data analytics and data science. He provides a wealth of expertise across the cloud, SaaS and data analytics, which is highly relevant to the Group's growth ambitions. In addition, Thomas has extensive operating experience growing and scaling technology companies across cybersecurity, software and semiconductors.

Prior to his current role Thomas was chief financial officer of Symantec Corp, a leading cybersecurity company, where he was responsible for the implementation of transformation and M&A strategies. He was also CFO at Advanced Micro Devices, where he held an interim CEO position.

Other appointments
In addition to his role at Cloudflare Inc. Thomas is also a director of IPG Photonics Corporation.

Committee membership
Audit Committee

Remuneration Committee

Steve Fisher
Non-Executive Director (Independent)

Steve joined the Board in September 2020. Steve was formerly chief technology officer of eBay Inc. (NASDAQ: EBAY), where he led the core product and technology team responsible for eBay marketplace, eBay's global payments business and its multi-channel marketing platform and operations team. Prior to that he spent ten years at salesforce.com in software engineering and product management leadership roles.

Steve has also held senior technology development positions within telecoms and networking, including at Apple and AT&T Labs. Steve is a named inventor on 21 patents and holds a Bachelor of Science degree in Mathematical and Computational Science and a Master of Science degree in Computer Science, both from Stanford University.

Other appointments
Steve is also a director of Vonage Holdings Corp, Copart, Inc. and Bill.com LLC.

Committee membership
Audit Committee

Chairman's governance statement

A year of progress

"It has been a year of challenge, change and renewal that has strengthened the culture and governance of the Group."

Donna Troy
Chairman

On behalf of the Board, I am pleased to present the Group's Corporate Governance Report for the year ended 28 February 2021.

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. As I outlined in my review earlier in this report, the past year has seen challenges, notably the ways in which COVID-19 impacts how we interact within the Group and work with customers, partners and other stakeholders. I am pleased to report that the Group has risen to meet these challenges and I want to thank my colleagues for their commitment and adaptability during the year.

Since my last report the Board and senior management have been strengthened significantly, as detailed more fully in the Report of the Nomination and Governance Committee. We appointed three additional Non-Executive Directors, providing substantial additional capability to support the Group's strategy and contribute to the oversight of governance and culture that is key to achieving our objectives. The Board now has a blend of skills and experience that should serve us well as we seek to accelerate our growth.

Our new Board colleagues are operating effectively and have already made a meaningful contribution to the development and governance of the Group. For example, this additional Board capacity has enabled us to form a technology sub-committee comprising Non-Executive Directors and Executive management to steer the development of the Group's technology and address emerging opportunities and risks to ensure we maintain our leadership position and are on track to achieve our goals.

As detailed in the Chairman's Review on page 6 after the year end the Board approved a change in the structure of the Group and additional investment designed to accelerate growth and maximise the potential opportunity for KX, MRP and First Derivative. This decision was taken following detailed evaluation over the course of the year at Board level, after the Group achieved a set of milestones that satisfied the Board of the opportunity for growth that additional investment would provide and the ability to execute against our plans for that investment. Our expanded leadership bandwidth at the Board and Executive level played a crucial role in this decision-making process.

It remains my firm belief that achieving our goals requires the highest standards of governance and culture. As Chairman I seek to demonstrate objective judgement and promote constructive relations between Board members, while ensuring that Directors continue to receive accurate, timely and clear information that enables them to perform their roles effectively.

Board skills matrix

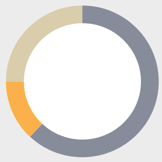
		Donna Troy	Seamus Keating	Ryan Preston	Keith MacDonald	Virginia Gambale	Ayman Sayed	Steve Fisher	Thomas Seifert
88%	**Technology industry**	✓	✓	✓		✓	✓	✓	✓
38%	**Finance industry**		✓		✓	✓			
100%	**Strategy**	✓	✓	✓	✓	✓	✓	✓	✓
75%	**Listed Company Executive**	✓	✓	✓	✓		✓		✓
50%	**Accounting qualifications**		✓	✓	✓				✓
100%	**International experience**	✓	✓	✓	✓	✓	✓	✓	✓

The Board considers the culture of the business to be a key strength and is mindful of the need to protect and develop it. During the year we completed our second annual employee engagement survey (for details see page 34) which assists the Board to assess and monitor the culture of the business and impact on employees. I am pleased that we are demonstrating progress on the issues that matter most but recognise that improvement is a journey and that more remains to be done. We continue to introduce initiatives that support and reward our employees, as well as ensuring they can develop their careers within the Group.

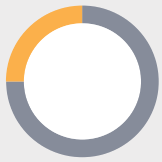
In line with our continuing commitment to uphold and embed in our business the highest standards of corporate responsibility, we have enhanced this section of the report to reflect our ongoing work on all aspects of sustainability, including environmental, social and governance (ESG) and climate change themes. As you know, along with financial services sector companies, which form a substantial portion of our existing and target client base, we are successfully expanding into other industrial client sectors. This requires us to have both a deeper and wider understanding of the sustainability issues impacting our clients and to work with them to develop solutions that help all parties transition to a better climate future.

Board composition

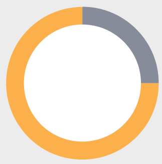
Length of tenure



Gender diversity



Balance of Executive/Non-Executive



Chairman's governance statement continued

Our corporate responsibility and sustainability framework for managing these challenges is based around the work of bodies such as the UN and accounting standards bodies such as the Sustainability Accounting Standards Board (SASB). This provides an independent and transparent framework that will support us to implement our strategy and assure us that our policies and practices are robust and comprehensive.

I am grateful to my Board colleagues, and all First Derivatives employees, for the commitment they have shown during the past year, particularly with regard to the adaptability they demonstrated to ensure we continued to support our customers and each other despite the challenges of COVID-19. We have another busy agenda in the current year as we continue to ensure the effective governance of the Group.

Strategy

First Derivatives is a dynamic business which provides stimulating careers for its employees. The Group has ambitious growth targets, to be delivered primarily through organic growth that requires detailed planning and strong execution to achieve. In the management of this environment we adopt a disciplined approach towards our operations, structures and resources.

The Board has outlined its strategy for the business within this Annual Report and during the year has debated its appropriateness and effectiveness, taking into account views from across its range of stakeholders. Having debated these issues regularly and in depth in our meetings during the year, after the year end the Board approved changing the structure of the Group into three businesses, namely KX, MRP and First Derivative, together with a proposal to change the name of the Group to FD Technologies plc. Alongside this new structure we also approved an acceleration of investment, focused on KX. We expect these changes to enable each business unit to maximise its potential opportunity and significantly accelerate growth.

The Board will monitor the returns on this accelerated investment and continue to exercise its judgement to determine appropriate levels of resource allocation to achieve its strategic objectives, while also ensuring processes are in place to identify and manage risk.

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 adopted the 2018 UK Corporate Governance Code (the "Code") as its governance framework and has put in place procedures and policies to comply.

During the year, the Company has complied with all of the provisions of the Code.

Donna Troy
Chairman
17 May 2021

Governance framework

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. The Board is acutely aware that good governance is a pre-requisite to successful execution of Group strategy on a sustained basis and constantly strives to ensure that its policies and practices in this area are regularly reviewed and, where necessary, updated to reflect the evolution of the Group's operations. This has been particularly important in recent years as the range of customers we serve, the scale of our operations and the number of business locations have increased significantly.

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. First Derivatives 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 CEO 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 there should be a formal, rigorous and transparent procedure when appointing new Directors to the Board.

These matters are discussed more fully in the Report of the Nomination and Governance Committee, which details the changes to Board composition during the year. Board composition is regularly reviewed 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.

Role of the Senior Independent Director

The Senior Independent Director:

- provides support to the Chairman on governance issues;
- works with the Chairman and other Directors to resolve significant issues should they arise, particularly where stakeholders have concerns that are not being addressed by the Chairman or Chief Executive; and
- takes the lead in evaluating the performance of the Chairman and serves as an intermediary and sounding board for Directors.

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 rotates the venue for its meetings between the major operating centres of the Group to encourage two-way communication between the Board and employees across its operations.

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 is also monitored by the Board on a regular basis.

Governance framework continued

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. Keith MacDonald, who will reach nine years of Board membership in June 2021, has opted not to offer himself for re-election.

Board Committees
The Group has an Audit Committee, a Remuneration Committee and a Nomination and Governance 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.

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 as and when required including the audit plan meeting and the 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 and Governance 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 CEO'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 CEO; and (ii) proposals to restructure the Executive Committee, should the need arise.

Conflicts of interest
In order to identify and manage conflicts of interest, all members of the Board are required to promptly notify the Chairman and Company Secretary in advance of any matters where there is a reasonable likelihood that such matter could give rise to an actual or perceived conflict of interest. This would include, but is not limited to, other Executive roles and directorships, or material shareholdings in companies that may compete with First Derivatives or which may have a customer or supplier relationship with the Group or which may benefit from investment by the Group. In such circumstances, Board members would withdraw from any consideration of the matter by the Board and, in the event that the matter related to competition, may be required to resign from the Board. No conflicts of interest arose during the year.

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. The Board is also responsible for maintaining a sound system of risk management and internal control that is sufficient 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, which has been in place for the year under review and up to the date of approval of the Annual Report and Accounts. It is regularly reviewed by the Board and is in accordance with the guidance included in the FRC's "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting". Further information can be found in the Principal Risks and Uncertainties Report.

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

Board effectiveness review
In order to evaluate its effectiveness, the Board developed a series of criteria based on the Code and generally accepted views of the role and responsibilities of a board, assessed its behaviour and performance against these criteria and implemented changes based on these findings. This is an iterative process that will be developed further in the future.

Meeting attendance

	Board	Audit Committee	Remuneration Committee	Nomination and Governance Committee	Total
S Keating	7/7	–	–	–	7
K MacDonald	7/7	5/5	–	–	12
V Gambale	7/7	5/5	3/3	3/3	18
D Troy	7/7	–	4/4	3/3	14
R G Ferguson*	6/6	–	–	–	6
A Sayed**	4/4	–	1/1	1/1	6
T Seifert***	4/4	3/3	1/1	–	8
S Fisher****	4/4	2/2	–	–	6
R Preston*****	1/1	–	–	–	1
Number of meetings	7	5	4	3	19

* Resigned 1 January 2021. **Appointed 1 July 2020. ***Appointed 13 July 2020. ****Appointed 15 September 2020. *****Appointed 1 January 2021.

Effective oversight

"The addition of new members of the Committee with broad experience and in-depth financial expertise has helped deliver the Committee's remit effectively."

Keith MacDonald
Non-Executive Director

Key activities during the year

Response to COVID-19: Oversaw the Group's response to the impact of the pandemic, including scenario analysis of liquidity and viability, ensuring business continuity and support to staff so they could meet customer needs in a safe and effective manner.

Risk management: Undertook a review of the Group risk framework including an update of the risk register and key process controls.

Committee composition and CFO role: Strengthened the Committee with the addition of two new members and input into the selection of the new Group CFO.

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 its 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.

Composition

The composition of the Audit Committee was augmented during the year as a result of the Board changes discussed in this report. It is chaired by Keith MacDonald, who is both a Chartered Director and a Chartered Accountant and who has held senior management positions within global financial services companies including Lloyds Banking Group and Citigroup. The other Committee members are: Thomas Seifert, who is currently chief financial officer of NYSE-listed Cloudflare and who has held CFO roles at global, public technology companies including Symantec and Advanced Micro Devices; Virginia Gambale, who is a director of other listed companies and was a CIO at Deutsche Bank and Merrill Lynch; and Steve Fisher, who has held senior technology development positions at multi-national technology companies including eBay and Salesforce. The members of the Committee have significant experience of financial matters developed during their past and current business careers. The composition of the Committee is reviewed on an annual basis and it is expected that Thomas Seifert will be appointed Chair of the Committee following the forthcoming Annual General Meeting, at which Keith MacDonald will not stand for re-election to the Board.

Role and responsibilities

The Committee is responsible for oversight of the Group's accounting judgements, business and financial reporting and other external announcements. This includes monitoring changes to reporting requirements in order to assess their applicability and impact on the Group. It is also responsible for ensuring there are appropriate internal control and risk management policies and procedures in place, overseeing the relationship with the external auditor and making recommendations to the Board on auditor appointments. Its agenda also includes assessing Group culture, values, whistleblowing, fraud and investigations. As detailed below, the Committee also considers the "going concern" and longer-term viability of the Group. The Committee meets regularly to consider the matters under its remit, including meetings prior to the release of both the interim and full year financial reports.

Report of the Audit Committee continued

Governance
The Committee sets its own agenda in line with best practice and, although only Committee members have the right to attend its meetings, the Committee has from time to time invited other parties to attend. On several occasions during the year the Committee has interacted separately 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 included items that are a standing part of its remit as well as a number of areas which the Committee considered required a deeper focus.

Standing agenda items
Financial reporting
The Committee reviews the impact of forthcoming changes in accounting standards, to which there were no substantive changes during the year. However, the Committee continued to monitor the impact of changes in the prior year to IFRS 16. See note 1a to the financial statements for more detail. The Committee is also responsible for reviewing the processes around the publication of the Group's interim and full year financial statements.

The Committee carefully addressed the key issues that faced the Company within the financial statements (in particular the critical judgements and estimates of the Company as disclosed in the financial statements) which principally comprise revenue recognition, accounting for equity investments, goodwill impairment and capitalisation of internally-developed software. We are satisfied that the judgements and estimates applied in the financial statements satisfy the requisite standards both in terms of accounting treatment and disclosure.

Internal control and risk
The Audit Committee is responsible to the Board for ensuring the Company has appropriate systems and procedures for the identification and monitoring of risk, including the annual assessment of the requirement for an internal audit function. Further details are provided in the report on operating risks on page 27 of this report. Where risks are insurable, the Committee reviews the cover in place and makes recommendations in line with the Group's overall risk appetite. The Committee reviews the procedures in place to identify emerging risks within its business units and at the Group level on an annual basis. Emerging risks, after review and where appropriate, are added to the Group's risk register, enabling them to be monitored along with the efforts taken to mitigate them.

During the year, the Group engaged in a process to acquire a new ERP system and the Audit Committee was actively involved in the selection process.

Compliance and whistleblowing
The Committee monitors the Group's compliance with the UK Corporate Governance Code and AIM Rules for Companies as well as ensuring the processes and arrangements that enable employees to raise concerns in confidence. No matters of significance arose during the period 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 as well as longevity of service. The Committee holds regular meetings with the external auditor to review matters of interest. At the 2019 AGM, Deloitte was appointed auditor for the financial year ended 29 February 2020. In the months following its appointment and during the year under review the Chairman and other members of the Committee have worked closely with Deloitte as it completed its first full year audit of the Group, ensuring a smooth transition despite the additional working difficulties imposed by COVID-19 restrictions. This included meetings at the audit planning stage, during the audit itself and subsequent to the publication of annual results to review key findings from the audit. This pattern of engagement continued for the current year but the task was made easier by greater familiarity with working practices during COVID-19 and an absence of transitional issues.

Key business items addressed during the year
Subject: Response to COVID-19

Issue: Management of risk and ensuring business continuity

Ensuring that all the potential business risks posed by COVID-19 were mitigated against.

How the Audit Committee addressed the issue
See case study on page 50.

Subject: Risk management

Issue: Effective management of risk

In particular, ensuring that the Group strategy is supported by its risk framework and policies.

How the Audit Committee addressed the issue
A detailed exercise reviewing the Group's approach to the management of risk was performed during the year, with the findings due to be implemented in the current financial year. In order to achieve its strategic objectives the Group has a willingness to assume a certain degree of risk. To do so effectively requires policies and procedures to manage these risks and the Committee is leading the Group's efforts in this area.

Subject: Committee and Executive appointments

Issue: Ensuring the appropriateness of Audit Committee and CFO appointments

In particular, assessing whether the depth and breadth of skills of the individuals appointed were sufficient to enable the Committee to discharge its responsibilities effectively.

How the Audit Committee addressed the issue
The Chair of the Committee worked with the Nomination and Governance Committee as part of the recruitment of new Board members to ensure that individuals with the appropriate skills to assist the Audit Committee in its programme of work were selected and appointed firstly to the Board and then to the Audit Committee. The Committee was also involved in the selection process for the Group's new Chief Financial Officer, who was appointed on 1 January 2021.

Other agenda items

Other specific items addressed by the Committee during the year include working with management on the processes to select new ERP and CRM systems and assisting with the Company's ongoing efforts on ESG matters.

Review of internal control and risk management effectiveness

The Group has established systems, procedures and controls designed to provide an ongoing process for identifying, evaluating and managing the principal risks faced by the Group. These have been in place both for the period under review and also up to the date of approval of this Annual Report. Through the Audit Committee, the Board reviewed the effectiveness of these risk management and internal control systems and procedures. The Board concluded that they were appropriate and that the Group's plans to mitigate risks remain effective.

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.

Internal audit function

The Group is very mindful of the recommendation in the UK Governance Code regarding an internal audit function. Until now, the Group has been satisfied that the policies and practices it has in place are sufficient to ensure the integrity of its systems, without the requirement for an internal audit function. These include:

- The Group operates an audit programme which forms part of its information security certification. As part of this process the Group undergoes a biannual assessment to assess that all of its relevant IT 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.
- The Group also participates in additional third-party assessments as mandated by certain clients 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 examined more closely.

