Gresham Technologies plc

Annual Financial Report 2019

Gresham Technologies plc is a leading software and services company that specialises in providing solutions for data integrity and control, banking integration, payments and cash management.

Listed on the Main Market of the London Stock Exchange (GHT.L) and headquartered in the City of London, our customers include some of the world's largest financial institutions and corporates, all of whom are served locally from offices located in the UK, Europe, North America and Asia Pacific.

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Innovative technology

Our Clareti platform is best-in-class and sits at the heart of customer workflows.

50bn+

transactions processed in 2019

> **Technology** page 12

Significant opportunity

Our addressable market is expanding as systemic data challenges increase.

$1bn

market opportunity in data quality in 2017

> **Markets** page 10

Talented people

We have an exceptional pool of talent and we are committed to excellence.

140+

total staff as at 31 December 2019

> **People and culture** page 24

Strong growth

Our high-margin Clareti solutions are delivering profitable growth.

31%

growth in Clareti revenues in 2019

> **Financial review** page 20

At a glance

Be data confident

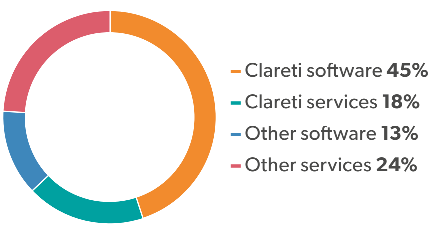
What we offer

Our award-winning Clareti software platform is highly flexible and scalable, and is available on-site or in the cloud. Our innovative Clareti solutions are used by financial institutions and corporates globally to address today's most challenging financial control, risk management, data governance and regulatory compliance problems.

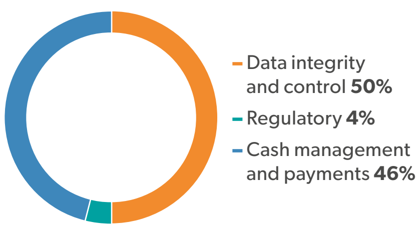
Where we operate

We have a global client base, served locally from offices in the UK, Europe, North America and Asia Pacific.

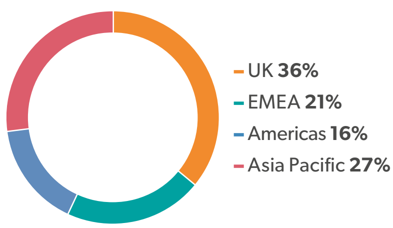
Group revenue by stream



Clareti revenue by market



Clareti revenue by geography



Business model
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Markets
page 10

Strong financial performance

Group revenues

£25.0m **+30%**

Clareti revenues

£15.5m **+31%**

Clareti annualised recurring revenues

£9.5m **+30%**

Adjusted EBITDA

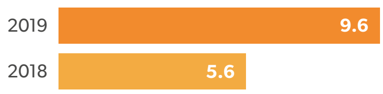
£4.1m **+£3.2m**

Adjusted diluted EPS

2.0p **+3.5p**

Net cash

£9.6m **+71%**



Financial

- Group revenues up 30% to £25.0m (2018: £19.3m).
- Clareti revenues up 31% to £15.5m (2018: £11.8m).
- Clareti software revenues up 40% to £11.1m (2018: £7.9m).
- Clareti annualised recurring revenues ("ARR") as at 31 December 2019 up 30% to £9.5m (2018: £7.4m).
- Other (non-Clareti) revenues up 27% to £9.5m (2018: £7.4m).
- Adjusted EBITDA(1) up £3.2m to £4.1m (2018: £0.9m).
- Cash adjusted EBITDA(2) up £2.4m to £0.3m (2018: £(2.1)m).
- Statutory profit/(loss) before tax(3) as reported at £1.9m (2018: £(1.4)m).
- Adjusted diluted earnings per share(4) up 3.5 pence to 2.0 pence (2018: (1.5) pence).
- Cash (including deposits and restricted cash) at 31 December 2019 of £9.6m and no debt (2018: £5.6m and no debt).
- Final dividend proposed at 0.75 pence per share (2018: 0.5 pence).

Strategy page 14

Key performance indicators page 16

Operational

- 15 new Clareti clients added in 2019.
- Three strategic wins to replace legacy vendors in core cash and securities processing.
- Strong growth within global key accounts and in the US market.
- Progress in regulatory solutions with multiple OEM wins and go-lives.
- Cash management partnership with Australia and New Zealand Banking Group delivering to plan.
- Continued investment to strengthen global sales and marketing organisation.
- Management confident about the prospects for the Group.

(1) Adjusted EBITDA refers to earnings before interest, tax, depreciation, impairment and amortisation, adjusted for one-off exceptional charges and share-based payments. Both years are stated after the application of IFRS 16 (leases) which reclassified rental expenses as amortisation and interest. Discontinued operations are not included in either year (see note 4 of Group financial statements).

(2) Adjusted EBITDA less capitalised development spend and any IFRS 16 lease related cash payments.

(3) Statutory profit/(loss) before tax includes discontinued operations and exceptional items.

(4) Diluted earnings per share, adjusted to add back share-based payment charges, exceptional items, amortisation from acquired intangible assets and impairment of development costs.

(5) Percentage increases stated above are based on rounding to the nearest £'000 as disclosed at detailed level within this report.

A successful year for the Group

"I would like to thank the management and staff for their continued support and resolve to achieve success in our pursuit of leadership and excellence in our chosen markets.

Dear shareholder

I am pleased to present this Annual Financial Report 2019.

Overview

The first quarter of 2019 laid an excellent foundation for a successful financial year, in signing two strategic high-value contract awards, previously delayed from 2018, in January and February 2019. Group financial performance in the year was marginally ahead of the Board's expectations, with substantial growth reported across all of our financial KPIs (see KPIs, page 16 and Financial Review, page 20).

We successfully grew both our market share and profitable revenue streams commensurate with our strategy to build a high-margin, recurring revenue base through the sale and deployment of enterprise data integrity solutions utilising our proprietary Clareti platform (see Strategy, page 20). In addition, new contract awards were, and will continue to be, focused on building the base of recurring revenue, thereby increasing forward revenue visibility.

Market conditions continue to be challenged by geopolitical factors, although these headwinds have eased recently, due mainly to the prospect of less uncertainty in relation to the UK's relationship with the EU and improved political stability in the medium term. The Covid-19 situation is a global concern and we are monitoring developments very closely.

The market's appetite for better data integrity and control, particularly as this relates to regulatory reporting demands, continues to increase. The volume and complexity of data flows and the demand for accurate control and reporting over these flows is a matter of priority for company boards and regulators alike. Clareti Transaction Control ("CTC"), our flagship product built on the Clareti platform, is directly focused on addressing this demand and is being increasingly selected as a strategic solution for data integrity and control. As a result of the Company's ongoing investment in product functionality, CTC has displaced several incumbent competitor products in 2019. We would expect to further increase our market share as our competitive position is enhanced as a result of the ongoing investments cited below.

Ongoing investments

The Board continues to believe there is a very significant market opportunity for data integrity and control and cash management solutions and that ongoing investment in key strategic areas, commensurate with customer demand and acceptable ROI, remains a priority. We continue to invest in sales and marketing resources to accelerate revenue growth and in the Clareti platform to maintain our competitive advantages, as well as engaging in new initiatives with a small number of strategic clients. In particular, the previously announced strategic partnership with ANZ Bank is ongoing and performing well, with both parties keen to extend this co-operative effort.

Specifically, we are developing our cash management solutions to meet the growing demand in this area. The acquisition of B2 Group in July 2018 enriched the Clareti platform for cash management by providing multi-bank connectivity and cash management services such as sweeping and funding, payment aggregation and other wholesale banking services. Our wider vision for our cash management solutions is twofold: firstly, to extend the capabilities of our partner transaction banks to enable them to compete against modern fintechs (and to offer banking services to those same fintechs); and secondly, for Gresham to directly offer such services through a platform hosted by Gresham. We believe we are well positioned to create a leadership position in this emerging market.

The Board has focused on delivering substantial organic growth in 2019 but will continue to consider appropriate acquisition opportunities as they arise.

Shareholder value

The Board is committed to delivering value for all stakeholders within the business. Whilst we recognise that the lumpy revenue profile and timing of historic contracts impacted our financial results, we have transitioned our model to reduce this volatility and drive a higher proportion of predictable annual recurring revenue. In conjunction with a strong product suite and a focus on innovative development, we believe that this is the most appropriate strategy to drive growth and value over the long term.

In light of the Company's strong financial performance, I am pleased to confirm that the Company will maintain the payment of a progressive dividend. In respect of financial year 2019, the Board is proposing a final dividend of 0.75 pence per share for shareholder approval at the forthcoming Annual General Meeting.

The Gresham organisation and its employees are fully aligned to growing profitable revenue from Clareti sales globally. I remain confident that our investments over the years in sales, marketing and client success provide the platform to deliver further shareholder value.

In summary

The demand for technology solutions to manage and report on complex data flows and other data control issues continues to increase. The Clareti platform is a market leader, capable of accommodating this increasing demand. Importantly, the role that Clareti solutions are playing in addressing the operational and regulatory challenges within our client base is increasing in scope and criticality. Our technology is strategically important to many major global institutions. We are well positioned to expand our presence within these accounts and for these successes to broaden our capability to fuel future growth.

With our continued investment in sales and marketing to promote our expanding Clareti portfolio, I anticipate further improvement in our market share gains. In addition, we will continue to focus on growing our recurring revenue base, thereby delivering a more predictable financial performance – one which is less dependent on the timing of individual transactions.

2019 has been a pleasing and successful year for the Group, which of course is made up of a great many team and individual successes. This is a testament to the hard work, expertise and professionalism of the Gresham team. I would like to thank the management and staff for their continued support and resolve to achieve success in our pursuit of leadership and excellence in our chosen markets.

As regards my own position, having served on the Board since 2010, I have now decided to step down from my role as Non-Executive Chairman as soon as a suitable replacement has been appointed. It has been an honour and a privilege to fulfil this role and be part of the outstanding Clareti journey for all these years. It has been a pleasure to work with such a talented team of dedicated people and I am confident that the Group will continue to thrive under the leadership of my successor and the executive team.

Ken Archer
Non-Executive Chairman
9 March 2020

Our culture

We seek excellence in everything we do and we create a culture to foster and support this.

- Customers and colleagues must feel that working with Gresham is awesome.
- We deliver a high quality customer centric experience that delights.
- We seek to hire and develop brilliant people.
- Our products, processes and services will be the best in the industry.
- Our office environment is flexible, open plan, collaborative and fun.
- Our organisation is flat which empowers people to be agile and flexible.
- We work on a range of cutting edge technologies and methodologies.
- We share a passion for new technology and are inspired to explore new ideas.

People and culture page 24

Strong progress towards our strategic objectives

Dear shareholder

Strategic overview

The Group's strategic plan is to create a valuable technology company by establishing our Clareti platform as the leading offering for financial markets participants who need to "be data confident". Our solutions give organisations confidence in the quality of their data and bring the benefits of intelligent automation and digital transformation into their most challenging and complex business processes and operations.

Clareti technology has now been adopted by over 100 firms around the world and Gresham is already regarded as an innovative provider of technology to many of the world's largest financial institutions. We aim to deepen those existing relationships, build further market share in financial services and, over time, extend the technology into other relevant industries.

During 2019, we took the strategic decision to move from more unpredictable upfront licence sales to a predominantly subscription business. This will ensure that we have greater predictability and a higher quality of earnings moving forward. The Clareti business is on track to achieve standalone cash profitability in 2020. This will end the Group's historic reliance on its portfolio of legacy businesses, which have been in structural decline for over a decade. Our ongoing investment in Clareti is building the foundations for sustained, profitable, growth for the Group in-line with our strategy to deliver long-term value for shareholders.

Clareti sales progress

2019 was a record year for new business wins, with 15 new Clareti clients in the USA, the UK and continental Europe, and we also expanded the relationship with a number of existing customers. The growth in recurring revenue during 2019 was particularly pleasing: Clareti forward-looking annualised recurring revenue has grown from £1.6m at the beginning of 2015 to approximately £9.5m today. Clareti software and related services are now responsible for generating around two-thirds of the Group's revenue.

Our technology platform

Our Clareti platform is inherently flexible and can be used to solve a wide variety of data integration, data quality, automation and control problems. The platform has matured and is extremely secure and robust. Our use of scalable cloud architectures, microservices and APIs, coupled with modern development processes, enable us to rapidly build out further business services at relatively low incremental cost. To illustrate the depth of functionality available and the richness of IP owned by Gresham, there are now in excess of 6.5 million lines of code in the platform.

These capabilities enable us to address a number of complementary markets. We have chosen to focus our efforts in the following areas:

- data integrity and control solutions in banking, investment management, insurance, energy and commodities sector;
- regulatory reporting solutions in capital markets; and
- cash management and payments solutions for complex multi-nationals, banking service provider, insurers and wealth managers.

We have set medium term objectives for market leadership goals in each of these areas and made good progress in 2019.

Data integrity and control solutions

We were pleased to sign three strategically important agreements in the area of post-trade reconciliation of 'core' cash and securities processing. Two of these wins were with global investment banks and one was with a large investment manager. All three involved the displacement of established legacy vendors. Successful implementation of these wins, and our product investments, will enable us to build on our existing reputation for solving problems based on matching non-standardised data formats. Our goal over the next three to five years is to attack the legacy vendor duopoly that has existed for two decades and secure Gresham's place at the heart of global markets industry infrastructure for the next generation. I believe we can achieve number one in the global market for reconciliation software in financial markets.