The Audit Committee again considered during the year whether the establishment of an internal audit function was desirable and concluded, as a result of the Group's continuing growth, it was now appropriate to establish an internal audit function and this will be implemented during the current year.

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, is 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 both now and for the foreseeable future the Group will continue to have adequate financial resources to realise its assets and discharge its liabilities as they fall due. This included stress-testing the Group's capacity to withstand a severe downturn over the next twelve months in business as a result of COVID-19.

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 taking into account 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.

Given the technology-based nature of the Group's business, 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.

As detailed elsewhere in this report, the Group has decided to increase materially the level of investment into KX software development and marketing over the next 24–36 months. This decision is fully reflected in current budgets, the viability assessment and other relevant elements of the Group's planning and risk control processes overseen by the Audit Committee.

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 indications to the Board, allowing management action to be taken where required including the assessment of new opportunities and threats. This includes references contained within trading updates and guidance in this report and other investor communications.

Report of the Audit Committee continued

Case study

Response to COVID-19

The rapid and successful response to COVID-19 highlighted the strength of the working relationships between the Board, its Committees and management as well as external parties such as advisers and the auditor.

The Group recognised the multi-faceted nature of the challenges posed by COVID-19. These included:

- potential risks to our revenues if either our customers reduced demand for our software and/or services or if the pandemic meant that we were unable to meet our customers' requirements;
- the impact on the health and wellbeing of our staff resulting from remote working, health concerns, travel restrictions and other limitations on their daily lives; and
- operational challenges as both the Group and its customers adapted to a profoundly different way of working, some of which will be enduring.

The Committee focused primarily on the risks and potential risks posed to the liquidity and viability of the Company, ensuring the scope of the risk assessment was complete. It also had oversight of the range of measures put in place to mitigate these risks, including the modelling of scenarios to determine the potential impact on the Group's financial performance and the subsequent drawdown from the Group's available finance facilities to provide assurance over its liquidity. The Group's response to other impacts, notably those relating to staff wellbeing, was addressed by HR colleagues and by the Board as a whole.

The Committee also considered the implications of the global pandemic as part of its review of the integrity of the Group's risk control system, particularly in light of the fact that some level of remote working will likely continue post-pandemic.

Given that the initial wave of social restrictions occurred at the start of and throughout the annual audit process, which was also the first audit conducted by the Group's newly appointed auditor, Deloitte, the Committee made particular efforts to ensure the scope and effectiveness of the audit were not impacted and that it was conducted within the planned timeframe. The achievement of these goals represented the culmination of considerable effort by all parties and the Committee wishes to express its appreciation to our own staff and those of our auditor for rising to the challenge.

Enabling effective governance

"The Committee had oversight of the significant expansion in leadership positions across the Group, at both Board and senior Executive level, that will position the Group to scale in a sustainable manner."

Virginia Gambale
Non-Executive Director

Key activities during the year

Strengthening the Board: Facilitated the recruitment of three new Non-Executive Directors with highly relevant skills and expertise to assist the Group to deliver its growth strategy.

Committee composition: Reviewed and made recommendations to the Board on the composition of its Committees, including the formation of a technology sub-committee to address emerging technologies and risks, and ensure that we are on track to achieve our goals.

CFO succession: Oversaw the appointment process for the new Group CFO.

Dear shareholders

The Nomination and Governance Committee ensures that there is an appropriate balance of skills, experience, diversity, independence and knowledge on the Board and its Committees. It reviews the size and composition of the Board and makes recommendations to the Board. The Committee also receives reports from, and provides input on, the CEO's plans for Executive succession and development and considers and agrees the composition of the senior Executive team. Additionally, it oversees the succession planning and appointment process of the CEO.

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

Composition

The Committee is chaired by Virginia Gambale, and the other members are Ayman Sayed and Donna Troy. The composition of the Committee was reviewed during the year, resulting in Ayman Sayed replacing Keith MacDonald. Ayman has extensive leadership experience in enterprise technology and a track record of driving business success through growth strategies focused on product innovation. He is currently president and CEO of BMC Software Inc., a global enterprise software company.

Roles and responsibilities

The Nomination and Governance Committee ensures that the Board has a diversity of skills, background and personal strengths to assist the Board in achieving its governance and strategy responsibilities. It also oversees the environmental, social and governance framework and makes recommendations to the Board on these matters. 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 the strategic objectives of the Group. It receives reports from the CEO on succession and development planning for the senior Executive team. The Committee works in collaboration with the Remuneration Committee to define the CEO performance metrics and evaluation process. The Committee meets at least three times 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.

Report of the Nomination and Governance Committee continued

Business during the year

Issues considered by the Committee during the year included items that are a standing part of its remit as well as a number of areas which the Committee considered to require a deeper focus.

Standing agenda items

Inclusion and diversity

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. As part of the selection of new Directors it proactively ensures 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 is committed to achieving diversity in its broadest sense in the composition of the Board and senior management. Our approach to diversity and inclusion on the Board is set out in the Company's Diversity and Inclusion Policy which is reviewed annually by the Committee. The Policy sets out the Group's commitment to having a diverse workforce through recruitment and employment practices and actively supporting inclusion through its open culture and support for employee networks that foster diversity and inclusion.

Prior to embarking on the selection process for the new Non-Executive Directors recruited during the year, the Committee discussed our ethos, approach and policy with its selection agencies to ensure they were reflected in the process.

Gender pay gap

We publish our gender pay gap data which details the Group's commitment to gender equality and that its gender pay gap continued to be significantly lower than the industries in which it operates.

More information on the gender pay gap analysis results is available on our website. The Committee's role was to review the results and also review the strategies underway to improve the representation of women throughout our business with the aim of narrowing the gender pay gap.

At 28 February 2021, 72% (2020: 72%) of our employees were male and 28% (2020: 28%) female, with those identified at Manager level or above split 77% (2020: 80%) male and 23% (2020: 20%) female. Of our graduate intake in the year, 68% (2020: 58%) were male and 32% (2020: 42%) were female.

Leadership and talent pipeline

A key area of focus for the Committee is nurturing the Group's leadership and talent pipeline. Our Graduate Options Programme, now in its twelfth year, is an important way of introducing talent into the business and the Committee tracks the diversity of all graduate entrants. In addition to internal talent, the Committee also recognises that attracting external talent is vital to the Group's strategic growth plans and remains committed to ensuring that the Group provides exciting career development opportunities for experienced professionals.

Key business items addressed during the year

Subject: Board composition

Issue: Strengthening the Board

Ensuring that the Board has the mix of experience and competencies to deliver its strategy for the next three to five years.

How the Committee addressed the issue
See case study.

Subject: Committee responsibilities and composition

Issue: Ensuring the Committees support the Board effectively

Ensuring that strategic and governance issues were clearly defined as the responsibility of Board Committees and that the Committees were adequately resourced with Directors who are suited to providing leadership on these issues.

How the Committee addressed the issue
The Committee conducted an exercise to review the terms of reference for each Board Committee, as well as its composition and the matters devolved to it by the Board for oversight and recommendations. The exercise also assessed areas of overlap and omission in responsibilities to ensure that the strategic priorities of the Group and its governance were being met effectively by the Committee structure. Following this exercise, the Committee assessed the optimal composition of each Committee and submitted its recommendations to the Board on all these matters, which were accepted.

Subject: Board succession

Issue: Ensuring the appointment of an effective new CFO

Oversight of the process to appoint a new Chief Financial Officer.

How the Committee addressed the issue
The Committee was involved in managing the transition from the former CFO, who had indicated he wished to devote more time to his other interests, to a new CFO with the skills, expertise and drive to assist the Group with its strategic objectives. The Committee considered all the aspects of the selection and transition process including the remuneration terms, resulting in the appointment of the Group's Deputy CFO to the CFO role and to the Board.

Other matters dealt with by the Committee

The Committee dealt with a range of other matters during the year, including defining the processes on Executive succession planning; the introduction of a Director education programme in association with the National Association of Corporate Directors; and the introduction of annual performance assessments for the Board and its Committees.

Case study

Recruitment of additional Non-Executive Directors

The Board identified during the prior financial year that it needed to recruit additional Non-Executive Directors to support its growth strategy and governance. The Committee developed a strategy and process to ensure the recruitment of individuals with the most appropriate competencies and experience to complement those that already existed on the Board and led the implementation of that process, which resulted in the addition of three new Non-Executive Directors during the year. The Board is currently comprised of eight Directors, of which one (Keith MacDonald) will retire at the forthcoming Annual General Meeting, leaving a balance of five Non-Executive Directors and two Executive Directors.

The Committee's priority was to evaluate the Group's strategy, including anticipating how it would evolve, and develop a matrix that identified the competencies and experience required of new Directors to enable them to contribute effectively. Two selection agencies, Kingsley Gate Partners and Odgers Berndtson, neither of which has any other connection with the Company or individual Directors, were employed to assist with the search for candidates that most closely matched the criteria developed by the Committee.

The Committee had oversight throughout the selection process and confirmation of the appointment of the three Non-Executive Directors. All are experienced leaders with a track record of success helping to scale international technology companies, with their career biographies detailed in the Board section on pages 40 and 41. Their experience covers technology product development, commercialisation strategies, expansion into new markets and geographies, SaaS software revenue modelling and scaling operations to deliver growth.

The Board identified that the combination of additional capacity and the expertise of the new Directors enabled the formation of a technology sub-committee to steer the development of the Group's technology and address emerging opportunities and risks, to ensure we maintain our leadership position and are on track to achieve our goals. The Committee proposed the structure, terms of reference and charter of the sub-committee to the Board, which were approved, and it is already making a positive contribution to the delivery of the Group's strategy.

The Committee also defined and oversaw the onboarding process for the new Directors. Together, the success of the identification, selection and onboarding process has enabled the new Directors to contribute quickly and effectively to the development and governance of the Group. Succession planning continues to be a priority for the Committee, with future recruitment of additional Directors being considered in the next twelve months.

Report of the Remuneration Committee

Aligning reward with performance

"During the year the Committee recommended, and the Board accepted, a Long Term Incentive Plan designed to incentivise and retain the Group's talented Executive leaders."

Ayman Sayed
Non-Executive Director

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.

Composition

The Remuneration Committee is chaired by Ayman Sayed. The other members are Donna Troy and Thomas Seifert.

Remuneration policy

The Group's remuneration policy is outlined below and is unchanged from the prior year, except for the replacement of the previous Share Option Plan with a Long Term Incentive Plan introduced during the year, as described in this report. The remuneration policy is designed to provide levels of remuneration to attract, retain and motivate Directors and key staff. The remuneration packages are designed to be competitive in value to those offered at 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 market-value options under the Group's Long Term Incentive Plan. These awards are structured to reward performance, encourage retention and deliver the strategic objectives of the Group over the longer term.

Key activities during the year

Implementing a Long Term Incentive Plan: Development and oversight of the implementation of a plan that incentivises the senior Executive leadership team to deliver on the Group's growth strategy and assists in the retention of key employees.

During the year the Committee worked with consultants Pearl Meyer, which does not have any connection to the company or individual Directors, to develop a Long Term Incentive Plan (LTIP), which is focused on long-term performance and is consistent with the Group's remuneration policy. The Committee recommended, and the Board accepted, the Plan, which came into effect in July 2020.

The Plan's performance targets are designed to be stretching yet feasible, based on the Group's own track record and the performance of aspirational peer companies, based primarily in the US. Option awards made under the Plan are at the prevailing market price at the time of award.

As detailed on page 16 on effective stakeholder engagement, we wrote to shareholders to explain the rationale for the LTIP and invite them to provide feedback and enter dialogue regarding it. These discussions were positive and no changes were requested or made to the LTIP as a result of this dialogue.

In future years the Committee will review the performance measures applied and the levels of the performance targets on each measure to ensure they remain appropriately challenging and that they continue to align with the Group's strategic objectives. Awards under the Plan are subject to malus and clawback provisions should the Committee determine that any material misstatement of financial results or performance criteria has occurred.

Impact of COVID-19: In response to the pandemic, scenario planning was undertaken to provide information on a range of possible outcomes. The Committee applied its discretion to not award any bonus to the Executive Directors for FY20 in light of the uncertainty around the COVID-19 pandemic and its impact on our business. In addition the Committee approved a deferred bonus scheme whereby all bonuses due to the senior management team relating to FY20 were deferred by up to nine months, again with the aim of protecting the Group's liquidity.

The components of the Executive Directors' remuneration packages are basic salary, bonus, money purchase pension contributions and other benefits including participation in the Long Term Incentive Plan. The Non-Executive Directors' remuneration packages do not include bonus or share option elements.

Executive Directors

Basic salary

Basic salary is set by the Committee and reviewed annually. Salary levels, which are benchmarked to market rates for roles of similar scope in comparable listed companies, 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.

Pension and other benefits

The Group operates a defined contribution scheme for Executive Directors and provides private health care insurance and life assurance which are treated as benefits in kind, in line with those offered to the workforce generally. The CFO receives a Company pension contribution equal to 10% of his base salary, while the CEO does not receive a Company pension contribution.

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 in the range of 50–70% of basic salary with a maximum of up to 100% being achievable. Performance targets are calibrated to be challenging and 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.

Long Term Incentive 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 Long Term Incentive Plan. Any awards made under this plan will be granted on a conditional basis, with exercise permitted not less than four years from the date of award and with performance conditions attached to them that are relevant to their impact on the Group's strategy.

Under the terms of the Plan, 50% of the grant will vest based on absolute total shareholder return (TSR) performance and 50% on earnings per share (EPS) growth. Each measure is independent and is weighted equally to determine any award vesting.

- For the TSR portion, 50% will vest for threshold performance, which is defined as 50% TSR over the four-year performance period. This translates to a CAGR of nearly 11%. Vesting then increases on a straight-line basis to full vesting for TSR of 100% (i.e. doubling of value over the four-year performance period, or a CAGR of nearly 19%).
- For the EPS growth portion, 50% will vest for threshold performance, which is defined as 75% EPS growth over the four-year performance period, or a CAGR of 15%. Vesting will increase on a straight-line basis to full vesting for EPS growth of 100%.

Executive Directors have a minimum one-year post-vesting holding period.

These performance targets were carefully calibrated to be challenging yet achievable, based on analysis of the Group's own recent performance and that of aspirational peer companies. The scheme is geared towards breeding an "outperformance" mindset, calling for step-change innovation rather than incremental improvement.

Allowing 50% of the award to vest for threshold performance is high relative to market norms, but the Directors believe that our threshold performance targets are set well above typical market practice and so the high level of vesting is appropriate.

Non-Executive Directors

The Board, based on a recommendation by the Chair 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. Their remuneration comprises a cash payment (67%), with the remainder in shares in the Group. 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.

FY21 remuneration report

A review of remuneration for the Executive and Non-Executive Directors was conducted in the prior year, which the Committee reviewed and determined that no further review was required at the current time.

Executive remuneration

On appointment as CEO on 15 January 2020, Seamus Keating's base salary was set at £450,000 following a CEO benchmarking exercise carried out by independent external consultant Pearl Meyer, with participation in the Group healthcare and life assurance plans. Upon appointment the CEO elected not to participate in the Group pension scheme. None of the Executive Directors received a cash bonus payment during the year. In July 2020 the CEO was awarded market-value options over 250,000 shares in accordance with the terms of the Group's Long Term Incentive Plan, as detailed in this report.

On his appointment in January 2021, the Committee reviewed the remuneration of new CFO Ryan Preston and set his base salary at £250,000, with participation in the range of pension and other benefits available to Group employees. In July 2020, while employed as Deputy CFO, Ryan Preston was awarded market-value options over 20,000 shares in accordance with the terms of the Group's Long Term Incentive Plan, as detailed in this report.

During the year we appointed a number of new Executive leaders across the Group. Independent adviser Pearl Meyer provided support around reward benchmarking for these senior leadership appointments. Every senior leader's reward is set on a pay-for-performance basis, with objectives around Group financial performance (70%) and achievement of strategic objectives relevant to their business unit (30%). The Committee was closely involved in the approval of these newly introduced reward metrics which align all of the senior leadership to the Group's overall strategy.

Report of the Remuneration Committee continued

Non-Executive Director remuneration

During the prior year the Committee recommended, and the Board subsequently approved, an amendment to the terms of the Non-Executive Directors' total annual reward such that the Chairman's total annual reward is £200,000 per annum while Non-Executive Directors receive £150,000 per annum. These remuneration levels are sufficient to attract high-calibre new Board members and the Committee, having reviewed them, resolved not to make any recommendation to the Board during the year to vary them.

Senior Executive remuneration

The Committee also examined compensation levels of members of the existing senior Executive team, particularly those who received promotions and took on additional roles and responsibilities, together with new senior hires recruited during the year. The Committee discussed and set levels of remuneration considered necessary to attract, retain and reward.