Regulatory reporting solutions

The ability to match multiple feeds of non-standardised data and check for integrity against complex rules in order to identify and then resolve exceptions are also key requirements of market participants struggling to meet ever more challenging regulatory reporting requirements. Our technology delivers against this requirement extremely well and has now been adopted by a number of firms specifically for regulatory purposes. Early in 2019, we went live with a large US bank for a regulatory data quality system. In the second half of the year, we signed a further global bank to support their implementation of CAT reporting in the USA. Our technology is also being adopted by several market services providers, including clearing houses and regulatory reporting vendors on an OEM basis. Several deals were announced in 2019 and we will look to expand our regulatory sales during 2020 with further partnerships and new name wins.

Cash management and payments

Our experience working with clients in this area confirms the growing demand for real-time cash management and payments services accessible through APIs. In mid-2018, we acquired the B2 Group, adding cloud-based bank integration technology, and we deepened our relationship with ANZ to develop the next generation of cash management solutions. B2 Group's growth during 2019 was unfortunately curtailed by a licence cancellation from a large client unexpectedly winding down their business. Despite this disappointing start, there is robust demand for banking integration services in the market and we expect a stronger performance in 2020 with a growing pipeline. The ANZ development work progressed well and ANZ made its first licence payments against product delivery milestones during 2019. The new software, named Clareti Cash Management, is expected to go into testing in Q2 2020 in order to be in production with ANZ's first clients towards the end of the year. These milestones will drive incremental licence revenues for the Group and give us confidence to commence marketing in Europe and the Americas. Our vision is to deliver Clareti Cash Management on top of Clareti Multi-Bank (was B2) in the cloud and win several new bank relationships of comparable scale to ANZ as well as drive direct corporate relationships.

Customer success

Creating great customer references in the market is key to sustainable growth and positive advocacy of our customers is therefore of paramount importance to us. Our technology is used to process many billions of transactions a year across the financial markets and we are regarded as a mission critical part of our clients' businesses.

Alongside the flagship software development and implementation projects that I have described above, there are a great many other that have been successfully executed. In 2019, our professional services team were running an average of 90 projects at any one time during the year, leading to 13% growth in Clareti consulting revenues year on year. Clareti consulting revenues have doubled in under four years as new software customers have been on-boarded. In 2019, our global customer support organisation received 5,500 tickets into our helpdesk function. I am pleased to report that our team resolved 96% of tickets within our demanding service level agreements.

This high volume of consulting and service activity is an indicator of the pace of adoption of our technology in the market and demand has undoubtedly stretched our team from time to time. During 2019, we established a customer support team on the east coast of the US. We will continue to invest in our customer success capabilities during 2020 with a focus on project management and a mix of experienced consultants and graduates.

Non-Clareti business

Our non-Clareti software businesses (including our own software and partner products) remain in structural decline. As a whole, these revenues were flat during the year although there has been a change in the mix. We divested our VME business to Fujitsu at the end of January 2019 for a consideration of £2m. These revenues were replaced by growth in VBT usage-based fees driven by one major customer. We expect the remaining software businesses to run off in the medium term and we are planning for a reduction in 2020.

The Group's Australian IT services contracting business with ANZ saw strong revenue growth after a slower year in 2018. Whilst we intend to retain this business in order to continue to service this important customer, the margins remain low and we have no plans to proactively grow it in the near term.

Outlook

The UK withdrawal from the EU and recent election has provided a much-needed period of stability in recent months. At the time of writing, concerns are rising globally regarding the potential impact of the COVID-19 virus on business and the community. Our major incident team has been preparing the Company for a possible escalation and we have taken actions to protect our staff and other stakeholders as best we can, as we continue to monitor the situation closely. Whilst the lack of clarity on post-Brexit trading arrangements into 2021 remain a concern, our financial markets customers have now made the necessary changes to their operating models and are focused on investing for growth and reducing costs to fund innovation. We see continued investment in key areas of interest such as: AI and intelligent automation in operations; creating more robust and optimised regulatory data infrastructures; managing liquidity and improving transparency; learning to partner with innovative fintechs and other partners. The addressable market for our offerings continues to expand and we believe our technology has significant benefits over legacy vendors and newer competitors alike.

The key to success in 2020 and subsequent years will be the successful strengthening and scaling of our global sales and marketing organisation. Our entrepreneurial CTC direct sales team needs to evolve into an organisation that can not only continue to win new name business, but also manage global and key accounts, build out channels and alliances, open up new geographies, and sell our broader range of product offerings. These are well understood challenges for any successful growing enterprise software company and I am confident in our team's ability to tackle them and continue the remarkable Clareti success story. As a Board, we continue to look forward with confidence.

In light of Ken Archer's personal statement, I would like to close by expressing on behalf of all stakeholders our gratitude for the outstanding contribution that our Chairman has made to revitalising the Gresham business. The nomination committee will be looking at the appropriate composition of the Board to lead the Company forward and build on the successes of the last decade. Further announcements will follow in due course.

Thank you for your ongoing support.

Ian Manocha
Chief Executive
9 March 2020

Innovative software solutions

Our business model is to earn high-margin, recurring revenues by providing innovative software solutions for data integrity and control, banking integration, payments and cash management to financial institutions and corporates.

Our strengths

GROWING MARKET

There is a significant addressable market made up of financial institutions and large corporates who are grappling with increasingly complex data and financial control requirements. Structural trends are delivering substantial tailwinds.

Markets
page 10

DISRUPTIVE TECHNOLOGY

Our Clareti platform is best-in-class, versatile and scalable and sits at the heart of customer workflows. We have an exceptional innovation engine and a proven track record of bringing disruptive solutions to market.

Technology
page 12

PEOPLE AND CULTURE

We have an exceptional pool of talent that incorporates a vital and diverse blend of skills and experience. We are committed to a culture of integrity and excellence and we challenge ourselves to be an awesome place to work.

People and culture
page 24

Our business

DISTRIBUTION CHANNELS

Our global team of sales professionals sells directly to customers in our chosen markets, principally in the UK, Europe and North America. In addition, our bank and technology partners provide indirect sales channels. We are developing a global alliances network with like-minded firms to build distribution capacity. Our sales activities are supported by a global marketing team based primarily in London, UK.

CHARGING MODEL

Our preferred charging model is to license Clareti applications on a subscription basis, combining licensing with support and maintenance. This model generates higher levels of recurring revenue for the Group, which enhances long-term profitable growth and provides a platform for sound investment decisions. Software licences are typically limited by scope of use and volume limitations, providing opportunity for additional fees for higher usage or new use cases.

Creating value

DEPLOYMENT

Customer deployments are conducted and supported by our customer success team, which is made up of experienced professional services consultants and specialist support technicians. Professional services are typically charged on a time and materials basis or at a fixed fee for a fixed scope of works. Our solutions are available on-premise or in the cloud. Bank-grade 24/7 support is provided from our global hubs in the UK, North America and Australia.

OPERATIONS

We manage our business functions on a global basis from our London headquarters. This includes sales, marketing, professional services, customer support, cyber and information security, IT systems, finance, HR and legal. Our business processes are implemented through centralised systems, which are designed to support fast-paced, entrepreneurial decision making within an appropriate control framework.

FOR INVESTORS

The model is designed to create long-term shareholder value based on high levels of recurring revenues and sustained growth. A progressive dividend policy has been in place since 2018 providing further shareholder returns.

146%

Total shareholder return achieved in the five years to 31 December 2019

This is measured by the share price as at the reporting date plus dividends paid over the reporting period divided by the share price at the start of the five-year period.

FOR CUSTOMERS

Our solutions give customers control and certainty over their data in an increasingly complex and regulated environment. Our model enables us to maintain the value proposition and competitiveness of our solutions.

110+

Total Clareti customers

FOR EMPLOYEES

Our employees have the opportunity to be part of a fast-paced, entrepreneurial business, where individuals are valued and career aspirations can be fulfilled. Corporate success is shared through an all-staff share scheme.

140+

Total employees

An industry ripe for disruption from a proven global fintech partner

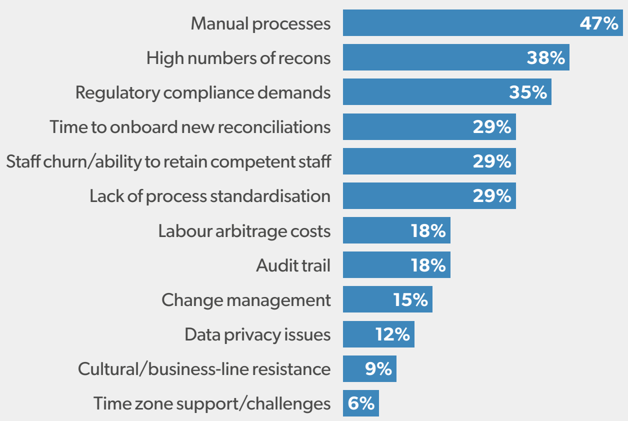
Data integrity and control
Financial institutions worldwide are gradually recognising and realising the value in reliable data. Without it, key business objectives take longer to achieve than they should, or they fail completely. "Dirty" data diminishes competitiveness, raises operational and IT costs, loses customers to competitors and leads to compliance-related fines. And, as the regulators and the regulated respond to the issues posed by digital disruption, it is no surprise that technology is increasingly integrated into supervision and compliance, or indeed that matters relating to data integrity and data control are moving out of IT to the C-suite.

"The market for reconciliation in capital markets and asset management will grow by 5.2% per annum, to reach a size of USD 400M (excluding internal IT spend) by 2025" (Gert Raeves, Research Director, Adox Research, 2020).

In 2019, the UK's Financial Conduct Authority ("FCA") collected over £391m in penalties from firms and individuals that failed to spot critical data discrepancies.

In the area of reconciliations, firms are facing significant operational pressures and challenges as they find themselves having to cope with complex data requirements and, in some cases, enormous volumes.

Greatest pressures on the Reconciliation Function



Source: Trends in Reconciliation Technology: AI-Trained Recs or Train Wrecks?, September 2019, Aite.

Gresham's Clareti Transaction Control ("CTC") enables firms to handle core and non-core data controls across the enterprise – simplifying the complex and scaling-up to meet demand. Having established a market-leading position in non-core enterprise controls, our objective is to secure leadership in the core reconciliation space and increase our market share to more than 30%.

Two legacy vendors currently dominate the global reconciliation market. In 2019, thanks to our ground-breaking Clareti technology, Gresham won Tier 1 buy-side and Tier 1 sell-side clients from these vendors. Clients were finding the ageing vendor technology costly, difficult to use and unable to address complex requirements.

Regulatory reporting solutions
Beyond reconciliation, we see opportunities for Clareti in the $1bn+ data quality tools market, as systemic data quality problems in trading data continue to hinder the ability of firms to meet regulatory obligations and profit from the richness of their data lakes.

"During 2019, we saw the evaluation and selection of data integrity and control tools shift from being a specialised IT task to much more of a collaboration with business leaders" (Gartner, Magic Quadrant for Data Quality Tools, 2019).

Cash management and payments

Multi-banked corporates

Without real-time visibility of accurate, up-to-date cash positions and centralised control of payments, no business can manage liquidity and risk proactively or effectively. This is particularly problematic for multi-national, multi-banked corporates who could derive significant value from managing their cash flows and positions in real-time but are unable to do so because of the complexities in connecting to and aggregating data from their multiple banking relationships. The traditional financial system vendors, be they accounting, trading, payments and treasury system or transaction aggregators, have failed to provide cost-effective easy to configure, packaged offerings. Furthermore, many of the new technologies and regulatory drivers, such as Smart APIs, PSD2, Open Banking and Faster Payments, have led to retail and consumer finance focused initiatives and offer little value to corporates.

> Bank connectivity, data aggregation and centralised payments control are significant pain points for multi-national businesses. Our Clareti Multi-Bank solution is designed to specifically address this.

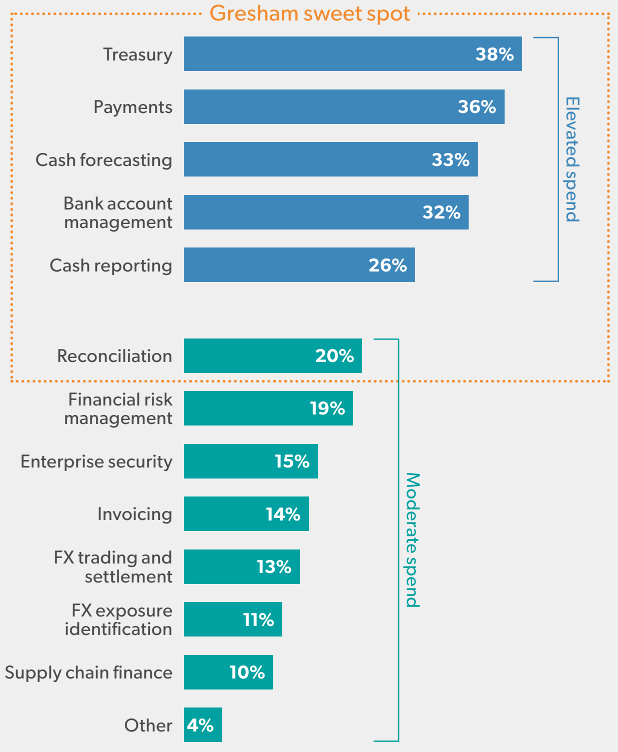
Banking partners

With such a significant proportion of a bank's product budget being spent on managing regulatory issues and maintaining legacy systems, there is often little funding for innovation in transaction banking. Institutional and corporate banking has not seen its fair share of innovation spend and clients are pressing for change. For the established banks, it is often not only the allocation of budgets, but also the readiness of their organisation to envision, build, implement and go to market with new offerings. Partnerships with appropriately qualified fintechs, and leading with API based solutions, are often the only practical ways to remain competitive. Gresham already has substantial expertise in all aspects of cash management, and our B2 investment brought deeper capabilities in multi-bank reporting and liquidity management, single payments portal or global position and liquidity management.