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							
S Keating	**2021**	**450**	**1**	**–**	**–**	**–**	**451**
	2020	305	–	–	–	–	305
R G Ferguson*	**2021**	**208**	**1**	**–**	**–**	**21**	**230**
	2020	225	1	–	–	23	249
R Preston**	**2021**	**40**	**1**	**–**	**–**	**5**	**46**
	2020	–	–	–	–	–	–
Non-Executive Directors							
K MacDonald	**2021**	**100**	**–**	**–**	**50**	**–**	**150**
	2020	80	–	–	25	–	105
D Troy	**2021**	**136**	**–**	**–**	**67**	**–**	**203**
	2020	92	–	–	48	–	140
V Gambale	**2021**	**102**	**–**	**–**	**51**	**–**	**153**
	2020	77	–	–	39	–	116
A Sayed***	**2021**	**68**	**–**	**–**	**34**	**–**	**102**
	2020	–	–	–	–	–	–
T Seifert****	**2021**	**64**	**–**	**–**	**32**	**–**	**96**
	2020	–	–	–	–	–	–
S Fisher*****	**2021**	**47**	**–**	**–**	**23**	**–**	**70**
	2020	–	–	–	–	–	–
Total	**2021**	**1,215**	**3**	**–**	**257**	**26**	**1,501**
	2020	779	1	–	112	23	1,108

* Resigned 1 January 2021. **Appointed 1 January 2021. ***Appointed 1 July 2020. ****Appointed 13 July 2020. *****Appointed 15 September 2020.

Service contracts

The Executive Directors have entered into service contracts with the Group that are terminable by either party on not less than twelve months' 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 2021	29 February 2020
S Keating	**25,314**	25,314
R Preston	**Nil**	n/a
K MacDonald	**46,718**	45,741
D Troy	**3,240**	1,289
V Gambale	**9,259**	7,717
A Sayed	**Nil**	n/a
T Seifert	**Nil**	n/a
S Fisher	**Nil**	n/a

Share options

The following share option awards were made to Directors during the year. The awards currently outstanding to Directors are as follows:

	1 March 2020	Granted during the year	Vested during the year	Lapsed during the year	Exercised during the year	28 February 2021
S Keating	–	250,000	–	–	–	250,000
R Preston	30,000	20,000	–	–	–	50,000

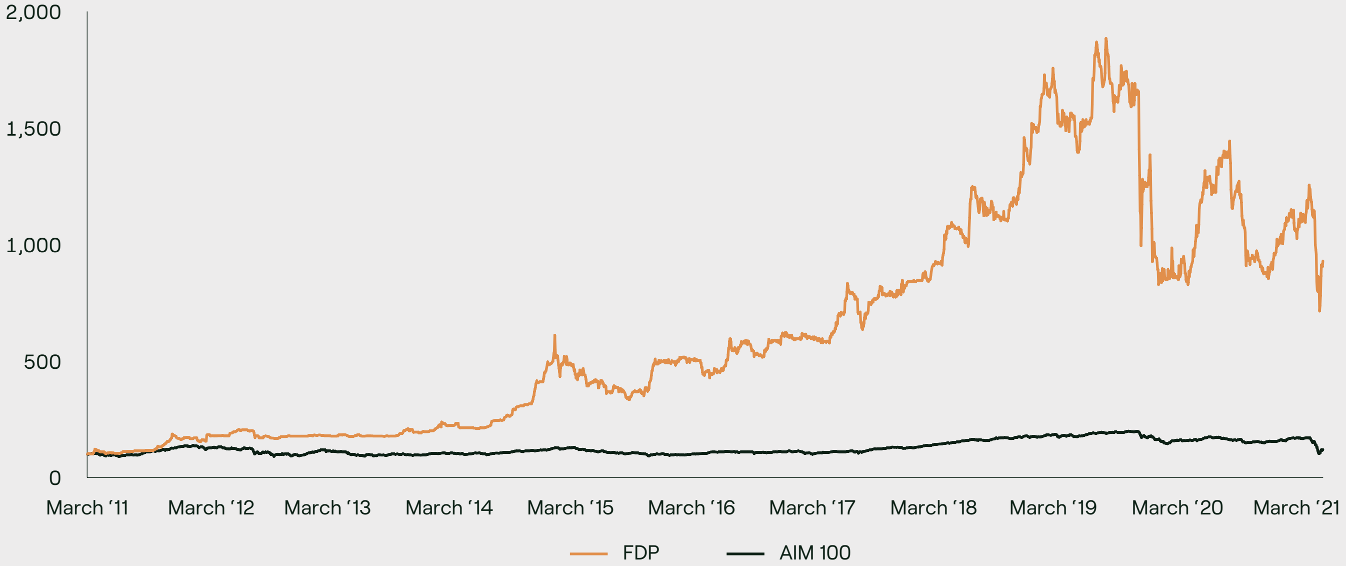
The Remuneration Committee approved share option awards as part of the LTIP put in place during the year. There were no share options that vested or exercised by the Directors during the year (2020: nil).

Transactions with Directors

There were no transactions with Directors during the year.

Performance graph

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



CEO remuneration

The table below shows the total remuneration and annual bonus for the Chief Executive Officer over the past ten years.

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total remuneration (£'000)	231	277	276	165	311	657	693	542	435	451
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	n/a	n/a

The Group is also required to report on its CEO pay gap ratio, which is detailed in the table below.

Financial year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2021 CEO total remuneration	Option A	7.7	12.3	18.1
2020		10.0	17.3	33.7
2021 CEO base salary	Option A	7.5	12.3	18.1
2020		9.8	17.0	33.1

Option A was selected as the basis for the calculations above as it was considered to be the most accurate. The total remuneration for all of the Company's UK employees was calculated, and those employees were then ranked from high to low, based on their total remuneration, with the employees whose remuneration places them at the 25th, 50th and 75th percentile points identified. The date by which these calculations were made was 28 February 2021 and no component of pay has been omitted from the calculations.

The CEO base salary pay ratio declined year on year due to investment in leadership and the recruitment of senior/experienced employees, with a lower level of graduate recruitment in the year in response to COVID-19.

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 2021.

Results and dividend

The Group's profit after taxation attributable to shareholders for the year to 28 February 2021 was £8,997k (2020: £14,893k).

The Directors do not propose the payment of a final dividend for the year. As a result, the total distribution relating to the year is nil (2020: 8.50p) per share.

The price of the Company's shares at close of business on 28 February 2021 was £29.05 (2020: £27.65) and the high and low share prices during the year were £35.20 (2020: £35.55) and £17.52 (2020: £21.00) respectively. The average share price during the year was £28.26 (2020: £27.17).

Directors

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

R G Ferguson (until 1 January 2021)
S Fisher (from 15 September 2020)
V Gambale
S Keating
K MacDonald
R Preston (from 1 January 2021)
A Sayed (from 1 July 2020)
T Seifert (from 13 July 2020)
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 17 May 2021, the Group had received notification of interests in 3% or more of the ordinary share capital from Juliana Conlon (14.6%), Columbia Threadneedle Investments (9.0%), Kabouter Management (8.8%), Aberdeen Standard Investments (6.7%), Octopus Investments (6.5%), T Rowe Price (6.3%), Baillie Gifford & Co (4.8%), Invesco (4.4%), Credit Suisse (4.1%), Metzler Asset Management (3.5%) and Liontrust Asset Management (3.0%).

Research and development

The Group's policy is to invest in product innovation and engage in research and development activities geared towards the enhancement of its software products. During the year costs of £13,398k (2020: £10,431k) 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 £2,550k (2020: £2,701k) 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. AIM Rule 26 also requires the Company to adopt a corporate governance code and it has chosen the UK Corporate Governance Code 2018, against which the Directors are responsible for reporting the Company's compliance.

Section 172 Compliance Statement

The Directors have acted in good faith to promote the success of the Company for the benefit of its members as a whole. In doing so, they have given regard, amongst other matters, to the following matters set out in Section 172(1)(a) to (f) of the Companies Act 2006:

a) the likely consequences of any decision in the long term;

b) the interests of the Company's employees;

c) the need to foster the Company's business relationships with suppliers, customers and others;

d) the impact of the Company's operations on the community and the environment;

e) the desirability of the Company maintaining a reputation for high standards of business conduct; and

f) the need to act fairly between members of the Company.

An explanation of how the views of stakeholders have been taken into account in the Board's decision making during the year is provided in the stakeholder engagement section of this report.

Fair, balanced, understandable

The Board of Directors has combined the knowledge and experience derived by each of them from other board positions with a review of the annual reports of other similar enterprises in order to satisfy themselves 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.

Employee engagement

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. An annual Group-wide employee satisfaction review is conducted by an independent third-party organisation, as detailed in the Corporate responsibility section, with the results being utilised to inform the Group's push to make it an employer of choice in the sector.

Page 16 provides details of how the Board takes into account the effect of its decisions on employees and how that has impacted decisions taken during the year, while also detailing the ways in which Directors have engaged with employees.

Employee opportunities

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.

Business relationships

The Directors are mindful of the need to foster and maintain strong working relationships with customers, suppliers and others. Further information on how the Directors take into account this requirement in its decision making is provided on page 16.

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), 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), Prelytix Inc. and 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 (2020: 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. As detailed in the Business Review, the Board has approved plans to increase spending on KX to assist it deliver on its potential.

The Group has adapted its working practices in order to deal as effectively as possible with COVID-19. Within this report details are provided on these actions which affect all its stakeholders. The Board is continuously monitoring the situation and is ready to act to meet changing requirements as they arise. Further information is contained in the Financial Review.

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 reappointment of Deloitte (NI) Limited and a resolution to that effect 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, the Business Review and the Financial Review.

By order of the Board

J J Kearns
Secretary
17 May 2021

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. This reporting framework is also consistent with the requirements of the Irish Stock Exchange, trading as Euronext Dublin, where the Company's shares are also listed.

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 the Group 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 comply 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

J J Kearns
Secretary
17 May 2021

Financial statements

In this section

Independent auditor's report

To the members of First Derivatives plc

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of First Derivatives plc (the 'company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the company's affairs as at 28 February 2021 and of the group's profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated statement of comprehensive income;
- the Consolidated and Company balance sheets;
- the Consolidated and Company statements of changes in equity;
- the Consolidated and Company cash flow statements; and
- the related notes 1 to 35.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

2. Basis for opinion

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

We are independent of the group and the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Revenue recognition relating to accrued income; and • Capitalisation of internally developed software costs. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £950k which was determined on the basis of 0.4% of revenue.
Scoping	We determined the scope of our group audit by obtaining an understanding of the group and its environment and assessing the risks of material misstatement at the group level. Our full scope and specified audit procedures covered 98% (2020: 99%) of total group revenue; 95% (2020: 98%) of group profit before tax and 99% (2020: 99%) of total group assets.

3. Summary of our audit approach continued

Significant changes in our approach	The key audit matter presented in the prior year relating to the 'Carrying value of goodwill' has been removed based on our audit risk assessment which included consideration of the fact that there has been no significant change in the goodwill balance recorded from the prior period and based on the significant excess of the value in use calculated by the client for all elements of the goodwill balance above the carrying value. The key audit matter presented in the prior year in relation to revenue recognition included deferred revenue, however in the current year, we have further pinpointed this risk to possible misstatement in the recognition of accrued income. Following a review of deferred revenue in the current year, we noted the systematic nature of the underlying revenue would involve minimal management judgement in the recognition of revenue while we have assessed the key judgements around revenue recognition to arise in the recognition of accrued income. For group materiality, we updated our basis of materiality from 5% of profit before tax to 0.4% of revenue based on our assessment of what the users of the financial statements determine as material, following the strategic decision by the Board to increase investment in the business as disclosed on page 19 in the Strategic Report, resulting in revenue being a more appropriate indicator of the group's performance.

4. Conclusions relating to going concern

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

Our evaluation of the directors' assessment of the group's and company's ability to continue to adopt the going concern basis of accounting included:

- we obtained an understanding of the group's and company's business model, objectives, strategies and related business risks, how the group and company is structured and financed and the measurement and review of the group's and company's financial performance, including the FY22 budget, future cash flows and management's budgeting processes;
- we challenged and assessed the forecasts prepared by management including an assessment of the assumptions used in the forecast, including assumptions around profitability levels, and a challenge to the assumptions based on a review of the historical accuracy of forecasts prepared by management and amount of headroom in the forecasts;
- we evaluated the relevance and reliability of the underlying data, management used to make these assessments; and
- we assessed the adequacy of the going concern disclosure and whether it reflects a true and fair assessment of the work performed by the group and company.

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

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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.

The key audit matter presented in the prior year relating to the 'Carrying value of goodwill' has been removed based on our audit risk assessment which included consideration of the fact that there has been no significant change in the goodwill balance recorded from the prior period and based on the significant excess of the value in use calculated by the client for all elements of the goodwill balance above the carrying value.

The key audit matter presented in the prior year in relation to revenue recognition included deferred revenue,however in the current year, we have further pinpointed this risk to possible misstatement in the recognition of accrued income. Following a review of deferred revenue in the current year, we noted the systematic nature of the underlying revenue would involve minimal management judgement in the recognition of revenue while we have assessed the key judgements around revenue recognition to arise in the recognition of accrued income.

Independent auditor's report continued

To the members of First Derivatives plc

5. Key audit matters continued

5.1. Revenue recognition relating to accrued income

Key audit matter description	The group has £10.9m (2020 £12.1m) of accrued income at 28 February 2021 with £237.9m of revenue recognised in the year (2020: £237.8m). The delivery of licensing or service revenue may occur over multiple accounting periods such that revenue is misstated, through fraud or error, at the balance sheet date due to incorrect recognition of accrued income. Revenue accrued at the balance sheet date could be misstated where the correct revenue recognition policies may not have been applied to contracts primarily due to the following factors; • Revenue from contracts may not have been correctly recognised over the installation period for software installations or over the the appropriate service period for service contracts which can be time or performance based. • Accrued income balances recorded at year end may not reflect the appropriate level of revenue to be recognised at the balance sheet date. This key audit matter is disclosed in the significant accounting policies as an area where critical judgement has been applied in accounting policies in note 1 and in the significant accounting policies on page 83.
How the scope of our audit responded to the key audit matter	In order to address the key audit matter, our procedures included the following: • obtained an understanding of the process and relevant controls for ensuring appropriate recognition of accrued income and evaluated the design and determined the implementation of the relevant controls relating to accrued income; • carried out a review of the appropriateness of revenue recognition policies adopted under IFRS including disclosures in the financial statements; • evaluated a sample of contracts including performing a recalculation of revenue to be recognised based on the contract terms and comparing this to actual accrued income to assess for possible management bias; • challenged the appropriateness of accrued income as at the balance sheet date; this work included reviewing supporting documentation to determine whether the performance obligations had been met; and • evaluated fixed price contracts to assess whether the revenues recognised to date were appropriate; this work included reviewing stage of completion by reference to post year end data and, where applicable, the impact on revenue to be recognised by reference to the stage of completion.
Key observations	We have no observations that impact on our audit in respect of the recognition of accrued income.

5. Key audit matters continued

5.2. Capitalisation of internally developed software costs

Key audit matter description	At 28 February 2021, the group held internally developed software costs with a net book value of £35.9m (2020: £31.9m). Costs in relation to internally generated intangible assets are capitalised when all of the criteria as set out in IAS 38 "Intangible Assets" are met. There is a risk that additions are made to internally developed software costs before all the required capitalisation criteria are met, whether through fraud or error. Expenditure is capitalised from the date when the intangible asset first meets the recognition criteria and, in determining the amount to be capitalised, management make judgements regarding expected future cash generation of the asset. This key audit matter is also disclosed in the significant accounting policies on page 86.
How the scope of our audit responded to the key audit matter	In order to address the key audit matter, our procedures included the following: • We obtained an understanding of the process and related controls for ensuring appropriate capitalisation of internally developed software costs; • We evaluated the design and determined the implementation of the relevant controls in place to separately identify when development activities meet recognition criteria; • We reviewed the capitalised project register and completed procedures to determine whether the internally developed software costs were recorded accurately and whether the costs met the required capitalisation criteria in accordance with IAS 38; and • We agreed the amount of internally developed software costs capitalised to underlying documentation detailing cost per project, including timesheet data.
Key observations	We have no observations that impact on our audit in respect of the capitalisation of internally developed software costs.

Independent auditor's report continued

To the members of First Derivatives plc

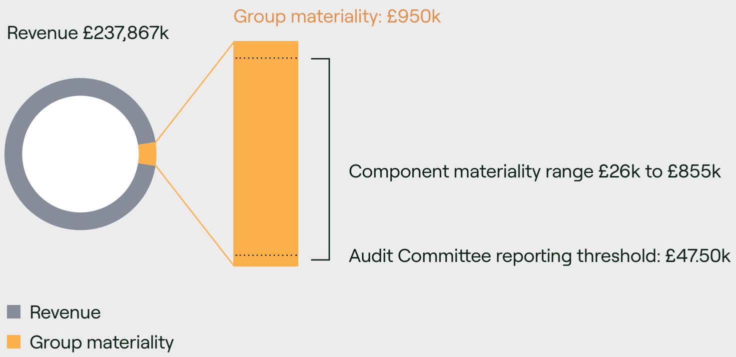
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

	Group financial statements	Company financial statements
Materiality	£950k (2020: £912k)	£855k (2020: £744k)
Basis for determining materiality	0.4% of revenue. For group materiality, we updated our basis of materiality from 5% of profit before tax to 0.4% of revenue based on our assessment of what the users of the financial statements determine as material, following the strategic decision by the Board to increase investment in the business as disclosed on page 19 in the Strategic Report, resulting in revenue being a more appropriate indicator of the group's performance.	Company materiality equates to 0.5% of revenue and is capped at 90% of group materiality. In the prior year company materiality equated to 0.3% of revenue and was capped at approximately 80% of group materiality.
Rationale for the benchmark applied	Revenue is a key performance measure for management, investors and the analyst community. This metric is important to the users of the financial statements (investors and analysts being the key users for a listed entity) because it portrays the performance and growth of the business, particularly as the group seeks to grow through the increased investment in the business and hence its ability to pay a return on investment to the investors.	Revenue was considered to the most appropriate measure for the company given it is a key performance measure for management and the analyst community as a trading company. As this was higher than group materiality, we capped company materiality at 90% of group materiality.