> Our experience and knowledge make us the partner of choice for banks to onboard and develop key corporate clients.

We will continue to develop new solutions with banks such as ANZ, one of our strategic channel partners. In addition, we will be working with key institutions to develop integrated client onboarding solutions that reduce time to market, reveal trapped revenue opportunities and enhance the value of their offering to corporate clients.

We intend to make significant information technology investments in the next year in the following areas:



Source: 2018 Strategic Treasurer & Treasury Cash Forecasting & Visibility Survey.

The need to be "data confident"

Executives must be confident in their data to make informed business decisions and comply with regulatory requirements. Being data confident involves trusting data, which in turn requires that the data is provably accurate, consistent, complete and timely. The data that our customers process is the most complex of data – data with volume, with variety and with velocity. Engendering trust in this data requires focused, innovative technology. This has been at the heart of the Clareti platform since its inception.

> If "data is the new gold" then data with integrity is 24-carat gold.

A platform designed around data

Best-in-class and scalable platform at the heart of workflows
From its inception, the Clareti platform has been designed around data and the challenges that our customers face in finding and fixing data integrity problems. Designed to onboard data rapidly and easily, our award-winning platform enables customers to:

Onboarding Accelerator
Lower the onboarding time of new data integrity controls from weeks and months down to hours. The Clareti Onboarding Accelerator automates the initial onboarding of new data sources.

Data profiling
Empower data analysts to understand the challenges that lie within their data. Heuristic machine learning algorithms are applied to the data to rapidly build rules that detect and surface data irregularities.

Business rules and Enrichment Engine
Enrich the data with information from other sources without the need for coding or expensive integration software. This enables business users to turn data problems into actionable responses.

Matching Engine
Join together extreme volume complex data streams so that inconsistencies in data across the organisation can be discovered. The Clareti Matching Engine is the fastest in the industry and enables the automatic resolution of complex matching problems that previously were only solved manually.

The data challenge	How Clareti solves it
Multiple repositories of the same data become inconsistent	Clareti joins together the data from multiple sources and highlights inconsistencies
Data quality is poor	Clareti continuously runs rules over data and highlights quality issues
Data is complex	Clareti allows the most complex data to be modelled and managed
Volume of data is ever increasing	Clareti is inherently scalable. In 2019, the Clareti platform processed in excess of 50bn transactions across the customer base
Data is aggregated and summarised at different levels	Clareti can assert quality measures regardless of summarisations
Building rules to manage data is complex	Clareti uses machine learning and heuristic approaches to build quality rules
Fixing systemic data problems takes time and data issues persist over long periods	Clareti uses robotic process automation ("RPA") to learn actions and automate repetitive daily actions

Our Clareti platform is highly flexible, leading to it being used across a wide range of customers, from universal banks to insurers, asset managers to hedge funds, transaction banks to multi-national corporations. Wherever there is data at volume or complexity, the Clareti platform enables organisations to have certainty in the integrity of their data.

From data integrity to cash management

Our transaction banking partner banks were early adopters of the Clareti platform and initially utilised the Clareti platform to offer enriched bank statements to their customers. These enriched statements enabled their customers to automate activities within their enterprise resource planning ("ERP") platforms.

This offering was subsequently enhanced through the Clareti Matching Engine to help their customers capture and reconcile financial information. It was then further enhanced through the Clareti analytics server to provide cash flow forecasting.

Connecting bank infrastructure to corporate ERPs is itself a data management challenge. Through the acquisition of the B2 Group in 2018, we have enhanced the Clareti platform to provide a fully managed platform for banks to connect automatically with their corporate clients via electronic channel banking solutions that are flexible, secure and easy to deploy.

In 2019, we announced a partnership with ANZ Bank to support the delivery of innovative cash management capabilities. This partnership will add banking services onto the Clareti platform through a modern microservice architecture. We were one of only five development organisations worldwide to work with Google on the implementation of Google's GKE On-Prem architecture that provides secure and scalable deployment of public cloud services within a private data centre.

Development philosophy

We adopt an agile development strategy and we operate a continuous programme of enhancements to delight our customers and maintain competitive differentiation, delivered from our Innovation Labs in Bristol and Innovation Hub in Luxembourg.

Whilst Java remains the dominant development language for the platform and solutions, we seek to take advantage of new languages and capabilities in the wider technology industry. We have adopted the Clojure language for some elements of the portfolio to deliver both productivity and quality improvements. We are also using Kubernetes, originally from Google, to deliver high availability and scalability, and Kafka, originally from LinkedIn, for high-performance data streaming and a set of technologies from Netflix for micro-services. We make effective use of open-source software for commodity components, preserving our own development bandwidth for our own innovations.

Analytics server

Deliver better outcomes through data-driven decisions. Clareti is typically the only source of provably quality assured data within a customer's organisation. The embedded analytics server enables customers to find the true power within their data.

Workflow and Exception Management

Route data quality exceptions to appropriate owners and escalate them based on value and time to ensure that data quality issues are resolved in the shortest possible time. The Clareti Workflow and Exception Management Engine is designed to address data challenges.

Process automation and AI

Automate repetitive manual actions through process automation techniques. This enables business users to rapidly focus on issues requiring specific attention.

Open APIs and integration

Integrate without other systems. All Clareti functionality is available through open APIs, enabling Clareti to be at the heart of a customer's technical infrastructure.

Route to long-term success

Our strategic plan is designed to drive profitable growth and create long-term shareholder value.

1

Build a high-margin, recurring revenue stream based on Clareti software and cloud services.

KEY ACHIEVEMENTS IN 2019

Our sales and marketing efforts remained fully focused on Clareti Solutions. Clareti revenues increased strongly. We accelerated our transition from term licence sales to subscription, with Clareti annualised recurring revenues up 30% (see KPIs, page 16).

KEY PRIORITIES FOR 2020

We will continue to focus on winning subscription-based sales in order to prioritise recurring revenue growth. We will strengthen our sales and marketing capabilities in the UK, US and Europe and we will invest in targeting new opportunities in Asia Pacific.

2

Create a valuable, global, enterprise financial technology business through Clareti-led growth and carefully selected acquisitions.

KEY ACHIEVEMENTS IN 2019

Our priority was to deliver organic Clareti growth in all of our core regions, which we successfully did. We won several new major contracts that support our investments into new product capabilities (see Technology, page 12) and enhance our value proposition.

KEY PRIORITIES FOR 2020

Our priority is to deliver significant organic Clareti growth in all of our core regions. We will aim to win new key accounts and grow existing ones. We will identify and pursue appropriate acquisition opportunities.

3

Establish Clareti as the enterprise data integrity platform "category leader".

KEY ACHIEVEMENTS IN 2019

We have developed our messaging, brand strategy and execution to increase our profile in our selected markets. We targeted a small number of key industry events to raise awareness and meet key contacts. The Clareti platform is widely regarded as best-in-class.

KEY PRIORITIES FOR 2020

We will invest in marketing resources in our core regions and execute targeted campaigns based on our target addressable markets. We will successfully deliver referenceable client projects that demonstrate the Clareti platform's best-in-class attributes.

4

Focus our product investment on Clareti solutions to promote Clareti sales.

KEY ACHIEVEMENTS IN 2019

We delivered multiple new Clareti releases, including both incremental capabilities and new features. We won several legacy replacement deals that support our ongoing investments in value-enhancing capabilities. Our partnership with ANZ is helping us target new opportunities.

KEY PRIORITIES FOR 2020

We will continue to release new product features that provide competitive advantage, in particular to win more legacy replacement deals. We will secure an industry-leading information security accreditation to strengthen our cloud solutions and reduce overheads.

5

Retain strategic non-Clareti revenues to support Clareti-led growth.

KEY ACHIEVEMENTS IN 2019

We made a strategic decision to dispose of our VME business to Fujitsu for £2m in light of the increasing support and run-off risks. Aside from this, our declining non-Clareti revenues from legacy and/or partner software products have been managed effectively and with limited overheads.

KEY PRIORITIES FOR 2020

We will continue to monitor the viability and business risks of the individual non-Clareti lines of business and ensure contracts can be serviced effectively and profitably.

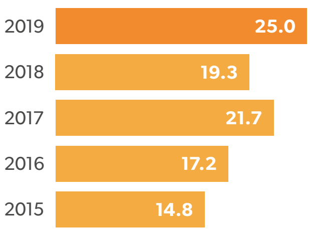
Measuring our progress

The following key performance indicators ("KPIs") have been selected as the most appropriate measures of strategy execution for the Group. Performance of these KPIs has been discussed within the Chairman's Statement, CEO's Statement and Financial Review.

FINANCIAL

Group revenue(1)

£25.0m +30%



Link to strategy

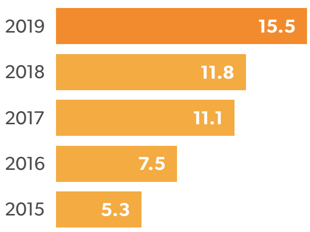
1 **2** 3 4 **5**

Description Total revenue generated and recognised in the year from all operations, including Clareti Solutions and Other Solutions.

Why is it a KPI? Measures the Group's overall performance at revenue level, which is an indicator of the Group's overall size and complexity.

Clareti revenue

£15.5m +31%



Link to strategy

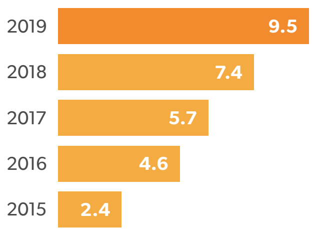
1 **2** **3** **4** 5

Description Total revenue generated and recognised in the year from Clareti Solutions.

Why is it a KPI? Measures the Group's success in winning and retaining Clareti revenues, which is an indicator of the Group's progress in its Clareti-led strategy.

Clareti annualised recurring revenues ("ARR")

£9.5m +30%



Link to strategy

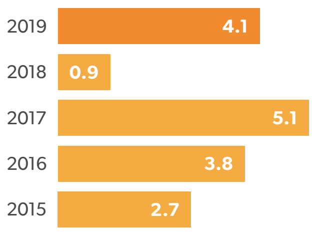
1 **2** **3** **4** 5

Description Aggregate value of all recurring revenues from Clareti Solutions that are either fully or partially contracted for the next twelve months and/or are highly expected to renew in the next twelve months. The value stated is given as at 31 December 2019.

Why is it a KPI? Provides a forward-looking view of the minimum expected Clareti revenues in the next twelve months, which gives confidence to business planning and investment decisions.

Adjusted EBITDA(2)

£4.1m +£3.2m



Link to strategy

1 **2** 3 **4** **5**

Description Group earnings before interest, tax, depreciation and amortisation, adjusted for share-based payment charges, impairment of development costs and exceptional items, stated after the application of IFRS 16 which reclassified rental expenses as amortisation and interest. Discontinued operations are not included in either year.

Why is it a KPI? Key measure of the Group's effectiveness in converting revenue to earnings, excluding the effects of certain non-operational and/or exceptional transactions.

(1) All KPI data excludes discontinued operations, except for profit/(loss) before tax which includes discontinued operations and exceptional items.

(2) The adjustments to earnings per share and EBITDA have been provided in order to present the underlying performance of the business on a comparable basis (see note 4).

STRATEGY

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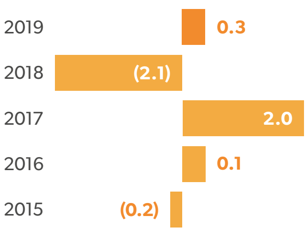
5. Retain strategic non-Clareti revenues to support Clareti-led growth.

Cash adjusted EBITDA[2]

£0.3m +£2.4m



Link to strategy

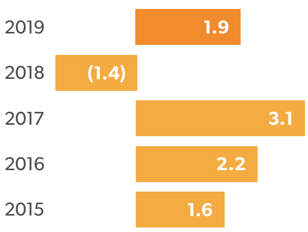
1 2 3 4 5

Description Adjusted EBITDA less capitalised development spend and any IFRS 16 lease related cash payments.

Why is it a KPI? A reflection of cash generation in the year, reflecting the Group's effectiveness in converting revenue to cash generation.

Profit/(loss) before tax

£1.9m +£3.3m



Link to strategy

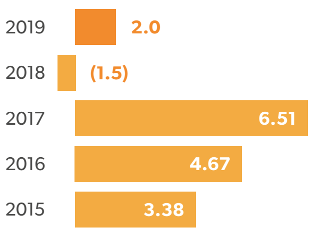
1 2 3 4 5

Description Group earnings before tax as mandated by statutory reporting requirements.

Why is it a KPI? Provides a measure of Group profitability, taking everything except tax into account.

Adjusted diluted earnings per share[2]

2.0p +£3.5p



Link to strategy

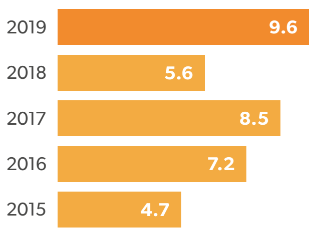
1 2 3 4 5

Description Earnings per individual share, taking into account changes in capital structure and issued equity on a fully diluted basis, adjusted for share-based payment charges, exceptional items and amortisation from acquired intangible assets.

Why is it a KPI? Measure of Group profitability that identifies performance on a per share metric and enables comparisons against other companies.

Net cash

£9.6m +71%



Link to strategy

1 2 3 4 5

Description Aggregate net cash balance (including bank deposits/restricted cash) as at 31 December 2019 including bank deposits after operational, investing and financing activities during the financial year.

Why is it a KPI? Provides a measure of the Group's financial strength and self-sufficiency to support operations, make investments and withstand unexpected headwinds.

NON-FINANCIAL

The Group monitors certain non-financial performance indicators at an operational level, including the number of new Clareti sales in the year, customer renewals, average billing days, consultant utilisation, net promoter scores and staff satisfaction survey results. However, none of these are currently considered to be individually appropriate as a measure of overall strategy execution success. All KPIs are reviewed annually and this includes consideration of appropriate non-financial KPIs.

Principal risks and uncertainties

Our aim is to recognise and address the key risks and uncertainties facing Gresham at all levels of the business.

There are a number of risk factors that could adversely affect the Group's execution of its strategic plan and, more generally, the Group's operations, business model, financial results, future performance, solvency, or the value or liquidity of its equities. The Board is committed to addressing these risks by implementing systems for effective risk management and internal control. A report on the Board's review of the effectiveness of the Group's risk management and internal control systems can be found in the audit committee report on page 34.

The Board has performed a robust assessment of the principal risks and uncertainties that could threaten Gresham's business, business model, strategies, financial results, future performance, solvency or liquidity. The items listed in the table below represent the known principal risks and uncertainties, but the table does not list all known or potential risks and uncertainties exhaustively. Where possible, mitigation steps are taken to safeguard against materialised risks.

FAILURE TO WIN NEW CLARETI BUSINESS IN LINE WITH PLAN

1 2 3 4 5

Description
Winning new Clareti business is central to our strategic growth plan. Failure to do so would directly impact our achievement of overall objectives or lengthen the period taken to achieve them. Specifically, failure to win and deliver new contracts early enough in the year would jeopardise our ability to recognise the associated revenues and achieve financial year targets.

Risk trend – stable
We continue to see strong market demand for our Clareti solutions. However, sales cycles remain long and unpredictable, which presents risks to timing, type, mix and quantum of revenues, and our sales team is relatively small. In addition, customer investment decisions can be materially influenced by outside factors.

Mitigation
We are focused on winning recurring revenue deals that give greater visibility into the future. Sales forecasts and major opportunities are scrutinised by executive management. We are investing in marketing activities to build pipeline and identify opportunities where we have the best chance of success.

MISDIRECTED PRODUCT, OPERATIONAL OR STRATEGIC INVESTMENTS

1 2 3 4 5

Description
Our model is to invest in product development and other areas to support Clareti-led organic growth. Strategic investments such as acquisitions present opportunity for accelerated growth. Failing to achieve meaningful returns on investments would hinder the Group's strategic growth plan and potentially jeopardise the Group's position in the market and its prospects.

Risk trend – stable
Our current product roadmap is strongly influenced by customer requirements, with major developments being delivered in collaboration with key customers. The Clareti Loan Control business was discontinued in the year, which has enabled us to re-deploy resources on revenue-generating initiatives. Other investments are providing returns in line with plan.

Mitigation
Product roadmap priorities are determined based on market demand and return on investments. Major investments, whether product, operational or strategic, are discussed and challenged as appropriate with the Board. Operational investments are designed to support growth, increase productivity and/or reduce long-term costs.

PRODUCT AND SERVICE DELIVERY FAILURES

1 2 3 4 5

Description
Issues or failures with our software products or services could lead to failed implementations, project delays, cost overruns, data loss, security issues, customer dissatisfaction, early termination, service level breaches and contractual claims, all of which could adversely impact the Group's revenues, earnings and reputation.

Risk trend – increasing
We continue to undertake complex and challenging projects as we gradually extend our market reach into new areas. We are currently engaged in major projects with substantial institutions, which carry material risks and uncertainties regarding project success, profitability and return on investments.

Mitigation
Our products are subject to robust testing and quality assurance prior to release to mitigate inherent product defects. We have strengthened our delivery teams with new technical subject matter experts and project management professionals to mitigate project risks. We track projects carefully to manage financial return risks.

STRATEGY

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ACCELERATED DECLINE IN NON-CLARETI REVENUES

1 2 3 4 5

Description
Non-Clareti revenues provide a strong contribution to revenues, earnings and cash flow and are key to short-term financial success and ongoing investments in Clareti. An unexpected or accelerated decline could have an immediate and significant impact on financial KPIs.

Risk trend – increasing
Renewals of non-Clareti legacy and partner solutions remain in gradual decline and the sale of our VME portfolio resulted in a significant reduction. Our residual pool of technical experts on legacy solutions is diminishing. Our sub-contracting business, a major contributor to non-Clareti revenues, remains inherently unpredictable.

Mitigation
Our forecasts prudently allow for revenue attrition. We regularly review portfolio risk and will consider strategic options such as portfolio disposals and/or end-of-life in mitigation. We work closely with ANZ, our sub-contracting customer, to secure long-term funding commitments wherever possible to improve predictability.

ECONOMIC, INTERNATIONAL TRADE AND MARKET CONDITIONS

1 2 3 4 5

Description
The Group is generally exposed to political, economic, trade, market and public health risk factors, such as global or localised economic downturn, changing international trade relationships, foreign exchange fluctuations, consolidation or insolvency of existing or prospective customers or competitor products, all of which could significantly threaten Gresham's performance and prospects.

Risk trend – increasing
Whilst risks of a disorderly Brexit appear to have diminished, there remains prevailing uncertainty in the global economy, which we believe is still impacting customers' IT purchasing decisions. Concerns are rising globally regarding the potential impact of the Covid-19 virus. Some of our competitors are making significant investments in sales and marketing and are increasingly competitive against us in certain areas.

Mitigation
Gresham's business operations, geographical spread and office locations provide a degree of inherent protection against Brexit-related risks. We are carefully monitoring the rapidly evolving Covid-19 situation and are making specific incident response plans to minimise risks to our business, people and wider community. We have strategies in place to address competitor risks.

PEOPLE RISKS

1 2 3 4 5

Description
A loss or material issue with key members of staff could cause material disruption and a skills shortage. Competitor poaching could result in intellectual property leakage. Staff misconduct, negligence or fraud could cause Gresham significant reputational damage and potential financial loss.

Risk trend – stable
People risks are currently considered to be stable. There have been several key changes in sales and marketing but otherwise staff retention is high. A new all-staff share bonus plan was introduced in 2018 to encourage loyalty and productivity. Rapid corporate growth presents career development opportunities for key staff.

Mitigation
Processes are in place to identify, retain and incentivise key members of staff. Our people and culture team are developing a variety of new initiatives to increase staff engagement across our locations. Our policies and procedures are designed to mitigate risks further.

IP, DATA AND CYBER RISKS

1 2 3 4 5

Description
A significant IP loss, third party IP challenge, data loss, security breach or cyber attack could significantly threaten Gresham's ability to do business, particularly in the short term, and could result in significant financial loss.

Risk trend – stable
Like all businesses, Gresham is exposed to an increasing range of cyber attacks. A successful attack could potentially cause material disruption, but defence systems are in place and kept up to date and there have been no material incidents reported to date.

Mitigation
Risks are mitigated through a combination of IT systems, policies and procedures and staff awareness. A major information security transformation project is being undertaken for additional security. Cyber updates are provided to the Board.

4 Focus our product investment on Clareti solutions to promote Clareti sales.

5 Retain strategic non-Clareti revenues to support Clareti-led growth.

Delivering consistent Clareti growth

Tom Mullan

"

The Group experienced a significant increase in earnings, with adjusted EBITDA increasing by £3.2m to £4.1m.

Revenues

Our income is analysed between revenues from Clareti Solutions and from Other Solutions, as shown in the table below. See note 4 of the financial statements for further segmentation details.

Clareti Solutions

The Clareti business recorded 31% revenue growth to £15.5m, with the growth being largely driven by revenues generated from new recurring software licences sold during the year, in particular the two high-value contracts that were expected to be recognised in Q4 of 2018 but slipped into Q1 of 2019 which generated approximately £1.9m of the £3.7m growth.

The Group is pleased that its increased focus on driving its annuity-based model, in order to deliver growth with an increased level of predictability, is proving impactful. Recognised Clareti recurring revenues increased 55% to £10.4m including £1.2m from Clareti Multi-Bank (from the 2018 acquired B2 Group). Our closing Clareti annualised recurring revenues totalled £9.5m (up 30%) due to the addition of annuity revenues all from either new software licences or existing customers' increased usage.

As a result of the increased focus on recurring revenues, non-recurring Clareti software revenues (initial licence fees) reduced by 42% to £0.7m as we signed fewer deals under this contracting structure. The portfolio of non-recurring Clareti software licences consist of fixed-term licence grants (typically three to five years) for customers for whom subscription licensing is not appropriate. Consequently, periods of use for these customers beyond the fixed licence term of the contract will attract additional fees, with the first of these additional chargeable periods falling in 2020. As of 31 December 2019, the annualised equivalent of these non-annually recurring term licence fees is £0.7m, the first of which is due for renewal during 2020 at an annualised rate of £0.1m, and the last of the £0.7m being due for renewal for the first time during 2023. These licences are not recorded within our stated forward looking annualised recurring revenue, which incorporates annually recurring revenues only.

Clareti services revenues were up 13% to £4.4m, continuing the high levels of realisation and utilisation seen in the prior year as our services resources provided new and existing customers with consulting services to enable and increase Clareti use within their organisations.

Other Solutions

Revenues from Other Solutions increased 27% to £9.5m, which significantly exceeded expectations.

Non-Clareti software revenues from partners are up 24% to £2.6m as a result of one of our legacy partner relationships increasing their usage of the already installed software and another customer who had previously notified us of their intent to cease their use of the software requiring a further six-month extension. These arrangements have an approximate net margin of 50%.

Non-Clareti software revenues from our other legacy products continued to decrease as planned as customers moved off from ageing platforms to newer technologies. Attrition is expected to persist as these technology shifts continue, although the longevity of these very old legacy products continues to surpass our expectations and still attracts a net margin exceeding 90%. Our VME line of business, which was sold in January 2019, was included within this revenue stream, but is shown separately as a discontinued operation.

Non-Clareti services are predominantly in respect of tactical contracting services provided to ANZ, a strategically important Australian banking customer, which generate a direct net contribution to the Group of approximately 12%. These low-margin contracting services typically have a minimum committed term of twelve months; therefore, we have strong visibility of the minimum revenues likely to be generated in the near term. During 2019 our expectations were significantly exceeded due to additional resource requests being requested through the service during the year.

Revenue from our discontinued operation, which was sold subsequent to the balance sheet date, was aligned with our expectations.

				2019	2018	Variance	%
Clareti Solutions	Recurring		£m	**10.4**	6.7	3.7	55%
	Non-recurring		£m	**0.7**	1.2	(0.5)	(42%)
	Software		£m	**11.1**	7.9	3.3	40%
	Services		£m	**4.4**	3.9	0.5	13%
	Total	**KPI**	**£m**	**15.5**	11.8	3.7	31%
Other Solutions	Software – Partners		£m	**2.6**	2.1	0.5	24%
	Software – Own solutions		£m	**0.8**	0.9	(0.1)	(11%)
	Services		£m	**0.7**	0.3	0.4	133%
	Contracting services		£m	**5.4**	4.2	1.2	29%
	Total		£m	**9.5**	7.5	2.0	27%
Total from continuing operations – note 3		**KPI**	**£m**	**25.0**	19.3	5.7	30%
Discontinued	Software – Own solutions		£m	**0.1**	0.7	(0.6)	(86%)
Total revenue		**KPI**	**£m**	**25.1**	20.0	5.1	26%
Annualised recurring revenue as at 31 December 2019	**Clareti**	**KPI**	**£m**	**9.5**	7.4	2.1	30%
	Other		£m	**2.8**	2.8	—	—
	Total	**KPI**	**£m**	**12.3**	10.2	2.1	21%

Earnings (continuing operations only)

Operating performance is analysed excluding exceptional items, share-based payment charges, amortisation from acquired intangible assets and impairment of development costs, which is consistent with the way in which the Board reviews the financial results of the Group. This is also consistent with the manner in which similar small-cap LSE (or AIM) listed present their results and how we understand the investment community assesses performance, with this particularly being case the growth shares in which the recurring cash performance is considered important.

The Group's gross margin remains fairly static and in line with expectations, improving marginally by 1% to 84%.

The majority of our cost of sales is made up of: (i) the customer specific third party costs incurred in providing our hosted Clareti-as-a-Service ("CaaS") solution; and (ii) third party contractor costs incurred by our contracting services business (individuals we bring on our payroll as fixed-term employees to provide this service are recorded in administration costs).

The Group experienced a significant increase in earnings, with adjusted EBITDA increasing by £3.2m to £4.1m, this is predominantly as a result of the increased Clareti revenues and the adoption of IFRS 16 (see below). The Group has introduced a new KPI, cash adjusted EBITDA, which adjusts EBITDA for capitalised development spend and any IFRS 16 lease related cash expenses now classified as depreciation and interest.

The vast majority (over 95%) of Group spend on staff, buildings and overheads continues to be in respect of Clareti Solutions.