6. Our application of materiality continued

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Company financial statements
Performance materiality	70% of group materiality	90% of company materiality
Basis and rationale for determining performance materiality	We deemed the performance materiality level to be appropriate based on: • Our risk assessment, including our assessment of the group's overall control environment and that we consider it appropriate to rely on controls over a number of business processes; • our understanding of the entity and its environment, and the nature of the entity being listed; and • the level of uncorrected misstatements recorded in the prior year audit.	We deemed the performance materiality level to be appropriate based on: • Our risk assessment, including our assessment of the company's overall control environment and that we consider it appropriate to rely on controls over a number of business processes; • our understanding of the entity and its environment; and • the level of uncorrected misstatements recorded in the prior year audit.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £47.5k (2020: £45.6k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

The group operates in 15 locations across 4 continents with the largest footprint being in North America and Europe. We determined the scope of our group audit by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group and component level. Based on that assessment, we focused our group audit scope on the audit work at the Newry location, where the group entities finance functions are centrally managed.

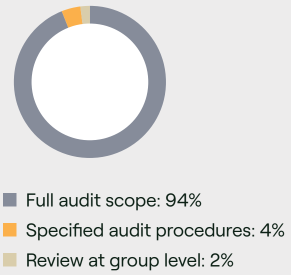
There were no component audit teams, with the entire audit including the testing of the consolidation being conducted by one central audit team.

Of the group's 27 components, we subjected 11 of the group entities to full audit scope, specified audit procedures were undertaken on a further 4 components and analytical procedures were performed on a further 3 components. The other 9 components represent non-trading or very small entities. Our full scope and specified audit procedures covered 98% (2020: 99%) of total group revenue; 95% (2020: 98%) of group profit before tax and 99% (2020: 99%) total group assets.

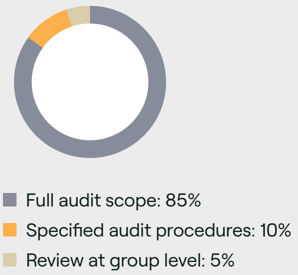
These components were selected based on the level of coverage achieved and to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work for all components was executed at levels of materiality applicable to each individual unit which were lower than group materiality and ranged from £26k to £855k.

At the group level, we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full audit.

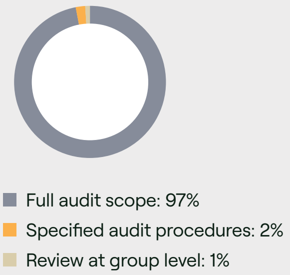
Revenue



Profit before tax



Group assets



Independent auditor's report continued
To the members of First Derivatives plc

8. Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of our audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

10. Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the company's or the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation (i.e gives a true and fair view).
- Where we are required to report on consolidated financial statements, obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. The group auditor is responsible for the direction, supervision and performance of the group audit. The group auditor remains solely responsible for the audit opinion.

10. Auditor's responsibilities for the audit of the financial statements continued

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

For listed entities and public interest entities, we also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, including the FRC's Ethical Standard, and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

Where we are required to report on key audit matters, from the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

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

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's and company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's and company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax and valuations specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: revenue recognition in relation accrued income and capitalisation of internally developed software costs.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group and company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, rules of the London Stock Exchange for companies trading securities on AIM and relevant tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's and company's ability to operate or to avoid a material penalty. These include the EU General Data Protection Regulation (GDPR) and possible inadvertent software patent infringements.

Independent auditor's report continued
To the members of First Derivatives plc

11. Extent to which the audit was considered capable of detecting irregularities, including fraud continued
11.2. Audit response to risks identified
As a result of performing the above, we identified revenue recognition in relation to accrued income and capitalisation of internally developed software costs as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements.

12. Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Corporate Governance Statement
As you have chosen to voluntarily comply with the UK Corporate Governance Code, we are required to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set, out on page 49;
- the directors' explanation as to its assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate, set out on page 49;
- the directors' statement on fair, balanced and understandable, set out on page 60;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 47;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems, set out on page 48; and
- the section describing the work of the audit committee, set out on page 47.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

15. Use of our report

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.

Richard Howard

Richard Howard FCA (Senior statutory auditor)
For and on behalf of Deloitte (NI) Limited
Statutory Auditor
Belfast, United Kingdom
17 May 2021

Consolidated statement of comprehensive income
Year ended 28 February 2021

	Note	2021 £'000	2020 £'000
Revenue			
Software licenses and services	3 & 4	147,365	148,401
Managed services and consulting	3 & 4	90,502	89,389
Total revenue		237,867	237,790
Cost of sales			
Software licenses and services	3	(66,062)	(67,184)
Managed services and consulting	3	(70,826)	(69,458)
Total cost of sales		(136,888)	(136,642)
Gross profit		100,979	101,148
Operating costs			
Research and development costs		(15,948)	(13,132)
– Of which capitalised		13,398	10,431
Sales and marketing costs		(39,252)	(35,399)
Administrative expenses		(42,036)	(41,818)
Impairment (loss)/gain on trade and other receivables	31	(215)	336
Other income	5	96	179
Total operating costs	6	(83,957)	(79,403)
Operating profit		17,022	21,745
Finance income	10	1,606	26
Finance expense	10	(4,183)	(4,666)
(Loss)/gain on foreign currency translation	10	(3,240)	1,019
Net finance costs		(5,817)	(3,621)
Share of (loss)/gain of associate, net of tax	17	(58)	126
Profit before taxation		11,147	18,250
Income tax expense	11	(2,150)	(3,357)
Profit for the year		8,997	14,893

Consolidated statement of comprehensive income continued
Year ended 28 February 2021

	2021 £'000	2020 £'000
Profit for the year	**8,997**	14,893
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Equity investments at FVOCI – net change in fair value	**2,349**	–
Net gain on sale of FVOCI holding	**4,746**	–
Items that will or may be reclassified subsequently to profit or loss		
Net exchange (loss)/gain on net investment in foreign subsidiaries	**(10,657)**	1,394
Net gain/(loss) on hedge of net investment in foreign subsidiaries	**2,611**	(2,920)
Other comprehensive income for the year, net of tax	**(951)**	(1,526)
Total comprehensive income for the year attributable to owners of the parent	**8,046**	13,367

	Note	Pence	Pence
Earnings per share			
Basic	14a	**32.7**	55.9
Diluted	14a	**32.0**	54.2

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

Consolidated balance sheet

As at 28 February 2021

Registered company number: NI 30731

	Note	2021 £'000	2020 £'000
Assets			
Property, plant and equipment	15	33,541	37,143
Intangible assets and goodwill	16	147,513	154,416
Equity accounted investee	17	2,649	2,937
Other financial assets	18	14,760	15,750
Trade and other receivables	19	3,312	5,000
Deferred tax assets	24	14,719	14,982
Non-current assets		216,494	230,228
Trade and other receivables	19	75,102	76,330
Current tax receivable	25	3,208	3,142
Cash and cash equivalents	20	55,198	26,068
Current assets		133,508	105,540
Total assets		350,002	335,768
Equity			
Share capital	21	139	136
Share premium		99,396	91,002
Merger reserve		8,118	8,118
Share option reserve		16,790	13,775
Fair value reserve		10,682	3,587
Currency translation adjustment reserve		(5,628)	2,418
Retained earnings		53,177	44,125
Equity attributable to owners of the Company		182,674	163,161
Liabilities			
Loans and borrowings	22	83,596	94,311
Trade and other payables	23	2,431	2,610
Deferred tax liabilities	24	11,428	10,585
Non-current liabilities		97,455	107,506
Loans and borrowings	22	9,244	10,868
Trade and other payables	23	53,591	47,719
Current tax payable	25	269	312
Employee benefits	26	6,769	6,202
Current liabilities		69,873	65,101
Total liabilities		167,328	172,607
Total equity and liabilities		350,002	335,768

These financial statements were approved by the Board of Directors on 17 May 2021.

Seamus Keating
Chief Executive Officer

Ryan Preston
Chief Financial Officer

Company balance sheet

As at 28 February 2021

Registered company number: NI 30731

	Note	2021 £'000	2020 £'000
Assets			
Property, plant and equipment	15	16,076	16,492
Intangible assets and goodwill	16	29,008	26,394
Investment in subsidiaries	17	133,464	133,464
Other financial assets	18	4,184	12,914
Trade and other receivables	19	45,575	34,902
Deferred tax assets	24	8,610	8,541
Non-current assets		236,917	232,707
Trade and other receivables	19	63,744	62,910
Current tax receivable	25	2,355	1,826
Cash and cash equivalents	20	43,095	21,656
Current assets		109,194	86,392
Total assets		346,111	319,099
Equity			
Share capital	21	139	136
Share premium		99,396	91,002
Merger reserve		8,118	8,118
Share option reserve		16,985	13,866
Fair value reserve		3,986	3,733
Retained earnings		26,595	24,094
Equity attributable to shareholders		155,219	140,949
Liabilities			
Loans and borrowings	22	71,064	80,254
Trade and other payables	23	1,963	1,779
Deferred tax liabilities	24	5,314	4,473
Non-current liabilities		78,341	86,506
Loans and borrowings	22	6,890	8,151
Trade and other payables	23	100,237	78,143
Employee benefits	26	5,424	5,350
Current liabilities		112,551	91,644
Total liabilities		190,892	178,150
Total equity and liabilities		346,111	319,099

The Company's profit for the year ended 28 February 2021 was £2,446k (2020: £3,376k).

These financial statements were approved by the Board of Directors on 17 May 2021.

Seamus Keating
Chief Executive Officer

Ryan Preston

Ryan Preston
Chief Financial Officer

Consolidated statement of changes in equity
Year ended 28 February 2021

	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
Balance at 1 March 2020	136	91,002	8,118	13,775	3,587	2,418	44,125	163,161
Total comprehensive income for the year								
Profit for the year	–	–	–	–	–	–	8,997	8,997
Other comprehensive income								
Net exchange loss on net investment in foreign subsidiaries	–	–	–	–	–	(10,657)	–	(10,657)
Net exchange gain on hedge of net investment in foreign subsidiaries	–	–	–	–	–	2,611	–	2,611
Net change in fair value of equity investments at FVOCI	–	–	–	–	2,349	–	–	2,349
Net gain on sale of FVOCI holding	–	–	–	–	4,746	–	–	4,746
Total comprehensive income for the year	–	–	–	–	7,095	(8,046)	8,997	8,046
Transactions with owners of the Company								
Tax relating to share options	–	–	–	820	–	–	–	820
Exercise of share options	3	8,281	–	–	–	–	–	8,284
Issue of shares	–	113	–	–	–	–	–	113
Share based payment charge	–	–	–	2,250	–	–	–	2,250
Transfer on forfeit of share options	–	–	–	(55)	–	–	55	–
Balance at 28 February 2021	**139**	**99,396**	**8,118**	**16,790**	**10,682**	**(5,628)**	**53,177**	**182,674**

Consolidated statement of changes in equity continued
Year ended 29 February 2020

	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
Balance at 1 March 2019	131	79,726	8,118	10,744	3,587	3,944	36,560	142,810
Total comprehensive income for the year								
Profit for the year	—	—	—	—	—	—	14,893	14,893
Other comprehensive income								
Net exchange gain on net investment in foreign subsidiaries	—	—	—	—	—	1,394	—	1,394
Net exchange loss on hedge of net investment in foreign subsidiaries	—	—	—	—	—	(2,920)	—	(2,920)
Total comprehensive income for the year	—	—	—	—	—	(1,526)	14,893	13,367
Transactions with owners of the Company								
Tax relating to share options	—	—	—	1,411	—	—	—	1,411
Exercise of share options	4	10,123	—	—	—	—	—	10,127
Issue of shares	—	58	—	—	—	—	—	58
Issue of shares as contingent deferred consideration	1	1,095	—	—	—	—	—	1,096
Share based payment charge	—	—	—	1,645	—	—	—	1,645
Transfer on forfeit of share options	—	—	—	(25)	—	—	25	—
Dividends to owners of the Company	—	—	—	—	—	—	(7,353)	(7,353)
Balance at 29 February 2020	136	91,002	8,118	13,775	3,587	2,418	44,125	163,161

Company statement of changes in equity
Year ended 28 February 2021

	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 2020	136	91,002	8,118	13,866	3,733	24,094	140,949
Total comprehensive income for the year							
Profit for the year	—	—	—	—	—	2,446	2,446
Other comprehensive income							
Net change in fair value of equity investments at FVOCI	—	—	—	—	253	—	253
Total comprehensive income for the year	—	—	—	—	253	2,446	2,699
Transactions with owners of the Company							
Income tax relating to share options	—	—	—	924	—	—	924
Exercise of share options	3	8,281	—	—	—	—	8,284
Issue of shares	—	113	—	—	—	—	113
Share based payment charge	—	—	—	2,250	—	—	2,250
Transfer on forfeit of share options	—	—	—	(55)	—	55	—
Balance at 28 February 2021	**139**	**99,396**	**8,118**	**16,985**	**3,986**	**26,595**	**155,219**

Company statement of changes in equity continued

Year ended 29 February 2020

	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 2019	131	79,726	8,118	10,898	3,733	28,046	130,652
Total comprehensive income for the year							
Profit for the year	—	—	—	—	—	3,376	3,376
Other comprehensive income							
Net change in fair value of equity investments at FVOCI	—	—	—	—	—	—	—
Total comprehensive income for the year	—	—	—	—	—	3,376	3,376
Transactions with owners of the Company							
Income tax relating to share options	—	—	—	1,348	—	—	1,348
Exercise of share options	4	10,123	—	—	—	—	10,127
Issue of shares	—	58	—	—	—	—	58
Issue of shares as contingent deferred consideration	1	1,095	—	—	—	—	1,096
Share based payment charge	—	—	—	1,645	—	—	1,645
Transfer on forfeit of share options	—	—	—	(25)	—	25	—
Dividends to owners of the Company	—	—	—	—	—	(7,353)	(7,353)
Adjusted balance at 29 February 2020	136	91,002	8,118	13,866	3,733	24,094	140,949

Consolidated cash flow statement
Year ended 28 February 2021

	2021 £'000	2020 £'000
Cash flows from operating activities		
Profit for the year	8,997	14,893
Adjustments for:		
Net finance costs	5,818	3,621
Depreciation of property, plant and equipment	6,876	6,291
Amortisation of intangible assets	12,889	12,377
Equity-settled share based payment transactions	2,250	1,645
Grant income	(49)	(179)
Share of loss of associate	58	(126)
Tax expense	2,150	3,357
	38,989	41,879
Changes in:		
Trade and other receivables	1,707	(18,869)
Trade and other payables	5,972	11,340
Cash generated from operating activities	46,668	34,350
Taxes paid	(1,253)	(2,957)
Net cash from operating activities	45,415	31,393
Cash flows from investing activities		
Interest received	40	26
(Increase) in loans to other investments	(122)	(604)
Settlement of loans to other investments	992	–
Settlement of NCI forward	–	(42,874)
Acquisition of other investments and associates	(510)	(1,044)
Sale of other investments	10,987	–
Acquisition of property, plant and equipment	(1,502)	(2,295)
Acquisition of intangible assets	(13,775)	(10,972)
Net cash used in investing activities	(3,890)	(57,763)
Cash flows from financing activities		
Proceeds from issue of share capital	8,284	10,127
Drawdown of loans and borrowings	34,208	76,933
Repayment of borrowings	(38,350)	(36,751)
Payment of lease liabilities	(4,554)	(4,531)
Interest paid	(4,564)	(3,482)
Dividends paid	–	(7,397)
Net cash (used in)/generated from financing activities	(4,976)	34,899
Net increase in cash and cash equivalents	36,549	8,529
Cash and cash equivalents at 1 March	26,068	18,798
Effects of exchange rate changes on cash held	(7,419)	(1,259)
Cash and cash equivalents at 28/29 February	55,198	26,068

Company cash flow statement
Year ended 28 February 2021

	2021 £'000	2020 £'000
Cash flows from operating activities		
Profit for the year	2,444	3,376
Adjustments for:		
Net finance costs	3,301	6,826
Depreciation of property, plant and equipment	2,524	2,756
Amortisation of intangible assets	6,570	6,074
Dividends from associate and subsidiary	–	(1,308)
Equity-settled share based payment transactions	2,250	1,645
Grant income	(49)	(179)
Tax expense	1,786	1,781
	18,826	20,971
Changes in:		
Trade and other receivables	(6,757)	(21,746)
Trade and other payables	29,133	22,582
Cash generated from operating activities	41,202	21,807
Taxes paid	(730)	(2)
Net cash from operating activities	40,472	21,805
Cash flows from investing activities		
Interest received	40	24
Settlement of NCI forward	–	(42,874)
Increase in loans to other investments	–	(220)
Acquisition of other investments	(125)	(138)
Acquisition of property, plant and equipment	(691)	(318)
Acquisition of intangible assets	(9,184)	(8,474)
Net cash used in investing activities	(9,960)	(52,000)
Cash flows from financing activities		
Proceeds from issue of share capital	8,284	10,127
Drawdown of loans and borrowings	34,208	76,933
Repayment of borrowings	(38,350)	(36,751)
Payment of lease liabilities	(1,868)	(1,824)
Interest paid	(4,308)	(3,006)
Dividends paid	–	(7,397)
Net cash (used in)/generated from financing activities	(2,034)	38,082
Net increase in cash and cash equivalents	28,478	7,887
Cash and cash equivalents at 1 March	21,656	14,760
Effects of exchange rate changes on cash held	(7,039)	(991)
Cash and cash equivalents at 28/29 February	43,095	21,656

Notes

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 17 May 2021.

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;
- 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 2020 and these have been adopted in the Group and Company financial statements where relevant:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3 (Oct 2018)
- Amendments to IAS 1 and IAS 8 (Oct 2018)
- Amendments to IFRS 9, IAS 39 and IFRS 7 (Sept 2019)

The changes listed above did not result in material changes to the Group and Company financial statements.

IFRSs not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 March 2020 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:

Amendment to IFRS 16	1 June 2020
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	1 January 2021
Amendments to IAS 16	1 January 2022
Annual Improvements to IFRS Standards 2018– 2020 (May 2020)	1 January 2022
Amendments to IFRS 3 (May 2020)	1 January 2022
Amendments to IAS 37 (May 2020)	1 January 2023
IFRS 17	1 January 2023
Amendments to IAS 1	1 January 2023
Amendments to IFRS 4	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023
Amendments to IAS 8	1 January 2023

There are no other IFRS standards or interpretations that are not yet effective that would be expected to have a material impact on the Group. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

1. Significant accounting policies continued

a) Basis of preparation continued

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 financial statements are prepared on a going concern basis. The Directors consider the Group to have a resilient business model and to have considerable financial resources. It meets its day-to-day working capital requirements through cash generated from its trading activities and has long-term loan facilities that were agreed in February 2019. The Group's forecasts and projections, show that the Group will continue to be cash generative and will be able to meet all obligations as they fall due with significant headroom.

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. While the Company balance sheet shows it to have net current liabilities, it has cash resources available to it through its subsidiary undertakings. 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 22. 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. Note 31 details financial instruments and their impact on credit risk and liquidity.

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:

- Development costs for the assets being capitalised are capitalised in accordance with accounting policies in note 1 for assets which the Group considers positive future cash generation will occur.
- Management has assessed that in respect of equity investments, the Group does not hold significant influence over the investees' financial and operating policies that would result in a controlling shareholder. Details of investments held are included within note 18.
- Management applies judgement in the recognition of revenue, determining when performance obligations are satisfied and control transferred. 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. Note 16 outlines the value and goodwill and the sensitivities for the key inputs for an impairment to arise.
- 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. Details of the key assumptions used are included in note 31(b).

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.

Notes continued

1. Significant accounting policies continued

a) Basis of preparation continued

Measurement of fair values

A number of the Group's and Company's accounting policies and disclosures require the measurement at fair value of 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.

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 note 31 financial instruments.

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 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.

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)

All subsidiaries are 100% owned with no non-controlling interests.

1. Significant accounting policies continued

b) Basis of consolidation continued

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 other comprehensive income (OCI) in the Group's financial statements; and
- differences arising from the retranslation of an interest in equity securities designated at FVOCI which are recognised in OCI.

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.

Notes continued

1. Significant accounting policies continued

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 in the profit or loss.

ii) 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.

iii) 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	— 25%
Plant and equipment	— 25–50%
Leasehold improvements	— 2–20%
Right-of-use assets	— 6–50%

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

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

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.

1. Significant accounting policies continued

e) Intangible assets and goodwill continued

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%
Brand name	— 12.5%
Internally developed software	— 12.5–20.0%

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

f) Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

On initial recognition a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI); or fair value through profit and loss (FVPL). 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 is reclassification 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. The Group also derecognises a financial asset when its terms are substantially modified. This is determined by a quantitative analysis to determine that the cash flows of the modified asset are substantially different and a qualitative assessment to identify substantial differences in terms that by their nature are not captured by the quantitative assessment. Where a substantial modification has been determined a new financial asset based on the modified terms is recognised at fair value and the original financial asset is derecognised; the difference in the respective carrying amounts is recognised in profit or loss. If the modification is not substantial, the difference between: (1) the carrying amount of the asset before the modification; and (2) the present value of the cash flows after the modification is recognised in profit or loss as the modification gain or loss within other gains and losses.

Financial liabilities are classified as measured at amortised cost or FVPL. 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. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification is recognised in profit or loss as the modification gain or loss within other gains and losses.

Trade and other receivables

Trade and other receivables in a held to collect business model are initially measured at transaction price where there is no significant financing component, otherwise they are recognised at fair value. 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 FVPL. 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.

1. Significant accounting policies continued

f) Financial instruments continued

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.

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 contract assets (accrued income). 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 Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to twelve-month ECL. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, twelve-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within twelve months after the reporting date.

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.

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.

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.

1. Significant accounting policies continued

h) Employee benefits continued

ii) Share based payment transactions

The grant date fair value of equity-settled 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 or Monte Carlo 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 the share option reserve is transferred to retained earnings. Modifications are assessed at the date of modification and any incremental charges are charged to the income statement.

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.

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.

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 usually recognised on a straight-line basis over the period to which the service is provided to the customer. When the value of the satisfied performance obligations is in excess of the payment due, the Group recognises a contract asset (accrued income). When the amount of unconditional consideration is in excess of the value of satisfied performance obligations, the Group recognises a contract liability (deferred income). Once a right to receive consideration is unconditional, that amount is recognised as a receivable. Further detail on revenue recognition is provided in the critical accounting estimates and judgement note.
- 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.
- Revenue from consulting services is recognised in the period in which the consultants perform the work at the contracted rates for each consultant. Revenue is based on timesheets from our consultants which are authorised by the Group's customers detailing the hours and service provided.
- Maintenance and support revenue is recognised based over the term of the support arrangement. Under the standardised maintenance and support services, the Group's performance obligation is to provide product support and unspecified updates, upgrades and enhancements on a when-and-if available basis. The customers simultaneously receive and consume the benefits of these services.
- In respect of customisation of software, revenue is recognised over the implementation period.
- 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.

Notes continued

1. Significant accounting policies continued

i) Revenue continued

i) Products and services rendered continued

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 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.

j) Leases

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A lease conveys a right to control the use of an identified asset for a period of time in exchange for consideration. At inception or upon reassessment of the arrangement, the Group allocates the consideration for lease and non-lease components on the basis of their relative fair values. However, for certain leases of properties the Group has elected not to separate non-lease components and instead accounts for the lease and non-lease components as a single arrangement. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of twelve months or less) and leases of low-value assets.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made. It is remeasured, with a corresponding adjustment to the right-of-use asset, when there is a change in the future lease payments. The lease liability is presented within loans and borrowings in the consolidated balance sheet.

The right-of-use asset is initially measured at cost, comprising the initial measurement of the corresponding lease liability, any lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use asset is tested for impairment if there are any indicators of impairment. The right-of-use assets are presented within the same line item as that within which the corresponding underlying assets would be presented if they were owned – for the Group this is property, plant and equipment.

For short-term leases and leases of low-value assets lease payments are recognised in profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Low-value assets comprise IT equipment and small items of office furniture. This expense is presented within Other operating expenses in the consolidated statement of comprehensive income.

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. Finance 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.

1. Significant accounting policies continued

l) Taxation continued

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.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

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.

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.

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.

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.

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.

1. Significant accounting policies continued

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) Use of non-GAAP measures – Adjusted EBITDA

The Group believes that the consistent presentation of adjusted Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA), adjusted effective tax rate, adjusted basic earnings per share and adjusted diluted earnings per share provides additional useful information to shareholders on the underlying trends and comparable performance of the Group over time. Adjusted EBITDA is defined as results from operating activities before acquisition and non-operational costs, share based payments and related costs, depreciation of property, plant and equipment and amortisation of intangible assets. Acquisition and non-operational costs relate to merger and acquisition related costs when they arise together with costs of managing our portfolio of equity investments. The Group uses adjusted EBITDA as an underlying measure of its performance. A reconciliation between GAAP and underlying measures is set out in note 7 (Adjusted EBITDA).

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 31.

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 31 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 22 to the financial statements.

2. Financial risk management continued

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 32 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. Please see capital structure per note 21.

3. Operating and business segments

Business segments

The Group's Board of Directors are 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. 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 4.

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

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

Information about reportable segments

	Managed services and consulting		Software		Total	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Revenue by industry						
Revenue	90,502	89,389	147,365	148,401	237,867	237,790
Cost of sales	(70,826)	(69,458)	(66,062)	(67,184)	(136,888)	(136,642)
Gross profit	19,676	19,931	81,303	81,217	100,979	101,148

Geographical location analysis

	Revenues		Non-current assets	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
UK	68,718	66,878	59,837	56,485
Rest of Europe	39,371	42,862	16,561	15,218
America	103,401	100,596	122,313	142,476
Australasia	26,377	27,454	3,064	1,067
Total	237,867	237,790	201,775	215,246

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 2021 or 2020.

Notes continued

4. Revenue

Disaggregation of revenue

	Managed services and consulting		Software		Total	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Revenue by industry						
FinTech	90,502	89,389	94,162	89,398	184,664	178,787
MarTech	–	–	44,161	47,299	44,161	47,299
Other	–	–	9,042	11,704	9,042	11,704
	90,502	89,389	147,365	148,401	237,867	237,790
Type of good or service						
Sale of goods – perpetual	–	–	10,595	11,856	10,595	11,856
Sale of goods – recurring	–	–	61,951	59,789	61,951	59,789
Rendering of services	90,502	89,389	74,819	76,756	165,321	166,145
	90,502	89,389	147,365	148,401	237,867	237,790
Timing of revenue recognition						
At a point in time	–	–	10,595	11,856	10,595	11,856
Over time	90,502	89,389	136,770	136,545	227,272	225,934
	90,502	89,389	147,365	148,401	237,867	237,790

The following table provides information about receivables, accrued income and deferred income from contracts with customers.

Receivables, accrued and deferred income

	2021 £'000	2020 £'000
Net trade receivables	48,794	49,860
Accrued income	10,881	12,120
Deferred income	23,899	21,778

Accrued income relates to the Group's right to consideration for work completed and delivered but not invoiced as at year end and is transferred to trade receivables when an invoice is issued to the customer. Customers are typically invoiced on a monthly basis and consideration is payable when invoiced.

Deferred income relates to advance consideration received from customers, where revenue is recognised over time as the services are provided/delivered to customers.

5. Other income

	2021 £'000	2020 £'000
Government grants	49	179
Dividends from equity investments held at FVOCI	47	–
	96	179

In December 2018, the Group was awarded a government grant amounting to £1,268k under the Skills Growth Programme. The grant is to be drawn down on the occurrence of approved training expenditure, for the period to June 2021. The income is recognised as the costs are incurred.

6. Operating costs

	2021 £'000	2020 £'000
Rent, rates and insurance	2,513	2,898
Telecommunications	765	781
Accountancy, audit and legal expenses	1,653	1,579
Payroll costs	63,250	55,368
– of which capitalised	(12,286)	(10,431)
Research and development credit	(1,178)	(1,312)
Listing expenses	515	314
Travel and subsistence	525	3,147
IT expenses	1,576	1,259
Marketing expenses	4,070	3,968
Acquisition-related costs and other non-operational costs	1,337	1,990
Depreciation and amortisation	19,766	18,668
Impairment (loss)/gain on trade and other receivables	215	(336)
Other income	(96)	(179)
Other operating costs	1,332	1,689
	83,957	79,403

7. Adjusted EBITDA

	2021 £'000	2020 £'000
Operating profit	17,022	21,745
Acquisition and non-operational costs	1,337	1,990
Share based payment and related costs	2,370	3,119
Depreciation and amortisation	19,765	18,668
	40,494	45,522

8. Auditor's remuneration

Included in profit/loss are the following:

	2021 £'000	2020 £'000
Auditor's remuneration		
Audit of these financial statements	85	80
Amounts receivable by auditor and its associates in respect of:		
Audit of the subsidiary undertakings included in the consolidation	59	50
All other services	–	–
Taxation compliance services	–	–
Other tax advisory services	–	–
Expenses recharged	–	2
	144	132

Notes continued

9. Personnel expenses and numbers

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

	Group		Company	
	2021 £'000 Average no.	2020 £'000 Average no.	2021 £'000 Average no.	2020 £'000 Average no.
Administration	242	234	159	155
Sales	326	317	58	49
Technical	1,795	1,791	1,090	1,242
	2,363	2,342	1,307	1,446

The aggregate payroll costs of these persons were as follows:

	Group	
	2021 £'000	2020 £'000
Wages and salaries	140,000	119,395
Social security costs	11,880	11,458
Other pension costs	5,056	4,733
Share based payments (see note 32)	2,250	1,645
Less capitalised development costs	(12,286)	(10,972)
	146,900	126,259
Disclosed as:		
Cost of sales	95,936	81,322
Operating costs (see note 6)	50,964	44,937
	146,900	126,259

10. Finance income and expense

	2021 £'000	2020 £'000
Bank interest income	40	26
Interest arising on settlement of receivable balance	1,566	–
Finance income	1,606	26
(Loss)/gain on foreign currency translation of assets	(3,240)	1,019
(Loss)/gain on foreign currency translation	(3,240)	1,019
Financial liabilities measured at amortised costs		
– interest expense	(3,010)	(3,649)
– lease interest expense	(1,173)	(1,017)
Finance expense	(4,183)	(4,666)
Net finance expense recognised in profit or loss	(5,817)	(3,621)

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

11. Tax expense

a) Income tax recognised in the income statement

	2021 £'000	2020 £'000
Current tax expense		
Current year	2,013	3,514
Adjustment for prior years	77	(19)
	2,090	3,495
Deferred tax expense		
Origination and reversal of temporary differences	(407)	(448)
Adjustment for prior years	188	310
Change in tax rate	279	–
	60	(138)
Total tax expense	2,150	3,357

b) Amounts recognised in OCI

	2021			2020		
	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	(2,923)	574	(2,349)	–	–	–
Items that are or may be reclassified subsequently to profit or loss						
Hedge of net investment in foreign subsidiaries	(3,233)	622	(2,611)	3,518	(598)	2,920
	(6,156)	1,196	(4,960)	3,518	(598)	2,920

c) Amounts recognised in equity

	2021			2020		
	Before tax £'000	Tax expense/ (benefit) £'000	After tax £'000	Before tax £'000	Tax expense/ (benefit) £'000	After tax £'000
Deferred tax on share based payments	–	(125)	(125)	–	(39)	(39)
Deferred tax on losses	–	585	585	–	157	157
Current tax on losses	–	(1,280)	(1,280)	–	(1,529)	(1,529)
	–	(820)	(820)	–	(1,411)	(1,411)

Notes continued

11. Tax expense continued

c) Amounts recognised in equity continued

	2021 £'000	2020 £'000
Reconciliation of effective tax rate		
Profit excluding income tax	11,147	18,250
Income tax using the Company's domestic tax rate of 19.0% (2020: 19.0%)	2,118	3,467
Tax exempt income	(475)	(1,052)
Expenses not deductible for tax purposes	147	554
Adjustments for prior years	311	291
Other differences	(111)	(19)
Effect of foreign exchange on consolidation	(782)	(724)
Foreign tax rate differences	764	359
Unrelieved overseas taxes	178	481
Total tax expense	2,150	3,357

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). Parliament ratified the withdrawal agreement and the UK left the EU on 31 January 2020. The transition period ended on 31 December 2020. Given the core locations of the First Derivatives business are outside of the EU, there has been very limited disruption to operations to date. The Group continues to monitor the EU position closely to identify and address any further changes and the impact these may have.

A change to the main UK corporation tax rate, announced in the Budget on 11 March 2020, was substantively enacted on 17 March 2020. The rate applicable from 1 April 2020 now remains at 19%, rather than the previously enacted reduction to 17%. The effect of this change was a credit to the net deferred tax balances carried forward of £400k.

On 3 March 2021, the Government announced an increase in the rate of corporation tax rate to 25% from 1 April 2023. The change in rate has yet to be substantively enacted, therefore the impact of the rate change will not affect the financial statements in the current period.

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.

12. Remuneration of Directors

The remuneration paid to the Directors was:

	2021 £'000	2020 £'000
Aggregate emoluments (including benefits in kind)	1,218	944
Company pension contributions	26	31
Share based payment	257	305
	1,501	1,280

During the year there were two Directors accruing benefits under a defined contribution pension scheme (2020: two).

The aggregate emoluments and Company pension contributions of the highest paid Director (excluding fees paid for provision of services) amounted to £451k and nil respectively during the year (2020: £419k and £23k 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.

13. Dividends

	2021 £'000	2020 £'000
Dividends paid to the owners of the parent		
Final dividend relating to the prior year	–	5,084
Interim dividend paid	–	2,269
	–	7,353

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.

No final dividend was declared in relation to the comparative period and no interim dividend was declared or paid relating to the current year. In the prior year the 2019 final dividend of 19.30p per share and the 2020 interim dividend of 8.50p per share were paid. The cumulative dividend paid during the year amounted to nil (previous year: 27.80p) 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.