The combined impact of items discussed in the previous paragraphs led to a statutory loss after tax of £0.1m (from continuing operations only), an improvement of £2.0m on the prior year.

Financial review continued

Earnings (continuing operations only) continued

			2019	2018	Variance	%
Gross margin		£m	21.0	16.0	5.0	31%
Gross margin		%	84%	83%	1%	n/a
Adjusted EBITDA	**KPI**	**£m**	4.1	0.9	3.2	356%
Adjusted EBITDA	**KPI**	**%**	20%	6%	14%	n/a
Cash adjusted EBITDA	**KPI**	**£m**	0.3	(2.1)	2.4	n/a
Cash adjusted EBITDA	**KPI**	**%**	1%	(13%)	14%	n/a
Statutory profit after tax		£m	(0.1)	(2.1)	2.0	95%
Adjusted diluted EPS	**KPI**	**pence**	1.99	(1.50)	3.49	n/a

Adjusted EBITDA is not an IFRS measure or not considered to be a substitute for, or superior to any IFRS measures. It is not directly comparable to other companies.

Exceptional items

During the year, the Group recognised exceptional income of £2.0m; this was in relation to the sale of the VME software business to Fujitsu in January 2019. There were no material exceptional costs during 2019. In 2018, exceptional costs of £0.3m were incurred which included: completing the acquisition and integration of the B2 Group; exceptional legal and advisory costs associated with the establishment of our all-staff incentive share scheme; and exceptional recruitment costs associated with the recruitment of a new CFO.

Taxation

For the year ended 31 December 2019, the Group has recorded a net tax charge of £0.4m (2018: credit of £0.1m) which, as in prior years, is primarily as a result of taxation being charged both in the UK and overseas in respect of our reselling and servicing operations, being offset by research and development enhanced relief available for our UK development activities.

Cash flow

The Group's financial position further strengthened throughout 2019, ending the year with cash and financial assets of £9.6m and no debt (2018: £5.6m and no debt).

Operating cash flow excluding working capital has increased by £3.0m to £3.9m in the year. In addition to the reasons identified behind the increase in adjusted EBITDA detailed above, this is also increased due to the adoption of IFRS 16 in which £0.5m of cash outflow (rental expense) that was previously recorded as operating cash flow is now recorded as an other investing and financial activity in the full Consolidated Statement of Cash Flow and within 'other' in the summary below (refer to the consolidation statement of financial position section below for further details on IFRS 16).

"

We are focused on generating higher levels of Clareti recurring revenues.

The movement in working capital of £2.5m is largely explained by the initial three-year prepayment of £3.0m from the £1.0m per annum subscription licence that became non-contingent in March 2019.

The Group received tax receipts of £1.4m during 2019 as a result of research and development activities performed during 2016 and 2017 where enhanced relief is available.

The capitalised development expenditure of £3.3m has increased by £0.7m from the prior year; this is due to an increased portion of development effort being spent on new product or new product features in comparison to the prior year when a number of customer-specific features were developed and as a result not considered capitalisable.

The Group received a net amount of £1.7m through the sale of its legacy VME business, with the £0.3m balance to the sale price being customer advance payments already received at the time of the sale.

Following the announcement of its intention to do so in its FY18 results, the Group also purchased a total of £1.0m of its own shares in the period, £0.1m being in respect of employee bonuses for FY18 and £0.9m to pre-fund employee and executive bonus and long-term incentive schemes in future years.

The shares issued as consideration are an inflow of £0.1m for 2019, resulting solely from the exercise of share options. The prior year included the cash payment of £1.8m to acquire the equity of the B2 Group and the final £0.4m instalment payable in respect of the acquisition in October 2016 of C24 Technologies, offset by inflows from share option exercises.

With increasing Clareti sales from the growing annuity base and new customer wins, coupled with tight cost control on planned investments, we expect the cash generation capacity of the business to continue and are looking at opportunities to best utilise the excess cash generated. In order to maximise our returns, we plan to increase levels of investment in distribution and customer success, whilst continuing to invest excess cash efficiently in bank deposits and giving appropriate consideration to our M&A ambitions.

Financials quoted in Financial Review include discontinued operations.

			2019	2018	Variance	%
Operating cash flow excluding working capital		£m	**3.9**	0.9	3.0	333%
Movement in working capital		£m	**2.5**	1.1	1.4	127%
Net tax receipts		£m	**1.3**	—	1.3	n/a
Capital expenditure – development costs		£m	**(3.3)**	(2.6)	(0.7)	(27%)
Capital expenditure – other		£m	**(0.2)**	(0.2)	—	—
Sale of discontinued operation		£m	**1.7**	—	1.7	n/a
Purchase of own shares in employee benefit trust		£m	**(1.0)**	—	(1.0)	n/a
Shares issued as consideration and acquisition		£m	**0.1**	(2.0)	2.1	n/a
Dividend		£m	**(0.3)**	(0.3)	—	—
Other		£m	**(0.7)**	0.2	(0.9)	n/a
Net increase/(decrease) in cash and financial assets		£m	**4.0**	(2.9)	6.9	n/a
Cash	KPI	£m	**9.6**	5.6	4.0	71%
Cash and cash equivalents		£m	**9.6**	5.3	4.3	81%
Financial assets		£m	**—**	0.3	(0.3)	(100%)

Consolidated statement of financial position

Right-of-use assets of £1.3m have now been recognised as a result of the adoption of IFRS 16, which required our leases greater than twelve months to be capitalised with a corresponding lease liability recognised, which is split between non-current £0.8m and current £0.5m. The adoption of IFRS 16 also had an impact, albeit largely presentational, upon the income statement. The adoption did not have any material impact to statutory earnings, but it did result in £0.5m of expense that was previously recorded as a rental expense within operating expenses now being recorded as depreciation (£0.4m) and IFRS 16 interest (£0.05m), resulting in an improvement to adjusted EBITDA of £0.5m when compared to previous reporting methodologies (also refer to note 27 for further detail on IFRS 16). The impact of IFRS 16 to adjusted EBITDA was known at the time of setting budgets and performance related pay targets for FY2019, therefore this has not impacted performance-related pay in relation to FY2019.

An impairment charge of £0.6m was recording against development costs within intangible assets during the year, this was due to the discontinuation by mutual agreement of the Group's Clareti Loan Control joint venture with Mount Street, as both parties moved to focus their resources on other parts of their respective businesses. Whilst Gresham still remains owner of this technology, there are no plans in the medium-term to further market this investment, hence the full remaining carrying value at the point of this outcome was determined was impaired.

Trade payables increased by £0.9m which was largely as a result of our contracting services business making significant infrastructure purchases in close proximity to the year end. Current contract liabilities increased since the prior year by £0.7m and non-current contract liabilities increased by £0.8m; this is predominantly due to the initial three-year customer prepayment of £3.0m from the £1.0m per annum subscription licence that became non-contingent in March 2019.

Financial outlook

The Group is very pleased with the financial outcome of 2019 – particularly the 31% Clareti growth rate and the 55% Clareti recurring revenue growth rate. In my prior year report, I commented on our strategy to deliver consistent Clareti growth, driving more predictability into the business, through a focus on generating higher levels of Clareti recurring revenues rather than initial licence fees. We intend to continue on with this strategy going forward.

The non-Clareti software portfolio continues to surpass expectations, with customers requiring extensions to contracts as they struggle to migrate to newer or alternative platforms. Whilst such extensions can generate short-term revenue spikes, these portfolios remain in long-term decline, which we continue to plan for. Our contracting services business also grew over and above the expected contracted baseline during 2019 but we expect this business to reduce slightly during 2020.

Overall, we have increased levels of revenue predictability throughout the Group. This predictability comes from the significantly increased Clareti recurring revenue base, high levels of contracted backlog of Clareti services for ongoing implementations and innovation services, and a high portion of non-Clareti portfolio already being under contract for 2020. With this in mind, we intend to continue increasing our investment in Clareti, namely in distribution, product and customer success in order to take advantage of the market opportunity.

Tom Mullan
Chief Financial Officer
9 March 2020

Financials quoted in the Financial Review include discontinued operations.

Valued, engaging, responsible employer

Our aim is to be a highly valued, engaging and responsible employer across the Group, where people uphold our core values and are encouraged to excel. We benchmark ourselves against the best companies in our sector and we challenge ourselves to be an awesome place to work.

We know that people are key to our collective expertise and growth plans. Our business model is to attract, retain and develop talented individuals to help us deliver our long-term objective of becoming one of the world's leading providers of enterprise financial technology solutions. We seek to foster a culture of innovation and empowerment where talent, enterprise and collaboration are recognised and rewarded.

OUR CORE VALUES

Accountability
We take responsibility for what we do and what we say. This includes celebrating success and acknowledging errors, but most importantly it means following through on our commitments.

Integrity
We are committed to achieving success with trust and transparency. This involves doing the right thing, every time, without delay or compromise.

Respect
We are open, welcoming and respectful in all of our activities. We uphold the personal dignity of each individual, without prejudice, and we have the utmost concern for their wellbeing.

Excellence
We aspire to excellence in everything we do. This means engaging in our work to the best of our ability, delivering high quality results and challenging ourselves to continual improvement.

Engaging with our people
Listening to our people is of high importance to us. We have introduced an "always on" approach to employee engagement and communications including regular meetings within individual segments throughout the Group, regular Group-wide communications and confidential feedback surveys. Performance appraisals happen formally at mid and full year, but we encourage ongoing dialogue throughout the year to ensure that employees are getting sufficient support from the Group (including training needs) in order to be successful in their roles.

We believe that it is very important to achieve high levels of trust between individuals within the Group as this promotes high levels of staff engagement and helps to ensure that the working environment is pleasant, healthy and sustainable.

Graduate and apprenticeship programme
Our early career entry programmes are one of the ways that we attract promising new colleagues to the business. Our graduate programmes within our professional services and development teams have been running for several years with minimal attrition. Within our IT function, we have been successfully supporting IT apprentices and took on two further apprentices in 2019.

Attracting, retaining and developing our talent
We implement Group-wide strategies designed to attract, retain and develop our people that reflect the local geographic and industry economic climate. These strategies include competitive terms and conditions, a defined contribution pension scheme, consideration of family and personal needs, training and career development coaching, and a wide range of other flexible benefits designed to reflect the Group's culture and values. Our performance-related pay structures include an Annual Bonus Scheme, which is linked to personal objectives and wider team and Group objectives. The Annual Bonus Scheme is complemented by our all-staff share scheme, which is designed to align employee incentives with shareholder interests through the award of shares.

Our hiring model is based on creating an agile, highly motivated and collaborative international workforce. Our strength comes from collaboration between seasoned professionals with deep client industry experience and some of the brightest technology talent on the market.

We also "hire for attitude", placing great importance on our values, effective team working and customer success.

We operate our own bespoke leadership programme, "The Gresham Way". This programme is designed to equip all of our people leaders with the fundamental tools, techniques and resources to coach and mentor their teams to deliver a winning performance.

Community
As a company that uses the power of technology to improve the way organisations operate, we are committed to supporting, developing and helping to educate the future workforce about this sector.

We are proud to be Business Class members of and advisers to The Prince's Responsible Business Network, through our partnership with Business in the Community ("BITC"). BITC's vision is to make the UK the world leader at responsible business, through inspiring, engaging and challenging business to tackle some of global society's biggest issues. We devote time to BITC with a particular focus on helping smaller businesses such as Gresham. Our initiatives and activities include:

- working with computer science teachers to help their development and understanding of real-work application of IT through 1-2-1 coaching and workplace visits;
- teacher workshops supported by our employees to help to embed sector employability skills into the curriculum;
- developing young people's employability skills through Dragons' Den type activities;
- raising awareness of career pathways in our sector through delivering "get into the sector" programmes in schools and raising awareness of the career pathways; and
- mentoring programmes for girls undertaking their Computer Science GCSE.

People and culture continued

Charity

We work with charities to responsibly recycle our old, used IT equipment. One of these charities is Jamie's Computers, which refurbishes the equipment and uses it to provide work experience and hands-on training to hard-to-reach groups. Its aim is to help improve skills and increase employability. Anything that cannot be reused is data cleansed and recycled responsibly.

Each quarter we donate £1 to three local charities for each support call made to our customer support centres. These three charities are chosen by ballot by our global teams and often have a personal connection with employees.

Ethical business practices

We are committed to corporate sustainability and to an ethical and principled approach of doing business.

Human rights

This includes recognising and supporting the protection of human rights around the world. Gresham is guided by internationally proclaimed fundamental principles such as those set out in the United Nations Universal Declaration of Human Rights. Gresham's key principles in relation to human rights are guided by the Ten Principles of the UN Global Compact.

Modern slavery

Modern slavery is a crime and a violation of fundamental human rights. We have a zero-tolerance approach to modern slavery and we are committed to acting ethically and with integrity in all our business dealings and relationships and to implementing and enforcing effective systems and controls to ensure modern slavery is not taking place anywhere in our own business or in any of our supply chains.

We are also committed to ensuring there is transparency in our own business and in our approach to tackling modern slavery throughout our supply chains, consistent with our disclosure obligations under the Modern Slavery Act 2015. We expect the same high standards from all of our contractors, suppliers and other business partners and, wherever possible as part of our contracting processes, we include specific prohibitions against the use of forced, compulsory or trafficked labour, or anyone held in slavery or servitude, whether adults or children, and we expect that our suppliers will hold their own suppliers to the same high standards.