	2021 £'000	2020 £'000
Nil per ordinary share (2020: Nil)	–	–

14. a) Earnings per ordinary share

Basic

The calculation of basic earnings per share at 28 February 2021 was based on the profit attributable to ordinary shareholders of £8,997k (2020: £14,893k), and a weighted average number of ordinary shares in issue of 27,505k (2020: 26,628k).

	2021 Pence per share	2020 Pence per share
Basic earnings per share	32.7	55.9

Weighted average number of ordinary shares

	2021 Number '000	2020 Number '000
Issued ordinary shares at 1 March	27,150	26,162
Effect of share options exercised	352	437
Effect of shares issued as purchase consideration	–	27
Effect of shares issued as remuneration	3	2
Weighted average number of ordinary shares at 28/29 February	27,505	26,628

Diluted

The calculation of diluted earnings per share at 28 February 2021 was based on the profit attributable to ordinary shareholders of £8,997k (2020: £14,893k) and a weighted average number of ordinary shares after adjustment for the effects of all dilutive potential ordinary shares of 28,126k (2020: 27,502k).

	2021 Pence per share	2020 Pence per share
Diluted earnings per share	32.0	54.2

Notes continued

14. a) Earnings per ordinary share continued

Diluted continued

Weighted average number of ordinary shares (diluted)

	2021 Number '000	2020 Number '000
Weighted average number of ordinary shares (basic)	27,505	26,628
Effect of dilutive share options in issue	621	874
Weighted average number of ordinary shares (diluted) at 29 February	28,126	27,502

At 28 February 2021 120,058 shares (2020: 18,885 shares) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive. 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.

14. b) Earnings before tax per ordinary share

Earnings before tax per share are based on profit before taxation of £11,147k (2020: £18,250k). The number of shares used in this calculation is consistent with note 14(a) above.

	2021 Pence per share	2020 Pence per share
Basic earnings before tax per ordinary share	40.5	68.5
Diluted earnings before tax per ordinary share	39.6	66.4

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

	2021 Pence per share	2020 Pence per share
Basic earnings per share	32.7	55.9
Impact of taxation charge	7.8	12.6
Basic earnings before tax per share	40.5	68.5
Diluted earnings per share	32.0	54.2
Impact of taxation charge	7.6	12.2
Diluted earnings before tax per share	39.6	66.4

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

14. c) Adjusted earnings after tax per ordinary share

Adjusted earnings after tax per share is based on an adjusted profit after taxation of £16,602k (2020: £21,283k). The adjusted profit after tax has been calculated by adjusting the Profit after tax £8,997k (2020: £14,894k) for the amortisation of acquired intangibles after tax effect of £3,184k (2020: £3,155k), share based payment and related charges after tax effect of £1,911k (2020: £2,526k), acquisition costs after tax effect of £1,102k (2020: £1,635k), share of loss of associate after tax effect of £58k (2020: profit £126k), the loss on foreign currency translation after tax effect of £2,613k (2020: profit £802k), and finance income from sale of investment after tax effect of £1,263k (2020: nil). The number of shares used in this calculation is consistent with note 14(a) above.

	2021 Pence per share	2020 Pence per share
Adjusted basic earnings after tax per ordinary share	60.4	79.9
Adjusted diluted earnings after tax per ordinary share	59.0	77.4

15. Property, plant and equipment

Group

	Leasehold improvements £'000	Plant and equipment £'000	Office furniture £'000	Right-of-use assets £'000	Total £'000
Cost					
At 1 March 2020	5,958	17,163	1,763	30,914	55,798
Additions	371	1,090	42	2,975	4,478
Disposals	(60)	(6,169)	(450)	(379)	(7,058)
Exchange adjustments	(45)	(198)	(6)	(920)	(1,169)
At 28 February 2021	**6,224**	**11,886**	**1,349**	**32,590**	**52,049**
Depreciation					
At 1 March 2020	2,851	11,228	1,096	3,480	18,655
Charge for the year	624	1,790	249	4,214	6,877
Disposals	(60)	(6,169)	(450)	—	(6,679)
Exchange adjustments	(94)	(4)	(1)	(246)	(345)
At 28 February 2021	**3,321**	**6,845**	**894**	**7,448**	**18,508**

	Leasehold improvements £'000	Plant and equipment £'000	Office furniture £'000	Right-of-use assets £'000	Total £'000
Cost					
At 1 March 2019	5,092	16,151	1,201	—	22,444
Recognition of right-of-use asset on initial application of IFRS 16	—	—	—	24,964	24,964
Additions	124	1,767	404	5,612	7,907
Exchange adjustments	742	(755)	158	338	483
At 29 February 2020	5,958	17,163	1,763	30,914	55,798
Depreciation					
At 1 March 2019	2,099	9,425	758	—	12,282
Charge for the year	657	1,848	288	3,498	6,291
Exchange adjustments	95	(45)	50	(18)	82
At 29 February 2020	2,851	11,228	1,096	3,480	18,655
Carrying amounts					
At 1 March 2019	2,993	6,726	443	—	10,162
At 29 February 2020	3,107	5,935	667	27,434	37,143
At 28 February 2021	**2,903**	**5,041**	**455**	**25,142**	**33,541**

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

Property, plant and equipment includes right-of-use assets of £22,521k (2020: £27,434k), related to leased properties that do not meet the definition of investment property.

Details of security provided for borrowing in respect of property, plant and equipment are disclosed in note 22.

Notes continued

15. Property, plant and equipment continued

Company

	Leasehold improvements £'000	Plant and equipment £'000	Office furniture £'000	Right-of-use assets £'000	Total £'000
Cost					
At 1 March 2020	3,850	4,531	989	14,204	23,574
Additions	371	280	40	1,417	2,108
Disposals	—	(2,233)	(303)	—	(2,536)
At 28 February 2021	**4,221**	**2,578**	**726**	**15,621**	**23,146**
Depreciation					
At 1 March 2020	1,538	3,310	677	1,557	7,082
Charge for the year	305	519	143	1,557	2,524
Disposals	—	(2,233)	(303)	—	(2,536)
At 28 February 2021	**1,843**	**1,596**	**517**	**3,114**	**7,070**

	Leasehold improvements £'000	Plant and equipment £'000	Office furniture £'000	Right-of-use assets £'000	Total £'000
Cost					
At 1 March 2019	3,814	4,293	945	—	9,052
Recognition of right-of-use asset on initial application of IFRS 16	—	—	—	14,204	14,204
Additions	36	238	44	—	318
At 29 February 2020	3,850	4,531	989	14,204	23,574
Depreciation					
At 1 March 2019	1,193	2,662	471	—	4,326
Charge for the year	345	648	206	1,557	2,756
At 29 February 2020	1,538	3,310	677	1,557	7,082
Carrying amounts					
At 1 March 2019	2,621	1,631	474	—	4,726
At 29 February 2020	2,312	1,221	312	12,647	16,492
At 28 February 2021	**2,378**	**982**	**209**	**12,507**	**16,076**

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

Property, plant and equipment includes right-of-use assets of £12,507k (2020: £12,647k) related to leased properties that do not meet the definition of investment property.

16. 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 2020	110,639	13,259	29,908	769	70,280	224,855
Development costs	–	–	–	–	13,398	13,398
Additions	–	–	377	–	–	377
Exchange adjustments	(7,112)	(792)	(1,750)	(36)	(147)	(9,837)
At 28 February 2021	**103,527**	**12,467**	**28,535**	**733**	**83,531**	**228,793**
Amortisation						
Balance at 1 March 2020	–	9,848	21,556	633	38,402	70,439
Amortisation for the year	–	1,235	2,332	50	9,272	12,889
Exchange adjustment	–	(657)	(1,269)	(31)	(91)	(2,048)
At 28 February 2021	**–**	**10,426**	**22,619**	**652**	**47,583**	**81,280**

	Goodwill £'000	Customer lists £'000	Acquired software £'000	Brand name £'000	Internally developed software £'000	Total £'000
Cost						
Balance at 1 March 2019	107,390	12,897	28,668	751	59,559	209,265
Development costs	–	–	541	–	10,431	10,972
Additions	–	–	–	–	–	–
Exchange adjustments	3,249	362	699	18	290	4,618
At 29 February 2020	110,639	13,259	29,908	769	70,280	224,855
Amortisation						
Balance at 1 March 2019	–	8,303	18,818	566	29,613	57,300
Amortisation for the year	–	1,315	2,315	54	8,693	12,377
Exchange adjustment	–	230	423	13	96	762
At 29 February 2020	–	9,848	21,556	633	38,402	70,439
Carrying amounts						
At 1 March 2019	107,390	4,594	9,850	185	29,946	151,965
At 29 February 2020	110,639	3,411	8,352	136	31,878	154,416
At 28 February 2021	**103,527**	**2,041**	**5,916**	**81**	**35,948**	**147,513**

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 £12,286k (2020: £10,972k) of capitalised employee costs for the year. Developed software includes £6,562k (2020: £4,264k) of software under development at 28 February 2021 not yet commissioned, which relates largely to ongoing development of the KX software as part of their assessment of impairment of goodwill for the KX CGU.

Notes continued

16. 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:

	2021 £'000	2020 £'000
Subsidiaries		
Market Resource Partners LLC	10,871	11,811
Prelytix LLC	5,561	6,044
Kx Systems Inc.	71,025	76,618
	87,457	94,473
Multiple units without significant goodwill	16,070	16,166
	103,527	110,639

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 2% (2020: 5–10%) is applied for years two to five, followed by a growth rate of 2% (2020: 2%) thereafter. The pre-tax discount rates applied to cash flow projections of the CGUs was 14-17% (2020: 12–17%).

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

	2021			2020		
	Market Resource Partners LLC	Prelytix LLC	Kx Systems Inc.	Market Resource Partners LLC	Prelytix LLC	Kx Systems Inc.
Discount rate	14%	17%	15%	14%	17%	15%
Terminal value growth rate	2%	2%	2%	2%	2%	2%
Early growth rate	10%	20%	9%	10%	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	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Subsidiaries				
Market Resource Partners LLC	32,371	33,887	21,500	22,076
Prelytix LLC	36,349	38,343	24,848	28,571
Kx Systems Inc.	133,497	132,620	62,172	47,927

16. Intangible assets and goodwill continued

Group continued

Sensitivity analysis

There was no impairment charge for the year ended 28 February 2021 (2020: 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	
	2021 %	2020 %	2021 %	2020 %
Change required for carrying value to equal recoverable amount				
Market Resource Partners LLC	36.0	34.0	(26.0)	(59.0)
Prelytix LLC	40.0	52.0	(16.0)	(108.0)
Kx Systems Inc.	25.0	21.8	(57.0)	(43.0)

Company

	Goodwill £'000	Acquired software £'000	Internally developed software £'000	Total £'000
Cost				
Balance at 1 March 2020	1,947	482	51,091	53,520
Development costs	—	—	8,935	8,935
Additions	—	249	—	249
Balance at 28 February 2021	**1,947**	**731**	**60,026**	**62,704**
Amortisation and impairment losses				
Balance at 1 March 2020	—	271	26,855	27,126
Amortisation for the year	—	60	6,510	6,570
Balance at 28 February 2021	**—**	**331**	**33,365**	**33,696**
Cost				
Balance at 1 March 2019	1,947	482	42,617	45,046
Development costs	—	—	8,474	8,474
Balance at 29 February 2020	1,947	482	51,091	53,520
Amortisation and impairment losses				
Balance at 1 March 2019	—	211	20,841	21,052
Amortisation for the year	—	60	6,014	6,074
Balance at 29 February 2020	—	271	26,855	27,126
Carrying amounts				
At 1 March 2019	1,947	271	21,776	23,994
At 29 February 2020	1,947	211	24,236	26,394
At 28 February 2021	**1,947**	**400**	**26,661**	**29,008**

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 £8,105k (2020: £8,474k) of capitalised employee costs. Developed software includes £5,457k (2020: £3,538k) of software under development at 28 February 2021 not yet commissioned. Uncommissioned development expenditure is assessed for impairment annually as part of the underlying CGU.

Notes continued

16. Intangible assets and goodwill continued

Company continued

Impairment testing of goodwill

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 2% (2020: 5–10%) is applied for years two to five, followed by a growth rate of 2% (2020: 2%) thereafter. The pre-tax discount rates applied to cash flow projections of the goodwill was 14% (2020: 12%). There was no impairment charge for the year ended 28 February 2021 (2020: nil).

17. 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 2021/2020
Activate Clients Limited*	Ireland	Ordinary	100%
Cowrie Financial Limited*	United Kingdom	Ordinary	100%
First Derivatives (Hong Kong) Limited*	Hong Kong	Ordinary	100%
First Derivatives (Ireland) Limited*	Ireland	Ordinary	100%
First Derivatives Canada Inc.*	Canada	Ordinary	100%
First Derivatives Holdings Inc.*	United States	Ordinary	100%
First Derivatives Holdings Pty Limited*	Australia	Ordinary	100%
First Derivatives I Limited	United Kingdom	Ordinary	100%
First Derivatives Investments LLP	United Kingdom	Ordinary	100%
First Derivatives Japan Co. Limited	Japan	Ordinary	100%
MRPFD S.A DE C.V	Mexico	Ordinary	100%
First Derivatives Pte Limited*	Singapore	Ordinary	100%
First Derivatives Pty Limited	Australia	Ordinary	100%
First Derivatives Services Limited	United Kingdom	Ordinary	100%
First Derivatives South Africa (Pty) Limited*	South Africa	Ordinary	100%
First Derivatives South Korea	South Korea	Ordinary	100%
First Derivatives US Inc	United States	Ordinary	100%
Kx Systems Inc.*	United States	Ordinary	100%
Market Resource Partners Limited*	N. Ireland	Ordinary	100%
Market Resource Partners LLC*	United States	Ordinary	100%
Prelytix LLC	United States	Ordinary	100%
QuantumKDB Limited	Hong Kong	Ordinary	100%
QuantumKDB Limited*	United Kingdom	Ordinary	100%
Redshift Horizons Limited*	United Kingdom	Ordinary	100%
Reference Data Factory LLC	United States	Ordinary	100%
Telconomics09 S.L	Spain	Ordinary	100%

* Owned directly by First Derivatives plc.

** Full address is shown at end of document.

During the year to 28 February 2021, there were three previously held 100% subsidiaries dissolved as follows: First Derivatives (Exchange) Limited, First Derivatives No.1 Inc and QuantumKDB Inc.

	Company	
	2021 £'000	2020 £'000
Unlisted investments in subsidiaries at cost		
At 1 March and at end of the year	133,464	133,464

17. Investment in subsidiaries and associate continued

Associate

Group

	2021 £'000	2020 £'000
Investment in associate	2,649	2,937

At 28 February 2021, the Group had the following investment in an associate:

	Country of incorporation	Class of share held	Ownership at 28 February 2021
RxDataScience Inc.	United States	Ordinary	36.66%

The Group's share of loss in associates for the year to 28 February 2021 was £58k (2020: gain £126k).

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.

	2021 £'000	2020 £'000
Percentage ownership interest	36.66%	36.66%
Non-current assets	1,768	2,195
Current assets	1,375	847
Non-current liabilities	(273)	–
Current liabilities	46	(146)
Net assets (100%)	2,916	2,896
Group's share of net assets (36.66%) (2020: 36.66%)	1,069	1,062
Goodwill	1,709	1,709
Exchange adjustments	(129)	166
Carrying amount of interest in associate	2,649	2,937

	2021 £'000	2020 £'000
Revenue	5,301	3,708
(Loss)/Profit from continuing operations (100%)	(158)	344
Other comprehensive income (100%)	–	–
Total comprehensive income (100%)	(158)	344
Total comprehensive income (36.66%)	(58)	126

At the year end the Group holds 56,142 (2020: 56,142) warrants which are exercisable on the occurrence of an exit event at an exercise price of $0.01 per warrant. Further disclosed Note 31(b).

18. Other financial assets

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Non-current investments				
Equity securities at FVOCI	14,760	15,750	4,184	12,914
	14,760	15,750	4,184	12,914

Information about the Group and Company's exposure to market risk and fair value measurement is disclosed in note 31(b). Movements in the value of the equity securities held is also shown disclosed in note 31(b).

Notes continued

18. Other financial assets continued

Equity securities designated at FVOCI

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.

	Group Fair Value		Company Fair Value	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Investment in Quantile Technologies Ltd	7,301	9,500	–	9,500
Investment in Copa Fin	3,586	3,276	3,586	3,276
Other investments not individually significant	3,873	2,974	598	138
	14,760	15,750	4,184	12,914

The Company transferred its shareholding of Quantile Technologies Ltd to its wholly-owned subsidiary, First Derivatives Investments Limited. The majority of the Group's holding in Quantile was sold for cash consideration of £11.0m, representing a total gain of £4.7m on the carrying fair value. A further uplift of £2.4m to the fair value of the Quantile investment was recognised following observable market events.

The Group and Company have recognised dividend income in the year from their FVOCI investment, Seraphim Space LP of £47k (2020: nil).

19. Trade and other receivables

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Current assets				
Trade receivables	48,794	49,860	33,222	28,477
Receivables from subsidiaries	–	–	17,096	18,517
Convertible loans	2,327	2,087	–	–
Other receivables	3,933	2,415	3,408	2,238
Accrued income	10,881	12,120	2,471	5,701
Prepayments	8,510	8,553	7,331	7,625
Grant income receivable	657	1,295	216	352
	75,102	76,330	63,744	62,910

	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Non-current assets				
Receivables from subsidiaries[1]	–	–	43,841	31,109
Convertible loans	795	1,360	74	431
Other loans	234	1,188	–	954
Trade and other receivables	1,660	2,407	1,660	2,408
Grant income receivable	623	45	–	–
	3,312	5,000	45,575	34,902

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

The Group's accrued income (contract asset) balance solely relates to revenue from contracts with customers. Movements in the accrued income balance were 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 31.

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 31.

20. Cash and cash equivalents

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Bank balances	55,198	26,068	43,095	21,656

See note 31 for discussion of interest rate risk and sensitivity analysis.

21. Share capital

	Ordinary shares	
	2021 Number	2020 Number
In issue at 1 March	27,150,193	26,162,258
Exercise of share options (note 32)	562,661	949,993
Issued for settlement of contingent deferred consideration	—	35,694
Issued as remuneration	4,470	2,248
In issue at year end – fully paid	27,717,324	27,150,193

	2021 Number	2021 £'000	2020 Number	2020 £'000
Equity shares				
Issued, allotted and fully paid				
Ordinary shares of £0.005 each	27,717,324	139	27,150,193	136

Shares increased in the year due to the exercise of 562,661 share options (2020: 949,993) for cash consideration of £8,284k (2020: £10,127k) and the issue of 4,470 shares (2020: 2,248) as remuneration of £113k (2020: £58k). In the prior year 35,694 shares at £1,096k were issued as settlement of contingent deferred purchase consideration.

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 fair value through OCI. Additionally, the fair value reserve of the Company relates to the revaluation reserve which arose on revaluation 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.

Notes continued

22. 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 31.

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Current liabilities				
Secured bank loans	5,492	6,337	5,492	6,337
Lease liabilities	3,752	4,531	1,398	1,814
	9,244	10,868	6,890	8,151
Non-current liabilities				
Secured bank loans	59,622	69,156	59,622	69,156
Lease liabilities	23,974	25,155	11,442	11,098
	83,596	94,311	71,064	80,254

Terms and repayment schedule

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

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

The terms and conditions of outstanding loans were as follows:

				2021		2020	
	Currency	Nominal interest rate	Year of maturity	Face value £'000	Carrying amount £'000	Face value £'000	Carrying amount £'000
Bank overdraft	GBP	2.0%+LIBOR	2024	—	—	—	—
Term loan	Multi	2.0%+LIBOR[1]	2024	53,056	52,869	63,996	63,529
Revolving loan	Multi	2.0%+LIBOR[1]	2024	12,432	12,245	12,432	11,964
Lease liabilities	Multi	3.78%	2020-2035	27,726	27,726	29,686	29,686
Total interest bearing				93,214	92,840	106,114	105,179

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 2.0%+LIBOR.

The term and revolving loans are secured by a fixed charge over certain subsidiaries of the Group and have interest charged at 2.0% above LIBOR.

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

Group	2020 £'000	New leases £'000	Cash flow on principal £'000	Cash flow on interest £'000	Non-cash movement £'000	2021 £'000
Secured bank loans	75,493	—	(4,142)	—	(6,237)*	65,114
Lease liabilities	29,686	2,975	(3,380)	(1,174)	(381)	27,726
Total liabilities from financing activities	105,179	2,975	(7,522)	(1,174)	(6,618)	92,840

* The majority of non-cash movement relates to foreign exchange movements.

22. Loans and borrowings continued

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

	2019 £'000	Recognition of lease liabilities on initial application of IFRS 16 £'000	New leases £'000	Cash flow £'000	Non-cash movement £'000	2020 £'000
Secured bank loans	34,909	–	–	40,267	317	75,493
Lease liabilities	378	26,073	5,612	(4,531)	2,154	29,686
Total liabilities from financing activities	35,287	26,073	5,612	35,736	2,471	105,179

Company	2020 £'000	New leases £'000	Cash flow on principal £'000	Cash flow on interest £'000	Non-cash movement £'000	2021 £'000
Secured bank loans	75,493	–	(4,142)	–	(6,237)	65,114
Lease liabilities	12,912	1,417	(1,487)	(382)	380	12,840
Total liabilities from financing activities	88,405	1,417	(5,629)	(382)	(5,857)	77,954

	2019 £'000	Recognition of lease liabilities on initial application of IFRS 16 £'000	New leases £'000	Cash flows £'000	Non-cash movement £'000	2020 £'000
Secured bank loans	34,909	–	–	40,267	317	75,493
Lease liabilities	–	14,204	–	(1,824)	532	12,912
Total liabilities from financing activities	34,909	14,204	–	38,443	849	88,405

23. Trade and other payables

Current liabilities

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Trade payables	9,045	7,725	5,594	4,749
Other payables	13,807	9,235	10,693	6,620
Accruals	6,214	8,684	5,671	8,206
Deferred income	23,899	21,778	10,832	8,012
Government grants	626	297	463	136
Payables to subsidiaries	–	–	66,984	50,420
	53,591	47,719	100,237	78,143

Non-current liabilities

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Government grants	2,431	2,610	1,963	1,779
	2,431	2,610	1,963	1,779

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 31.

Notes continued

24. Deferred taxation

Group

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Property, plant and equipment	–	–	(505)	(767)
Share based payments	2,313	1,936	–	–
Trading losses	9,558	10,926	–	–
Other financial assets at fair value	58	58	(1,367)	(793)
Intangible assets	550	152	(9,556)	(9,025)
Short-term temporary differences	1,828	1,634	–	–
Other*	412*	276	–	–
Tax assets/(liabilities) before set-off	14,719	14,982	(11,428)	(10,585)
Set-off of tax	–	–	–	–
Net tax assets/(liabilities)	14,719	14,982	(11,428)	(10,585)

* This balance primarily relates to deferred future RDEC release to the profit and loss.

Movement in deferred tax balances differences during the year:

	Balance at 1 March 2020 £'000	Impact of change in tax rate in equity £'000	Impact of change in tax rate in profit and loss £'000	Recognised in income £'000	Recognised in equity £'000	Recognised in OCI £'000	Balance at 28 February 2021 £'000
Property, plant and equipment	(766)	–	26	167	–	68	(505)
Share based payments	1,936	170	49	203	(45)	–	2,313
Trading losses	10,926	600	133	(715)	(1,186)	(201)	9,557
Other financial assets at fair value	(735)	(86)	–	–	(487)	–	(1,308)
Intangible assets	(8,874)	–	(540)	125	–	283	(9,006)
Short-term temporary differences	1,634	–	13	325	–	(144)	1,828
Other	276	–	40	114	–	(18)	412
	4,397	684	(279)	219	(1,718)	(12)	3,291

	Balance at 1 March 2019 £'000	Recognised in income £'000	Recognised in equity £'000	Recognised in OCI £'000	Balance at 29 February 2020 £'000
Property, plant and equipment	(770)	40	–	(36)	(766)
Share based payments	1,806	91	39	–	1,936
Trading losses	11,311	(342)	(157)	113	10,926
Other financial assets at fair value	(735)	–	–	–	(735)
Intangible assets	(9,021)	343	–	(196)	(8,874)
Short-term temporary differences	1,699	(100)	–	35	1,634
Other	235	106	–	(65)	276
	4,525	138	(118)	(148)	4,397

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

24. Deferred taxation continued

Group continued

As at 28 February 2021, the Group has losses carried forward generated in the United Kingdom, Ireland, Canada, Australia and Spain which total £32.7m and have no expiration period.

The Group also has US federal and state income tax net operating loss (NOL) carry forwards of £14.4m and £11.8m which will expire, if not utilised, in the tax years 2031–2041.

The Group has carry forward losses in a Hong Kong entity of £153k (2020: £153k) 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.

Company

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Property, plant and equipment	–	–	(4,382)	(3,648)
Share based payments	2,220	1,860	–	–
Trading losses	5,693	6,079	–	–
Other financial assets at fair value	64	58	(932)	(825)
Other*	633	544	–	–
Tax assets/(liabilities) before set-off	8,610	8,541	(5,314)	(4,473)
Set-off of tax	–	–	–	–
Net tax assets/(liabilities)	8,610	8,541	(5,314)	(4,473)

* This balance primarily relates to our deferred future RDEC release to the profit and loss and short-term timing differences.

Movement in deferred tax balances during the year:

	Balance at 1 March 2020 £'000	Impact of change in tax rate in equity £'000	Impact of change in tax rate in profit and loss £'000	Recognised in profit and loss £'000	Recognised in equity £'000	Balance at 28 February 2021 £'000
Property, plant and equipment	(3,648)	–	(429)	(305)	–	(4,382)
Share based payments	1,860	170	49	161	(20)	2,220
Trading losses	6,079	585	133	64	(1,168)	5,693
Other financial assets at fair value	(767)	(86)	–	–	(15)	(868)
Other	544	9	53	38	(11)	633
	4,068	678	(194)	(42)	(1,214)	3,296

	Balance at 1 March 2019 £'000	Recognised in profit and loss £'000	Recognised in equity £'000	Balance at 29 February 2020 £'000
Property, plant and equipment	(3,581)	(67)	–	(3,648)
Share based payments	1,736	91	33	1,860
Trading losses	6,360	–	(281)	6,079
Other financial assets at fair value	(767)	–	–	(767)
Other	330	137	77	544
	4,078	161	(171)	4,068

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

Notes continued

25. Current tax

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Current tax receivable	3,208	3,142	2,355	1,826
Current tax payable	269	312	–	–

26. Employee benefits

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Accrued holiday pay	1,863	1,391	1,296	903
Employee taxes	4,906	4,811	4,128	4,447
	6,769	6,202	5,424	5,350

27. Contingent deferred consideration

Contingent deferred consideration liabilities are payable as follows:

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
At 1 March	–	1,071	–	1,071
Settled in year	–	(1,096)	–	(1,096)
Foreign exchange impact	–	25	–	25
At end of the year	–	–	–	–

28. Commitments

The maturity analysis of lease liabilities as at 28 February 2021 is as follows:

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Current lease liabilities	3,752	4,531	1,398	1,814
Non-current lease liabilities	23,974	25,155	11,442	11,098
	27,726	29,686	12,840	12,912

Maturity analysis:

	Group	
	2021 £'000	2020 £'000
Year 1	3,752	4,531
Year 2	3,521	3,895
Year 3	3,437	3,774
Year 4	3,620	3,268
Year 5	3,790	3,295
Onwards	9,606	10,923
	27,726	29,686

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

29. Pension contributions

The Group makes contributions to the personal pension schemes of certain employees. The pension charge for the year amounted to £5,056k (2020: £4,733k). Contributions amounting to £1,313k (2020: £564k) were payable to the schemes at the year end and are included in creditors.

30. 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 12.

During the financial year the Group generated revenues of £739k from Nutanix for which Virginia Gambale is the chair of the Executive advisory board. At the 28 February 2021 a trade debtor balance of £11k was due. All transactions were carried out at arms-length.

During the financial year the Group generated revenues of £97k from Vonage for which Steve Fisher is an independent director. At 28 February 2021 a trade debtor balance of £29k was due. All transactions were carried out at arms-length.

During the financial year the Group generated revenues of £12k from Cloudflare for which Thomas Seifert is Chief Financial Officer. All transactions were carried out at arms-length.

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	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Subsidiaries	23,053	22,874	30,576	30,068

	Receivables outstanding		Payables outstanding	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Subsidiaries	60,936	49,626	66,984	50,079

Interest is charged on intercompany loans at market rates.

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

	2021 £'000	2020 £'000
B G Conlon	–	1,516
R G Ferguson	–	28
K MacDonald	–	13
S Keating	–	7
V Gambale	–	4
D Troy	–	–
	–	1,568

Notes continued

31. 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 2021	FVPL £'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	–	14,760	–	–	14,760	14,760	3
Convertible loans	3,122	–	–	–	3,122	3,122	3
	3,122	14,760	–	–	17,882	17,882	
Financial assets not measured at fair value							
Trade and other receivables	–	–	66,781	–	66,781	[1]	
Cash and cash equivalents	–	–	55,198	–	55,198	[1]	
	–	–	121,979	–	121,979		
Financial liabilities not measured at fair value							
Secured bank loans	–	–	–	(65,114)	(65,114)	[1]	
Trade and other payables	–	–	–	(46,751)	(46,751)	[1]	
	–	–	–	(111,865)	(111,865)		

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

31. Financial instruments continued

Fair values continued

a) Accounting classifications and fair values continued

Group continued

	Carrying value						
29 February 2020	FVPL £'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	–	15,750	–	–	15,750	15,750	3
Convertible loans	3,447	–	–	–	3,447	3,447	3
	3,447	15,750	–	–	19,197	19,197	
Financial assets not measured at fair value							
Trade and other receivables	–	–	69,330	–	69,330	[1]	
Cash and cash equivalents	–	–	26,068	–	26,068	[1]	
	–	–	95,398	–	95,398		
Financial liabilities not measured at fair value							
Secured bank loans	–	–	–	(75,493)	(75,493)	[1]	
Trade and other payables	–	–	–	(47,422)	(47,422)	[1]	
	–	–	–	(122,915)	(122,915)		

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

Notes continued

31. 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 2021	FVPL £'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	–	4,184	–	–	4,184	4,184	3
Convertible loans	74	–	–	–	74	74	3
	74	4,184	–	–	4,258	4,258	
Financial assets not measured at fair value							
Trade and other receivables	–	–	101,913	–	101,913	[1]	
Cash and cash equivalents	–	–	43,095	–	43,095	[1]	
	–	–	145,008	–	145,008		
Financial liabilities not measured at fair value							
Secured bank loans	–	–	–	(65,114)	(65,114)	[1]	
Trade and other payables	–	–	–	(94,103)	(94,103)	[1]	
	–	–	–	(159,217)	(159,217)		

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

31. Financial instruments continued

Fair values continued

a) Accounting classifications and fair values continued

Company continued

29 February 2020	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	–	12,914	–	–	12,914	12,914	3
Convertible loans	431	–	–	–	431	431	3
	431	12,914	–	–	13,345	13,345	
Financial assets not measured at fair value							
Trade and other receivables	–	–	90,187	–	90,187	[1]	
Cash and cash equivalents	–	–	21,656	–	21,656	[1]	
	–	–	111,843	–	111,843		
Financial liabilities not measured at fair value							
Secured bank loans	–	–	–	(75,493)	(75,493)	[1]	
Trade and other payables				(78,007)	(78,007)	[1]	
	–	–	–	(153,500)	(153,500)		

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

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.

	Range in inputs		Change in input	Impact on fair value	
Significant inputs	2021	2020		2021 £'000	2020 £'000
Forecast annual revenues – with adjustments applied to Company forecasts	10-70%	10–50%	+/(-)15%	2,771/ (2,719)	3,533/ (3,534)
Risk-adjusted discount rate	25-60%	30–55%	-/(+)5%	2,212/ (1,797)	3,696/ (2,985)
Market multiple exit values – revenue based valuation	2.5x-5x	2.5–6x	+/(-)15%	1,559/ (1,559)	2,455/ (2,455)

Financial instruments at fair value

Warrants – the Group holds warrants in the associate. These were considered at 28 February 2021 and 29 February 2020 to have a minimal fair value due to the contingent nature.

Notes continued

31. Financial instruments continued

Fair values continued

b) Measurement of fair values continued

Reconciliation of Level 3 fair value

Group

	Convertible loans £'000	Unquoted equities £'000
Balance at 1 March 2020	3,447	15,750
Purchases	–	2,163
Disposals	(421)	(6,242)
Adjustments to fair value	–	3,175
Advances	165	–
Foreign exchange gain	(69)	(86)
Balance at 28 February 2021	**3,122**	**14,760**

	Convertible loans £'000	Unquoted equities £'000
Balance at 1 March 2019	3,463	13,706
Purchases	–	1,044
Conversion of loan to equity	(1,000)	1,000
Advances	961	–
Foreign exchange gain	23	–
Balance at 29 February 2020	3,447	15,750

Company

	Convertible loans £'000	Unquoted equities £'000
Balance at 1 March 2020	431	12,914
Disposals / Intercompany transfer	(357)	(9,500)
Changes in fair value	–	770
Balance at 28 February 2021	**74**	**4,184**

	Convertible loans £'000	Unquoted equities £'000
Balance at 1 March 2019	376	12,776
Advances	55	138
Balance at 29 February 2020	431	12,914

31. Financial instruments continued

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	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Trade and other receivables	66,781	69,329	101,913	90,187
Cash and cash equivalents	55,198	26,068	43,095	21,656
Convertible loans	3,122	3,447	74	431
	125,101	98,844	145,082	112,274

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

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Europe	10,206	9,502	6,574	6,983
America	20,781	33,805	59,085	51,196
United Kingdom	32,285	27,061	32,683	31,905
Australasia	6,631	2,409	3,645	534
	69,903	72,777	101,987	90,618

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

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
End-user customer	60,147	63,256	35,907	36,587
Convertible and other loans	3,356	4,643	74	1,383
Receivable from subsidiaries	–	–	60,935	–
Other*	6,400	4,878	5,071	52,648
	69,903	72,777	101,987	90,618

* Other relates mainly to Sundry Debtors including property deposits and trade settlement agreements.