Anti-corruption and bribery

The Company is committed to applying the highest standards of ethical conduct and integrity to its business activities in the UK and overseas. The Company does not tolerate any form of bribery, whether direct or indirect, by, or of, its employees, officers, agents or consultants or any persons or companies acting for it or on its behalf. The Directors and senior management are committed to implementing and enforcing effective systems throughout the Company to prevent, monitor and eliminate bribery, in accordance with its obligations under the Bribery Act 2010 and equivalent legislation overseas.

Equal opportunity

The Company is an equal opportunity employer. We are committed to ensuring that our workplaces are free from unlawful or unfair discrimination in accordance with applicable legislation. This includes upholding the following principles:

- recruitment and employment decisions are made on the basis of fair and objective criteria;
- person and job specifications are limited to those requirements which are necessary for the effective performance of the job. Specifically, full consideration is given to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job;
- interviews are conducted on an objective basis; personal or home commitments will not form the basis of employment decisions except where necessary and relevant; and
- all employees have a right to equality of opportunity. Opportunities are available to disabled employees for training, career development and promotion. Where existing employees become disabled, it is the Group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Gender analysis

At 31 December 2019, the Group had the following split of gender of staff:

	Female	Male	Total
Executive Directors	—	2	2
Senior managers	2	5	7
Staff	24	108	132
	26	115	141
Non-Executive Directors	1	2	3

Environment

Policy statement

Whilst the nature of our activities is such that the Group does not have a significant impact on the environment relative to other industries, we recognise that we have a duty to manage our business affairs and operations in a sustainable and responsible manner. This includes minimising the impact of our activities on the environment and supporting environmental initiatives relevant to our industry. To achieve this, Gresham's environmental strategy consists of the following:

- minimising waste;
- minimising toxic emissions;
- actively promoting recycling in all of its locations;
- meeting or exceeding all applicable environmental legislation that relates to Gresham;
- supporting, adopting and/or promoting industry initiatives designed to address environmental issues specific to Gresham's sector;
- where practical, seeking to purchase products that uphold industry-leading environmental standards rather than ones that do not; and
- encouraging the adoption of similar principles by its suppliers.

Carbon emissions

This section includes Gresham's mandatory reporting of greenhouse gas emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (the "Regulations").

Gresham's reporting year is the same as its fiscal year, being the year ended 31 December 2019. This greenhouse gas reporting year has been established to align with our financial reporting year.

Gresham reports emissions data using an operational control approach to define organisational boundary, which meets the definitional requirements of the Regulations in respect of those emissions for which it is responsible. Gresham has reported on all material emission sources which it deems itself to be responsible for. These sources align with Gresham's operational control and financial control boundaries. Gresham does not have responsibility for any emission sources that are beyond the boundary of Gresham's operational control. For example, business travel other than by car (including, for example, commercial flights or railways) and fully managed offices are not within Gresham's operational control and, therefore, are not considered to be its responsibility.

The methodology used to calculate Gresham's emissions is based on the "Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance" (June 2013) issued by the Department for Environment, Food and Rural Affairs ("Defra"). Gresham has also utilised Defra's 2016 conversion factors within the reporting methodology.

For the purposes of global greenhouse gas emissions data for the year ended 31 December 2019, the following disclosure is made:

Emissions from	**31 December 2019**	31 December 2018
Electricity, heat, steam and cooling purchased for own use – tonnes of CO_2e	**62**	65
Group's chosen intensity measurement		
Emissions reported above normalised to tonnes of CO_2e per total £1m revenue	**3.1**	3.2

Emissions data has been reported for Gresham's operations in the UK, Luxembourg and Australia, with locations in Malaysia, North America and Singapore considered not material to the scope of this reporting.

In order to express Gresham's annual emissions in relation to a quantifiable factor associated with the Group's activities, the Directors have used revenue as Gresham's intensity ratio as this is the most relevant indication of its growth and provides for the best comparative measure over time.

"

We recognise that we have a duty to manage our business affairs and operations in a sustainable and responsible manner.

Section 172(1) statement

Section 172(1) of the Companies Act 2006 provides that a director of a company must act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

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

(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 as between members of the company.

This section describes how the directors have had regard to the matters set out in section 172(1)(a)–(f) of the Companies Act 2016 and forms the Directors' statement required under section 414CZA of that Act. In making this statement, the Directors have focused on matters of strategic importance to the Group, having regard to the size and complexity of its business.

Why engagement is important	How management and/or Directors engage	Strategic decisions in the year
Investors	> **Statement of corporate governance** page 12	
To communicate our long-term strategic objectives effectively and promote long-term holdings. To secure investor support for our strategic objectives and ensure access to capital to deliver on our execution plans.	Use of the AGM, analyst presentations, investor presentations, a bi-annual capital markets day. Individual investor meetings with the CEO, CFO, Chairman and/or committee chairs.	Following a difficult year in 2018, we gained investor support to transition from upfront licence sales to a predominantly subscription business to prioritise long-term growth over short-term performance. We adopted a new executive director remuneration scheme to promote long-term strategic objectives. We consulted with investors and balanced interests by incorporating a stepped implementation.
Workforce	> **People and Culture** page 24	
To deliver our long-term strategic objectives. To maintain competitive advantage and deliver market-leading solutions to our customers. To promote our culture, purpose and values, foster a healthy working environment for our workforce, support their well-being and be a responsible business. To maintain low turnover and high productivity rates.	Use of transparent, anonymous workforce engagement surveys, with commitments to address areas of concern. Ad hoc initiatives such as mental health awareness days, charity fundraisers and social events. Use of performance reviews, objective setting and formal policies and procedures. Board meetings held at each UK office. Regular management visits to overseas offices.	As a result of a workforce engagement survey, we introduced a new healthcare provider and other benefits to ensure our overall proposition remains competitive and attractive, balanced against the costs of these new arrangements.
Customers	> **Technology** page 12	
To ensure we meet or exceed our customers' requirements and maintain competitive advantages. To build a highly referenceable customer base with low attrition rates. To identify and assess new market opportunities and collaborate with customers on high-value projects. To promote brand loyalty and identify sales opportunities for other Gresham solutions.	Quarterly customer success meetings, involving management representatives. Executive sponsorship programme for key accounts. Chairing industry roundtables and customer forums to communicate and consult on product development priorities and new features to address emerging market requirements. Customer satisfaction surveys on support incidents.	We invested heavily in developing new features and capabilities for cash and stock reconciliations, directly aligned to customer requirements. We entered into a strategic fintech collaboration with ANZ to support its digital transformation programme and enhance our solution offerings as a whole.
Suppliers		
To ensure that we operate our business effectively and without disruption. To act fairly and responsibly with respect to our suppliers. To adhere to our contractual obligations to suppliers.	We nominate senior business contacts to manage our key supplier relationships. They are supported by operations staff as required to manage supplier risks and requirements. We participate in Business in the Community ("BITC") which promotes responsible business.	We did not make any strategic decisions in the year affecting suppliers.

The Strategic Report was approved by the Board of Directors on 9 March 2020.

On behalf of the Board

Ian Manocha
Chief Executive
9 March 2020

Tom Mullan
Chief Financial Officer
9 March 2020

Board of Directors

Ken Archer N R
Non-Executive Chairman

Appointed Ken was appointed to the Board as a Non-Executive Director in June 2010 and became Non-Executive Chairman in November 2010. He is chairman of the nomination committee and a member of the remuneration committee.

Experience Ken has over 35 years' experience in the IT industry and possesses a wealth of knowledge of financial technology products and services, having held a number of senior executive positions in this sector.

Imogen Joss A N R
Senior Independent Non-Executive Director

Appointed Imogen was appointed to the Board in September 2016. She is chair of the remuneration committee and a member of the audit and nomination committees.

Experience Imogen has worked within the financial sector for over 30 years and has extensive experience of financial sales and marketing. During her executive career, she held senior leadership roles at Financial Times Information, FTSE Group and the London Stock Exchange Group. Latterly, she was president of S&P Capital IQ as well as president of S&P Global Platts.

Andy Balchin A N R
Independent Non-Executive Director

Appointed Andy was appointed to the Board in May 2017. He is chair of the audit committee and a member of the remuneration and nomination committees.

Experience He has over 30 years of financial experience in high-growth software companies, including Smartstream, SeeBeyond, Documentum and Clearswift. Until December 2018, he was chief financial officer of the cyber division of RUAG Holding AG, a major Swiss organisation. Andy is a Chartered Accountant and has experience working in a private equity environment, in M&A and IPO transactions, as well as in external audit during his early career.

Ian Manocha
Chief Executive Officer

Appointed Ian was appointed to the Board in June 2015.

Experience Ian has extensive experience in the business technology sector. He joined Gresham from SAS where he worked for nearly 20 years, most recently as vice president of the EMEA and AP business units. Ian has worked extensively with many of the world's leading financial institutions and has been successful in growing companies to significant scale through securing and delivering high-value enterprise software deals.

Tom Mullan
Chief Financial Officer

Appointed Tom joined Gresham on 1 March 2018 and was appointed to the Board on 13 March 2018.

Experience Tom is a Chartered Accountant having trained and qualified at Ernst & Young. Prior to joining Gresham, Tom was most recently chief financial officer at Fadata, a PE backed software business, and before that was divisional finance director for Guidewire in EMEA.

Key to committees

- A Audit committee
- N Nomination committee
- R Remuneration committee
- Committee chair

Chairman's introduction to governance

The Board is committed to upholding high standards of corporate governance throughout the Group. As part of that, the Board acknowledges its role in setting the culture, values and ethics of the Group, and its collective responsibility in developing a healthy corporate culture and delivering long-term success to the Group.

The Board's aim is to operate as effectively as possible, in line with the governing principles of the UK Corporate Governance Code. The Board has received training in the 2018 UK Corporate Governance Code and a description of the Group's application of the principles set out therein for financial year 2019 is set out in the Statement of Corporate Governance (see page 31).

Board discussions are conducted openly and transparently, which creates an environment for sustainable and robust debate. In the year, the Board has constructively and proactively challenged management on Group strategies, proposals, operating performance and key decisions, as part of its ongoing work to assess and safeguard the position and prospects of the Group.

Key risks and uncertainties affecting the business are regularly assessed and updated. The Board challenges management to ensure appropriate risk mitigation measures are in place. The Board has completed a full, specific review of the Group's key risks and uncertainties (see page 18), in light of the new and emerging risks or uncertainties arising from the Group's strategic growth plans and the wider economic, political and market conditions.

Where applicable, changes to the Board are overseen and recommended by the nomination committee and, whilst I am pleased with the current balance of skills, experience and independence on the Board, we will continue to keep this under review as the Group and its needs evolve. There were no changes to the Board membership in the year.

As stated in the Chairman's Statement on page 4, I will be stepping down from the Board as soon as a replacement has been appointed. Please see the nomination committee report on page 37 for further information in this regard.

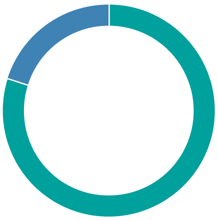
As regards remuneration, the all-staff Deferred Share Bonus Plan adopted in 2017 is now in operation and first staff awards were made in early 2019. This is a significant milestone in our bid to attract, retain and engage talented staff in our sector, which is highly competitive. For Executives, the new remuneration arrangements proposed at the 2019 AGM were duly approved and first awards under these new arrangements will be made in 2020. Please see the remuneration committee report on page 38 for details.

Finally, the Board continues to engage with shareholders and welcomes ongoing dialogue throughout the year as well as through the formal shareholder events which include bi-annual capital markets day and the Annual General Meeting. The Board has reviewed its communications policy for 2020, as it does at least annually, and has taken account of shareholder feedback throughout the year and the changing regulatory requirements.

As always, I welcome shareholder attendance and participation at the forthcoming Annual General Meeting.

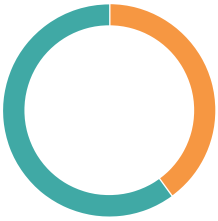
Ken Archer
Non-Executive Chairman
9 March 2020

Board tenure



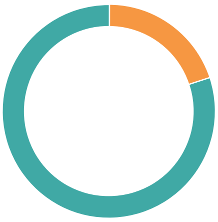
- <1 year **0%**
- 1–5 years **80%**
- 5+ years **20%**

Board composition



- Executive **40%**
- Non-Executive **60%**

Board gender diversity



- Female **20%**
- Male **80%**

Statement of corporate governance

This statement explains how the Company has applied the main and supporting principles of corporate governance and describes the Company's compliance with the provisions of the UK Corporate Governance Code, as published in July 2018 by the Financial Reporting Council and available at www.frc.org.uk. All references to the Company are in respect of the statutory entity Gresham Technologies plc, which is the ultimate parent undertaking of the Gresham Group of companies.

Statement by the Directors on compliance with the UK Corporate Governance Code

The Company has complied with the relevant provisions set out in the UK Corporate Governance Code 2018 (the "Code") throughout the year with the exception of the matters referred to below:

Provision	Exception and explanation
10 Independence of non-executive directors	All Non-Executive Directors are considered to be independent with the exception of Mr K Archer (Non-Executive Chairman) who has served on the Board for more than nine years and who holds share options under the Group's Share Option Scheme 2010. See below for explanations.
19 Chair not to remain in post longer than nine years	Mr K Archer has served on the Board since June 2010 and became Chairman in November 2010. Mr K Archer will be stepping down from the Board once a suitable replacement has been appointed. See the report of the nomination committee on page 37 for further information.
24 Chair not to be a member of the audit committee	Mr K Archer was a member of the audit committee during the year. This was considered necessary for continuity purposes, in particular to conclude the FY2018 audit. Mr K Archer ceased to be a member of the audit committee as at 31 December 2019.
34 Remuneration for non-executive directors should not include share options	Mr K Archer holds share options under the Group's Share Option Scheme 2010. The grant to Mr K Archer was made in December 2010 and was considered to be necessary in light of the circumstances at that time. No further grants to Non-Executive Directors are planned. Details of Directors' interests in options are set out in the Directors' Remuneration Report.

Board leadership and company purpose

The Board recognises its role in promoting the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society, and in establishing the Company's purpose, values and strategy. In the performance of its duties, the Board considers the interests of stakeholders and the matters set out in section 172 Companies Act 2006. Details of these matters are set out in the Strategic Report.

The Group has developed a Clareti-led strategy designed to drive profitable growth and create long-term shareholder value. The Board considers and addresses the opportunities and risks to the success of the business through a combination of monthly reports from management, operational, strategic and risk reviews, and key performance indicators. The Group's established business model and governance structures ensure that allocation of resources and investment decisions direct support the strategic objectives.

The Board is committed to maintaining a healthy corporate culture and recognises the importance of investing in and rewarding its workforce. As part of this, the Group has established clear values, has systems in place to promote wellbeing at work, seeks to create an environment where individuals are fulfilled, and operates a share incentive plan that ensures the workforce share in the success of the Group (see People and culture, page 24).

Dialogue with institutional shareholders

The Board as a whole is responsible for ensuring that a dialogue is maintained with shareholders based on the mutual understanding of objectives.

Members of the Board meet with major shareholders on a regular basis, including presentations after the Company's announcement of the year-end results and at the half year.

The Board is kept informed of the views of shareholders at each Board meeting through a report from the Chief Executive together with formal feedback on shareholders' views gathered and supplied by the Company's advisers. The views of private and smaller shareholders, typically arising from the AGM or from direct contact with the Company, are also communicated to the Board on a regular basis.

Ms I Joss, the Senior Independent Non-Executive Director, and Mr K Archer, the Non-Executive Chairman, are available to shareholders if they have concerns where contact through the normal channel of Chief Executive has failed to resolve or for which such contact is inappropriate.

Constructive use of the AGM

The Board uses the AGM to communicate with private and institutional investors and welcomes their participation. All members of the Board attended the Company's last AGM. The Chairman aims to ensure that all members of the Board will be available at the forthcoming AGM.

Details of resolutions to be proposed at the AGM can be found in the Notice of the Meeting. A separate resolution is proposed for each substantially separate issue including a separate resolution relating to the Annual Financial Report 2019.

Statement of corporate governance continued

Division of responsibilities

Board membership, roles and responsibilities

The Board is currently comprised of the Non-Executive Chairman, two Executive Directors and two Non-Executive Directors, details of which are set out on page 29. All Non-Executive Directors are considered to be independent with the exception of Mr K Archer (Non-Executive Chairman) who has served on the Board for more than nine years and who holds share options under the Group's Share Option Scheme 2010.

The roles of Chairman and Chief Executive are distinct, set out in writing and agreed by the Board. The Chairman is responsible for the effectiveness of the Board and ensuring communication with shareholders, and the Chief Executive is accountable for the management of the Group.

Non-Executive Directors constructively challenge and assist in the development of strategy. They scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.

The Senior Independent Non-Executive Director, Ms I Joss, is available to shareholders if they have concerns which contact through the normal channels of Chairman or Chief Executive has failed to resolve or for which such contact is inappropriate.

The Company Secretary is Mr J Cathie, who was appointed to the role on 21 March 2014. Mr J Cathie is not a Director of the Company. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

Operation of the Board

The Board is responsible to shareholders for the proper management of the Group.

The Board normally meets once a month and has a formal schedule of matters specifically reserved to it. Other matters are delegated to the Executive Directors, supported by policies for reporting to the Board.

The Company Secretary is responsible to the Board for ensuring that Board procedures are followed, and that applicable rules and regulations are complied with and for advising the Board, through the Chairman, on corporate governance matters. The Company maintains appropriate insurance cover in respect of legal action against the Company's Directors and the Company Secretary, but no cover exists in the event that the Director is found to have acted fraudulently or dishonestly.

The Non-Executive Chairman and the Non-Executive Directors are able to meet without Executives present prior to each Board meeting. The agenda and relevant briefing papers for each Board meeting are distributed by the Company Secretary, usually a week in advance of each Board meeting.

Where Directors have concerns which cannot be resolved about the running of the Company or a proposed action, these concerns are recorded in Board minutes. On resignation, a Non-Executive Director is required to provide a written statement to the Chairman for circulation to the Board if there are any such concerns.

The Board has formed certain committees, namely an audit committee, a remuneration committee and a nomination committee, to deal with the specific aspects of the Group's affairs. Details of the committees' constituent members and the roles, responsibilities and activities of each of the committees are described in more detail in the individual committee reports commencing page 34.

Meetings and attendance

The following table summarises the number of Board, audit committee, remuneration committee and nomination committee meetings held during the year and the attendance record of individual Directors at those meetings.

Number of meetings attended	Board	Audit	Remuneration	Nomination
K Archer	11/12	2/3	2/2	1/1
I Joss	12/12	2/3	2/2	1/1
A Balchin	11/12	3/3	2/2	1/1
I Manocha	12/12	—	—	—
T Mullan	12/12	—	—	—

Composition, succession and evaluation

Nomination committee

A report from the chair of the nomination committee is set out on page 37.

Induction and training

New Directors receive a thorough and tailored induction on their appointment to the Board covering the activities of the Group and its key business and financial risks, the terms of reference of the Board and its committees and the latest financial information about the Group.

The Chairman ensures that Directors update their skills, knowledge and familiarity with the Group required to fulfil their roles on the Board and committees. Ongoing training is provided as necessary and includes updates from the Company Secretary on relevant legislative or regulatory changes. Directors may consult with the Company Secretary at any time on matters related to their role on the Board. All Directors have access to independent professional advice at the Company's expense where they judge it necessary to discharge their duties.

Evaluation of the Board's performance

The Board has undertaken a formal review encompassing the performance of the Board as a whole, its committees and each Director. In performing these reviews, criteria that are taken into account include the ability of the Director to take the perspective of creating shareholder value; to contribute to the development of strategy and identification of risks; to provide clarity of direction to management; to be a source of wise counsel; to bring a broad perspective to discussions and an understanding of key issues; to commit the time required to fulfil the role; and to listen to and respect the ideas of fellow Directors and management.

The Chairman has formally reviewed the performance of Ms I Joss and Mr A Balchin and satisfied himself that their performance continues to be effective and that they continue to demonstrate commitment to the role. The Senior Independent Non-Executive Director is responsible for, and has undertaken, the performance evaluation of the Chairman, taking into account the views of the other Directors and the criteria above, and is satisfied that his performance continues to be effective and that he continues to demonstrate commitment to the role.

Retirement and re-election

All Directors are subject to election by shareholders at the first AGM immediately following their appointment. Thereafter, Directors are subject to annual re-election. All Non-Executive Directors are appointed for fixed terms in line with corporate governance requirements, subject to re-election.

Audit, risk and internal control

Audit committee

A report from the chair of the audit committee is set out on page 34.

Financial reporting

The Board is responsible for presenting a balanced and understandable assessment of the Company's position and prospects, extending to interim reports and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements. A statement of the Directors' responsibilities is set out on page 50.

Management and specialists within the Group's finance department are responsible for ensuring the appropriate maintenance of financial records and processes that ensure all financial information is relevant, reliable, in accordance with the applicable laws and regulations, and distributed both internally and externally in a timely manner. A review of the consolidation and financial statements is completed by management to ensure that the financial position and results of the Group are appropriately reported. All financial information published by the Group is subject to the approval of the audit committee.

Principal risks

A report on the principal risks and uncertainties affecting the Company is set out on page 18.

Going concern

The Directors are required to report that the business is a going concern, with supporting assumptions and qualifications as necessary. The Directors have concluded that the business is a going concern as further explained in the Directors' Report on page 47.

Viability statement

The Directors confirm that they have assessed the prospects of the Group over a three-year period commencing 1 January 2020 and that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due for that period.

The Directors have selected a period of three years as they consider this to be a reasonable and appropriate duration on which to make the assessment, based on the following factors: the Group operates rolling financial projections which extend for the current financial year and up to two subsequent financial years; and the Directors' evaluation of the forward-looking order book for Clareti revenues, with Clareti contracts typically being signed for three-year minimum contract terms, balanced against the likely attrition rate of non-Clareti revenues.

In making this statement, the Directors have considered the Group's current position and the potential impact of the principal risks and uncertainties described on page 18 above on the Group's business model (including, without limitation, the potential impact of Brexit and Covid-19, which are also discussed on page 7), future performance, solvency or liquidity, taking account of severe but reasonable scenarios and the effectiveness of any mitigating actions, and have performed stress test analyses based on likely outcomes.

Control environment

The Group operates within a control framework developed and strengthened over a number of years and communicated as appropriate by a series of written procedures. These lay down accounting policies and financial control procedures, in addition to controls of a more operational nature. The key procedures that the Directors have established with a view to providing internal control are as follows:

- the establishment of the organisational structure and the delegated responsibilities of operational management;
- the definition of authorisation limits, including matters reserved for the Board;
- regular site visits by the Executive Directors, with the results reported to Board meetings;
- the establishment of detailed operational plans and financial budgets for each financial year;
- maintenance of a risk register which is reviewed and updated at every Board meeting;
- review of regular, detailed monthly management reporting provided for every Board meeting which encompasses both a review of operational activities and entries arising on consolidation;
- reporting and monitoring performance against budgets and rolling forecasts;
- the security of physical property and computer information; and
- detailed due diligence on all acquisitions.

Remuneration

A report from the chair of the remuneration committee is set out on page 38.

Audit committee report

Audit committee members and attendance

Member	Meetings
Andy Balchin (committee chairman)	3/3
Imogen Joss	2/3
Ken Archer*	2/3

* Ken Archer ceased to be a member of the audit committee on 31 December 2019.

Dear shareholder

I am pleased to present the report of the audit committee for the year ended 31 December 2019.

Our committee comprises two members, both of whom are independent Non-Executive Directors, namely me (as Chairman) and Ms I Joss. Mr K Archer was also a member of the audit committee during the year. This is my third year as a Non-Executive Director and chair of the audit committee, having been appointed in May 2017.

The Board considers that the committee has recent and relevant financial experience, including competence in accounting, relevant to the sector in which we operate, as well as operational skills. I am satisfied that the committee has appropriately discharged its duties in the year in accordance with its terms of reference, which are reviewed annually and are available at www.greshamtech.com/investors.

In the performance of its duties the committee held three meetings in the year. In order for the committee to properly discharge its role, it is critical that we have the opportunity to openly discuss with management any matter which falls within our remit and probe and challenge where necessary. The Chief Executive and the Chief Financial Officer attend our meetings by invitation, and other senior managers are invited to attend to provide technical or business information as necessary. In addition, our meetings relevant to audit are attended by the lead audit partner from the external auditor and other representatives. Their attendance is important as it gives us the opportunity to seek their independent and objective views on matters which they encounter during their audit. At least once a year, we meet separately with the external auditor to discuss matters without executive management being present. On a more frequent basis, I meet with the Chief Financial Officer and other senior management. This ensures any issues or concerns can be raised at an early stage and allows sufficient time to be devoted to them at subsequent meetings. There is an open and constructive communication between the committee, management and external auditor.

We will continue to play a key role in monitoring the integrity of the Group's published financial information, assessing the effectiveness of its internal controls and risk management processes, and in ensuring that our external auditor, BDO LLP, delivers a high-quality effective audit.

The committee is currently planning the process for putting the audit out to tender. The selection of our next external auditor is expected to be concluded during the second half of 2020. The last audit tender process undertaken by the committee was performed in 2010, resulting in the appointment of BDO LLP as external auditor for the year ended 31 December 2010. BDO LLP has continued as external auditor for every year since then, including in respect of this Annual Financial Report 2019.

Responsibilities

Our principal role is to assist the Board in performing its responsibilities in relation to financial reporting, internal controls and risk management and in maintaining an appropriate relationship with our external auditor. The work of the committee in discharging its responsibilities includes:

- monitoring the integrity of the reported financial statements of the Group, and any formal announcements relating to the Group's financial performance, and reviewing significant financial issues and judgements contained in them;
- reviewing and assessing the process which management has put in place to support the Board when giving its assurance that the Annual Financial Report 2019, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- reviewing the Group's internal financial controls and reviewing the Group's internal control and risk management systems;
- reviewing the Group's speak-up (whistle-blowing) arrangements;
- reviewing the need for a separate internal audit function;
- making recommendations to the Board, for it to put to shareholders for their approval in general meeting, in relation to the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- ensuring an appropriate relationship with the external auditor to include the reviewing and monitoring of its independence and objectivity, and the effectiveness of the audit process, based on a sound plan to ensure it delivers a high-quality effective audit;
- developing and implementing policy on engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and
- reporting to the Board, identifying any matters for which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

Significant judgements in relation to financial statements

Set out below are what the committee considers to be the most significant accounting areas which required the exercise of judgement or a high degree of estimation during the year, together with details of how these were addressed. These are all considered to be recurring issues.