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

Notes continued

31. Financial instruments continued

Exposure to credit risk continued

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 2021 %	Gross carrying amount 2021 £'000	Loss allowance 2021 £'000
Not past due	0.23	53,661	126
Past due 0–30 days	0.46	2,238	10
Past due 31–120 days	1.55	2,625	41
Past due 121–180 days	9.26	1,224	113
Past due 181–365 days	35.89	864	310
Past due 366 days +	98.17	1,029	1,010
Total		61,641	1,610

Group	Weighted average loss rate 2020 %	Gross carrying amount 2020 £'000	Loss allowance 2020 £'000
Not past due	0.41	58,285	237
Past due 0–30 days	0.99	1,029	10
Past due 31–120 days	7.43	3,094	230
Past due 121–180 days	40.05	985	395
Past due 181–365 days	54.13	1,193	646
Past due 366 days +	93.54	1,033	967
Total		65,619	2,485

Company	Weighted average loss rate 2021 %	Gross carrying amount 2021 £'000	Loss allowance 2021 £'000
Not past due	0.03	31,216	9
Past due 0–30 days	0.42	1,371	6
Past due 31–120 days	2.84	650	18
Past due 121–180 days	24.45	230	56
Past due 181–365 days	50.03	218	109
Past due 366 days +	100.00	46	46
Total		33,731	244

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

Expected credit loss assessment continued

Company	Weighted average loss rate 2020 %	Gross carrying amount 2020 £'000	Loss allowance 2020 £'000
Not past due	0.25	32,586	82
Past due 0–30 days	—	—	—
Past due 31–120 days	7.18	1,542	111
Past due 121–180 days	25.67	417	107
Past due 181–365 days	56.49	727	411
Past due 366 days +	100.00	134	134
Total		35,406	845

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

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Balance at 1 March	2,485	3,656	845	1,632
Net remeasurement of loss allowance	253	(253)	(332)	(224)
Foreign exchange impact	(52)	(36)	—	(5)
Amounts written off	(1,076)	(882)	(199)	(558)
Closing balance	1,610	2,485	314	845

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.

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
- Current trade receivables decreased £1.9m and accrued income by £1.2m year on year, due to timing of new software deals being completed in Q4 FY20.
- Debtor days have increased from 68 to 76 at year end due to the average trade receivables increasing between FY19/20 and FY20/21.

Company
- Current trade receivables increased £4.2m and accrued income decreased by £3.2m year on year, due to the timing of new software deals being completed in Q4, increased quarterly in arrears billings for Managed Services and an increase in annual sales.

31. Financial instruments continued

Exposure to credit risk continued

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 2021 %	Gross carrying amount 2021 £'000	Loss allowance 2021 £'000
Other receivables	Medium grade financial services	A+ to BBB-	1.5%	3,122	47
Non-convertible loans	Medium grade financial services	A+ to BBB-	–	–	–
Non-convertible loans	Non-investment grade pharma	BB+ to B-	3.85%	234	9
Total				3,356	56

Group		Equivalent to external credit rating (S&P)	Weighted average loss rate 2020 %	Gross carrying amount 2020 £'000	Loss allowance 2020 £'000
Other receivables	Medium grade financial services	A+ to BBB-	1.90	2,455	47
Non-convertible loans	Medium grade financial services	A+ to BBB-	3.85	992	38
Non-convertible loans	Non-investment grade pharma	BB+ to B-	3.85	243	9
Total				3,690	94

Company		Equivalent to external credit rating (S&P)	Weighted average loss rate 2021 %	Gross carrying amount 2021 £'000	Loss allowance 2021 £'000
Other receivables	Medium grade financial services	A+ to BBB-	–	74	–
Non-convertible loans	Medium grade financial services	A+ to BBB-	–	–	–
Total				74	–

Company		Equivalent to external credit rating (S&P)	Weighted average loss rate 2020 %	Gross carrying amount 2020 £'000	Loss allowance 2020 £'000
Other receivables	Medium grade financial services	A+ to BBB-	1.90	2,454	47
Non-convertible loans	Medium grade financial services	A+ to BBB-	3.85	992	38
Total				3,446	85

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 2021 (2020: nil).

The movement in the allowance for impairment in respect of non-convertible loans and other receivables during the year was as follows:

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Balance at 1 March	85	168	78	161
Net remeasurement of loss allowance	(38)	(83)	(78)	(83)
Closing balance	47	85	–	78

31. Financial instruments continued

Exposure to credit risk continued

Receivables from subsidiaries

Company

The Company has intercompany receivable balances totalling £60,936k 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 not to provide for an expected credit loss for this balance.

Government grants

At the year end £216k (2020: £362k) for the Group and £216k (2020: £352k) for the Company are receivable from Invest Northern Ireland in respect of grants receivable and £1,064k (2020: £977k) 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 £55,198k (2020: £26,068k) and £43,095k (2020: £21,656k) respectively at 28 February 2021 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 2021	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	(65,114)	(75,605)	(2,078)	(4,010)	(9,839)	(59,678)	—
Lease liabilities	(27,726)	(32,480)	(2,406)	(2,406)	(4,435)	(12,664)	(10,569)
Trade and other payables	(46,751)	(46,751)	(46,751)	—	—	—	—
Commitment to associate*	—	(1,091)	(1,091)	—	—	—	—
	(139,591)	(155,927)	(52,326)	(6,416)	(14,274)	(72,342)	(10,569)

* Commitment to associate: As part of the initial investment in RxD, FD provided a promissory note that RxD could call upon. This was for a fixed period of time. Through discussions it was apparent the RxD did not intend to utilise this facility, but it was agreed it would remain in place until the expiry date. As of year end, RxD still indicate they do not intend to draw down on this.

29 February 2020	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	(75,493)	(83,442)	(3,765)	(4,073)	(8,076)	(67,528)	—
Lease liabilities	(29,686)	(35,018)	(2,584)	(2,584)	(4,510)	(12,067)	(13,273)
Trade and other payables	(47,422)	(47,422)	(47,422)	—	—	—	—
Commitment to associate	—	(1,091)	(600)	(491)	—	—	—
	(152,601)	(166,973)	(54,371)	(7,148)	(12,586)	(79,595)	(13,273)

The above contracted cash flows include interest on secured bank loans, the terms of which are set out in note 22.

Notes continued

31. Financial instruments continued

Exposure to credit risk continued

Liquidity risk continued

Company

The following are contractual maturities of financial liabilities, including estimated interest payments.

28 February 2021	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	(65,114)	(75,605)	(2,078)	(4,010)	(9,839)	(59,678)	–
Lease liabilities	(12,840)	(15,336)	(941)	(941)	(1,836)	(5,562)	(6,056)
Trade and other payables	(94,103)	(94,103)	(94,103)	–	–	–	–
	(172,057)	(185,044)	(97,122)	(4,951)	(11,675)	(65,240)	(6,056)

29 February 2020	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	(75,493)	(83,442)	(3,765)	(4,073)	(8,076)	(67,528)	–
Lease liabilities	(12,912)	(15,878)	(1,064)	(1,064)	(1,882)	(5,232)	(6,636)
Trade and other payables	(78,007)	(78,007)	(78,007)	–	–	–	–
	(166,412)	(177,327)	(82,836)	(5,137)	(9,958)	(72,760)	(6,636)

The above contracted cash flows include interest on secured bank loans, the terms of which are set out in note 22.

Currency risk

Group

The Group's exposure to currency risk was as follows:

	28 February 2021			29 February 2020		
	CAD £'000	EUR £'000	USD £'000	CAD £'000	EUR £'000	USD £'000
Trade receivables	187	4,448	14,452	105	4,161	13,277
Trade and other payables	–	(835)	(342)	(8)	(881)	(746)
Net balance sheet exposure	187	3,613	14,110	97	3,280	12,531

The secure bank loan above excludes bank loans designated in a net investment hedge of £50,836k (2020: £55,252k).

Company

The Company's exposure to currency risk was as follows:

	28 February 2021			29 February 2020		
	CAD £'000	EUR £'000	USD £'000	CAD £'000	EUR £'000	USD £'000
Trade receivables	187	4,448	13,437	105	4,126	12,203
Secured bank loans	–	–	(45,413)	–	–	(55,252)
Trade and other payables	–	(692)	(341)	(8)	(773)	(660)
Net balance sheet exposure	187	3,756	(32,317)	97	3,353	(43,709)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2021	2020	2021	2020
USD 1	1.29	1.28	1.39	1.28
EUR 1	1.12	1.15	1.15	1.16
CAD 1	1.72	1.69	1.78	1.72

31. Financial instruments continued

Exposure to credit risk continued

Currency risk continued

Sensitivity analysis

A 10% strengthening of sterling against the above currencies at the end of the year would decrease Group profit or increase Group loss by £1,791k (2020: £1,591k). A 10% weakening of sterling against the above currencies at the end of the year would increase Group profit or loss by £1,612k (2020: £1,431k). 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 year would decrease Company profit or increase Company loss by approximately £2,837k (2020: £4,025k). A 10% weakening of sterling against the above currencies at the end of the year would increase Company profit or decrease Company loss by approximately £2,554k (2020: £3,623k). 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	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Variable rate instruments				
• Financial assets	55,198	26,068	43,095	21,656
• Financial liabilities	(65,114)	(75,493)	(65,114)	(75,493)
	(9,916)	(49,425)	(22,019)	(53,837)
Fixed rate instruments				
• Financial assets	3,122	3,447	74	431
• Financial liabilities	(27,726)	(29,686)	(12,840)	(12,912)
	(24,604)	(26,239)	(12,766)	(12,481)

A 10% reduction in interest rates at the end of the year would increase Group equity and profit or decrease loss by approximately £274k (2020: £294k). A 10% increase in interest rates at the end of the year would decrease Group equity and profit or increase Group loss by approximately £268k (2020: £316k). This analysis assumes that all other variables remain constant.

Hedge accounting

Hedge of net investment in a foreign operation

A foreign currency exposure arises from the translation of the Group's net investments in its subsidiaries which have USD functional currencies. The hedged risk is the risk of changes in the GBP/USD, spot rates that will result in changes in the value of the Group's net investment in its USD assets when translated into GBP. The hedged items are a portion of the Group's assets which are denominated in USD. The hedging instruments are debt which mitigates an exposure to the effect of a weakening USD on the hedged item against GBP.

It is expected that the change in value of each of these items will mirror each other as there is a clear and direct economic relationship between the hedging instrument and the hedged item in the hedge relationship.

Hedge ineffectiveness would arise if the value of the hedged items fell below the value of the hedging instruments, however, this is unlikely as the value of the Group's assets denominated in USD are significantly greater than the value of the hedging instruments.

The amounts at the reporting date relating to items designated as hedging instruments were as follows:

	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument	Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for 2021
Foreign exchange risk Foreign currency loan	£50,836,003	£50,836,003	Loans and borrowings	n/a

Notes continued

32. 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 2021	Number of options 2021	Weighted average exercise price 2020	Number of options 2020
Maximum options outstanding at beginning of year	—	—	1.21	49,000
Lapsed during the year	—	—	—	—
Exercised during the year	—	—	1.21	(49,000)
Granted during the year	—	—	—	—
Maximum options outstanding at end of year	—	—	—	—
Exercisable at end of year	—	—	—	—

The options in this range have been fully exercised in the prior year.

Exercise price: £2.27	Weighted average exercise price 2021	Number of options 2021	Weighted average exercise price 2020	Number of options 2020
Maximum options outstanding at beginning of year	2.27	12,000	2.27	38,584
Lapsed during the year	—	—	2.27	(1)
Exercised during the year	2.27	(12,000)	2.27	(26,583)
Granted during the year	—	—	—	—
Maximum options outstanding at end of year	—	—	2.27	12,000
Exercisable at end of year	—	—	2.27	12,000

The options in this range have been fully exercised in the year. During the prior year the outstanding options had an exercise price of £2.27 and a weighted average contractual life of 0.01 years.

Range of exercise price: £4.27–£9.00	Weighted average exercise price 2021	Number of options 2021	Weighted average exercise price 2020	Number of options 2020
Maximum options outstanding at beginning of year	7.62	309,584	6.77	693,334
Lapsed during the year	—	—	—	—
Exercised during the year	8.77	(57,584)	6.08	(383,750)
Granted during the year	—	—	—	—
Maximum options outstanding at end of year	7.36	252,000	7.62	309,584
Exercisable at end of year	7.36	252,000	7.62	309,584

The options outstanding at 28 February 2021 above have an exercise price in the range of £4.27 to £9.00 (2020: £4.27 to £9.00) and a weighted average contractual life of 2.0 years (2020: 3.2 years).

32. Share based payments continued

Reconciliation of outstanding share options continued

Range of exercise price: £12.28–£22.35	Weighted average exercise price 2021	Number of options 2021	Weighted average exercise price 2020	Number of options 2020
Maximum options outstanding at beginning of year	18.19	1,400,876	17.40	1,702,736
Modification – impact on weighted average exercise price	–	–	(0.44)	–
Lapsed during the year	22.35	(500)	16.71	(9,500)
Exercised during the year	15.70	(492,510)	15.64	(490,660)
Granted during the year	–	–	22.35	198,300
Maximum options outstanding at end of year	19.54	907,866	18.19	1,400,876
Exercisable at end of year	19.54	595,801	14.75	826,596

The options outstanding at 28 February 2021 above have an exercise price in the range of £12.28 to £22.35 (2020: £12.28 to £22.35) and a weighted average contractual life of 6.1 years (2020: 6.7 years).

During the prior year the Company modified the exercise price of a tranche of share options previously issued from £25.37 to £22.35. This had an insignificant impact the fair value of the option granted.

Range of exercise price: £25.95	Weighted average exercise price 2021	Number of options 2021	Weighted average exercise price 2020	Number of options 2020
Maximum options outstanding at beginning of year	–	–	–	–
Lapsed during the year	25.95	(7,036)	–	–
Exercised during the year	25.95	(567)	–	–
Granted during the year	25.95	1,727,661	–	–
Maximum options outstanding at end of year	25.95	1,720,058	–	–
Exercisable at end of year	–	–	–	–

The options outstanding at 28 February 2021 above have an exercise price in the range of £25.95 (2020: nil) and a weighted average contractual life of 9.0 years (2020: nil).

The weighted average share price at the date of exercise for share options exercised for the year ended 28 February 2021 was £28.86 per share (2020: £28.25).

Notes continued

32. 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. The grants are measured using an adjusted Black-Scholes or Monte Carlo model were required (on the basis that a Monte Carlo simulation model is considered a better model to reflect the impact of vesting conditions such as EPS and TSR, it is used for valuing such shares with the Black Scholes model used for share options with no performance based vesting conditions), with the following inputs:

	Grant of options during the year ended 28 February 2021			Grant of options during the year ended 29 February 2020
	Black-Scholes	Monte Carlo – EPS	Monte Carlo – TSR	Black-Scholes
Grant date	09/07/2020	09/07/2020	09/07/2020	16/08/2019
Fair value at grant date	4.73	8.81	5.90	6.75
Share price at grant date	25.95	25.95	25.95	22.35
Exercise price	25.95	25.95	25.95	22.35
Number of options	120,058	802,500	802,500	198,300
Expected volatility (weighted average volatility)	37.00%	37.00%	37.00%	30.00%
Option life (expected weighted average life)	1.0 years	4.0 years	4.0 years	4.0 years
Expected dividends	0.10%	1.00%	1.00%	0.10%
Risk-free interest rate (based on government bonds)	0.47%	0.47%	0.47%	3.00%

The adjustments made to the standard Black-Scholes model are those required to reflect more clearly the Company's experience relating to key assumptions. The key assumption which may be subject to change is the attrition rate over the vesting period.

Employee expenses

	2021 £'000	2020 £'000
Expense relating to:		
Share options granted in 2014/15	–	42
Share options granted in 2015/16	17	233
Share options granted in 2016/17	157	527
Share options granted in 2017/18	111	489
Share options granted in 2018/19	133	202
Share options granted in 2019/20	293	152
Share options granted in 2020/21	1,539	–
Total amount recognised as employee benefit expense in share based payment reserve	2,250	1,645

	2021 £'000	2020 £'000
Total expense recognised as employee benefit expense	2,250	1,645
National Insurance contributions on employee benefit expense	120	1,474
Share based payment and related costs	2,370	3,119

33. Contingent liabilities

Government grants

The Group received a government grant amounting to £3,880k, awarded in June 2014. The grant is contingent on the maintenance of employment levels to March 2020 and September 2022. A portion of the grant may become repayable should the conditions of offer cease to be met.

34. Leases

The Group leases office properties. The leases typically have an average remaining life of five years, with an option to renew the lease after that date. Lease payments are renegotiated every five years to reflect market rentals. For certain leases, the Group is restricted from entering into any sub-lease arrangements.

The Group leases IT equipment with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Information about leases for which the Group is a lessee is presented below.

i. Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as right-of-use assets (see note 15).

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
ii. Amounts recognised in profit or loss				
– Interest on lease liabilities	1,174	1,017	382	533
iii. Amounts recognised in statement of cash flows				
– Principal lease liability payments	3,380	3,514	1,487	1,291
Total cash outflow	4,554	4,531	1,869	1,824

35. Subsequent events

There were no subsequent events at signing date.

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