Significant issue and explanation	Work undertaken by the committee in forming an opinion
Capitalised development costs Development costs are accounted for in accordance with IAS 38 "Intangible Assets", and costs that meet the qualifying criteria are capitalised and systematically amortised over the useful economic life of the intangible asset. Determining whether development costs qualify for capitalisation as intangible assets requires judgement, including estimates of the technical and commercial viability of the asset created and its applicable useful economic life. These estimates are continually reviewed and updated by management based on past experience and reviews of competitor products available in the market.	The committee has reviewed reports from management identifying the development costs capitalised, the technical and commercial feasibility of the product being produced and whether further costs continue to fulfil the required IAS 38 criteria. The committee's review encompasses direct discussion with executive and operational management, in addition to reviewing monthly formal reporting to the Board on development and associated sales and implementation activity. The treatment of development costs is an area of focus for the external auditor, which reported its findings to us. We concluded that management's key assumptions, judgements, estimates and disclosures were reasonable and appropriate.
Revenue and profit recognition Revenue and the associated profit are recognised from sale of software licences, rendering of services, subscriptions and maintenance and solution sales. Whilst in most cases performance obligations clearly follow the commercial and contractual arrangement agreed with the customer, in some cases the revenue streams are combined within an overall commercial arrangement. Such bundling requires judgement to assess performance obligations associated with each revenue stream and further judgement as to when and how such performance obligations have been discharged in order to recognise the associated revenue. The estimation of the stage of completion, along with the unbundling of multi-element solution sales, represents a risk of incorrect revenue recognition.	The committee has reviewed management's descriptions and status reports on material new deals and on project work in progress through the year, both through direct discussion and formal month-end reporting to the Board. The committee has furthermore considered management's assessments made on percentage of completion of material work in progress, and other judgements such as bundling or unbundling of revenue streams, and the resulting impact on revenue and profit recognition. Revenue recognition is an area of focus for the external auditor, which reported its findings to us. We considered whether the accounting treatment for revenue and profit recognition was in accordance with agreed methodology and IFRS 15 "Revenue from Contracts with Customers" which was adopted in the prior year and concurred with management's opinion that it was.
Impairment reviews The Group is required to perform impairment reviews of goodwill annually at the reporting date and, in addition, performs impairment reviews of capitalised development costs to identify any intangible assets that have a carrying value that is in excess of its recoverable value. Determining the recoverability of an intangible asset requires judgement in both the methodology applied and the key variables within that methodology. Where it is determined an intangible asset is impaired, its carrying value will be reduced to its recoverable value with the difference recorded as an impairment charge in the income statement.	The committee has considered management's assessments of value in use of cash-generating units of intangible assets (principally the goodwill and capitalised development costs) at the reporting date. This included specifically considering and subsequently approving business plans prepared by management supporting the future performance expectations used in the calculation of the value in use. Impairment reviews were also an area of focus for the external auditor, which reported its findings to us. We concluded that management's key assumptions were reasonable.

Audit committee report continued

Significant judgements in relation to financial statements continued

Significant issue and explanation	Work undertaken by the committee in forming an opinion
Acquisition accounting and contingent consideration In determining the fair value of intangible assets arising on acquisition, management are required to make judgements regarding the timing and amount of future cash flows applicable to the businesses being acquired, discounted using an appropriate discount rate. Such judgements are based on current budgets and forecasts, extrapolated for an appropriate period taking into account growth rates and expected changes to selling prices and operating costs. Management estimates the appropriate discount rate using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the businesses being acquired. Contingent consideration relating to acquisitions is included based on management's estimates of the most likely outcome. Those judgements include the forecasting of a number of different outcomes against the performance targets and estimating a probability and risk of each outcome before arriving at a risk weighted value of contingent consideration.	The committee has considered management's assessments of the fair value of the consideration and values attributed to the assets and liabilities acquired on acquisition as at the reporting date. This included specifically considering and subsequently reviewing and approving the sale and purchase agreement, assessing the estimate of contingent consideration against business plans prepared by management supporting the future performance expectations. The committee has concluded that the fair values attributed to both the acquisition and contingent consideration is in line with IFRS requirements.

Risk management and internal control systems

The Board is responsible for maintaining a sound risk management and internal control system to safeguard shareholders' investment and the Company's assets. The Directors acknowledge their ultimate responsibility for ensuring that the Group has in place a system of controls, financial and otherwise, and for managing risk, that are appropriate to the business environment in which it operates and the risks to which it is exposed and for monitoring those systems.

The Board and committee have reviewed the effectiveness of the Group's risk management and internal control systems during the year. This review covered all material controls, including financial, operational and compliance controls.

The Group's risk management and internal control systems are designed to manage rather than eliminate the risk of failure of business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. The Board continues to discuss with management further enhancements in financial and other controls commensurate with the growth of the Group. In addition, steps are continuing to be taken to further embed internal control and risk management processes into the operations of the business and to deal with areas of improvement which come to management's and the Board's attention.

An embedded ongoing process for identifying, evaluating and managing the principal risks faced by the Group has been in place throughout the year and is regularly reviewed by the Board. It remains in place up to the date of the approval of the financial statements.

Speak-up (whistle-blowing) arrangements

The committee has reviewed arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or any other matters of concern and concluded that they remain appropriate.

Internal audit function

During the year, the committee considered the need for a separate internal audit function and its impact on the external audit and concluded that, based on the size of the Group, a separate internal audit function is not necessary at this stage of the Group's maturity. The need for an internal audit function is reviewed at least annually.

External auditor

The committee reviews and makes recommendations with regard to the appointment of the external auditor. In making these recommendations, the committee considers auditor effectiveness and independence, partner rotation and any other factors which may impact the external auditor's appointment.

In considering the effectiveness of the external auditor, the committee discussed and approved the scope of and the fees for the external audit plan and reviewed the external auditor's approach to the external audit, its assessment of the significant risks in the Group's financial statements and materiality levels, and its associated work. In addition, the committee considered the commercial experience and expertise of the auditor, particularly in the Group's industry sector; the fulfilment of the agreed audit plan and any variations from this plan; and the robustness of the external auditor in its handling of key accounting and audit judgements.

In relation to independence, the committee reviews and controls the manner in which non-audit services are awarded to the external auditor on at least an annual basis. All significant non-audit work, and any work of a non-compliance consultancy nature, commissioned from the external auditor requires audit committee approval. In the year, non-audit fees represented 20% of the total fees paid to the external auditor, compared to 21% in the prior year.

The committee is satisfied with the effectiveness and independence of the external auditor. BDO LLP has been the Group's auditor since 2010 and, in accordance with the requirements of the Statutory Auditors and Third Country Auditors Regulations 2016 to conduct a tender at least every ten years, the committee is currently doing so.

Andy Balchin
Chairman of the audit committee
9 March 2020

Nomination committee report

Nomination committee members and attendance

Member	Meetings
Ken Archer (committee chairman)	1/1
Imogen Joss	1/1
Andy Balchin	1/1

Dear shareholder

I am pleased to present the report of the nomination committee for the year ended 31 December 2019.

As Chairman of the Board, I also chair the nomination committee. Ms I Joss and Mr A Balchin are members of the committee. In the performance of its duties, the committee held one meeting in the year.

The Board's policy is to ensure that all appointments are merit based and based on objective criteria, giving all due regard to equality of opportunity, and to promote inclusion and diversity. The Board notes that achieving diversity in the technology sector is challenging, having regard to the available pool of individuals with the right skills, experience and talent. Given the relatively small size of the Board and the Group, the committee does not currently set any measurable objectives for implementing a diversity policy but it acknowledges the role of the Board in promoting diversity, including gender diversity, throughout the Group. Currently there is one female member of the Board, representing 20% of Board membership.

In relation to succession planning, the nomination committee keeps under review, and takes appropriate action to ensure, orderly succession for appointments to the Board and to senior management, so as to maintain an appropriate balance of skills and experience within the Group and on the Board. As regards Non-Executive Directors, the committee considers, amongst other factors, their other significant outside commitments prior to making recommendations, which is designed to ensure that they have sufficient time to meet what is expected of them. The committee keeps any changes to these commitments under review. The committee has not approved any external appointment where such appointment is considered to be significant.

In accordance with the UK Corporate Governance Code 2018, all Directors are subject to annual re-election. Having reviewed the contribution of each Director, it is clear that each Director brings individual and specific expertise to the Board and makes a valuable contribution to the Company's long-term success. I have no hesitation in recommending their re-election.

Regarding my personal position, I will be stepping down from the Board as soon as a suitable replacement has been appointed. The nomination committee (excluding me) will be carrying out a comprehensive process to identify the best possible candidate to take over the role at this important stage of the Group's evolution, taking the composition, skills and experience of the Board into account. Details will be announced in due course.

I am satisfied that the committee has appropriately discharged its duties in the year in accordance with its terms of reference. Terms of reference are reviewed annually and are available at www.greshamtech.com/investors.

Ken Archer
Chairman of the nomination committee
9 March 2020

Remuneration report

Remuneration committee members and attendance

Member	Meetings
Imogen Joss (committee chair)	2/2
Ken Archer	2/2
Andy Balchin	2/2

Dear shareholder

I am pleased to introduce the Directors' Remuneration Report for the year ended 31 December 2019.

The committee consists of me, as chair, and Mr K Archer and Mr A Balchin as members. The committee met two times in the year. Each of these meetings was attended, at the committee's invitation, by the Executive Directors, except that they were not present in any discussions affecting their own remuneration.

For 2019, the committee has continued to operate a remuneration structure made up of basic salary, performance-related bonuses, share options, benefits and pensions. In accordance with the updated remuneration policy adopted at the AGM held in 2019, we implemented a new Annual Bonus Scheme and long-term incentive plan for Executive Directors for the year commencing 1 January 2019. As reported last year, this has been phased in for Executive Directors at 50% level in this first year. From 2020 onwards, rewards will be made at their full calculated value, subject to the discretion of the remuneration committee to ensure their appropriateness. The new remuneration policy adopted in 2019 seeks to incentivise Executives for achieving both annual targets (under the Annual Bonus Scheme) and sustained multi-year growth and returns (under the Long-Term Share Incentive Plan).

As in previous years, a significant proportion of executive remuneration is based on performance, designed to align executive pay with shareholder interests. In this respect, the committee has assessed the performance of Executive Directors for the year reported, set performance targets for the following financial period and made recommendations to the Board on the overall package for Executive Directors.

We remain committed to ensuring that executive reward incentivises positive outcomes for shareholders by reflecting strong linkage with strategy and a fair, open and collaborative corporate culture.

Details of Executive Director performance-related pay awards in respect of 2019 and how they were calculated are set out in the following pages. As regards increases for 2020, the committee has assessed that Chief Executive and Chief Financial Officer basic pay should increase by 3%.

2019 also saw the first awards made under the all-staff share scheme – designed to incentivise all of our workforce to contribute to the successful delivery of our strategy through individual objectives calibrated with a strong contribution to our culture.

I am satisfied that the committee has appropriately discharged its duties in the year in accordance with its terms of reference. Terms of reference are reviewed annually and are available at www.greshamtech.com/investors.

I encourage you to read the Directors' Remuneration Report on the following pages.

Imogen Joss
Chair of the remuneration committee
9 March 2020

This report complies with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013, the provisions of the UK Corporate Governance Code (April 2016) and the Listing Rules.

The report is in two sections:

- the Directors' remuneration policy, as approved at the AGM held in May 2019, which sets out the Company's current policy on remuneration for Executive and Non-Executive Directors; and
- the Directors' Remuneration Report, which sets out details of how the remuneration policy was implemented for the year ended 31 December 2019 and how the Company intends for the remuneration policy to apply for the year ended 31 December 2020. The Directors' Remuneration Report will be put to an advisory shareholder vote at the forthcoming AGM.

Directors' remuneration policy

General principles

The policy for the Directors is based on the following principles, and takes into account prevailing best practice, shareholder expectations, and the remuneration of the wider employee population:

- ensure remuneration arrangements support the Group's business strategy;
- align interests of Directors and Senior Executives with those of the shareholders;
- determine remuneration by reference to individual performance, experience and prevailing market conditions, with a view to providing a package appropriate to the responsibilities involved;
- encourage behaviours which will enhance the performance of the Group and reward achievement of the Group's strategic and financial goals; and
- ensure that an appropriate proportion of the overall remuneration package is incentive pay, which is earned for the delivery of stretching performance conditions.

Remuneration policy table

The table below sets out the Directors' remuneration policy as approved by shareholders at the 2019 AGM. No changes to the policy are being proposed at the 2020 AGM.

Link to strategy	Operation	Framework
Base salary Supports the recruitment and retention of Executive Directors of the calibre required to deliver the Group's strategy.	Base salary is paid monthly and reviewed annually, with any increases applying from 1 April.	Base salary and reviews are assessed on both Group and individual performance and, in the case of new Directors, their prior experience and skills. Consideration is also given to pay increases for other employees in the Group and to comparable pay for similar roles at similar companies. Where appropriate, the committee will engage external remuneration consultants for benchmarking.
Pension Supports the recruitment and retention of Executive Directors of the calibre required to deliver the Group's strategy.	Pension contributions are made by the Company to a defined contribution scheme operated by a third party provider.	Pension contributions are matched by the Company up to a maximum of 5% of base salary, in line with other employees in the Group. In exceptional circumstances, such as recruitment of new Directors, the committee has discretion to authorise higher Company contributions up to a maximum of 10% of base salary in total.
Benefits Supports the recruitment and retention of Executive Directors of the calibre required to deliver the Group's strategy.	Benefits principally comprise private healthcare and death in service insurance.	Premiums are paid by the Company to an external broker to arrange cover, in line with other Group employees. These benefits are standard for all Group employees and are not assessed against performance.
Annual Bonus Scheme Rewards and incentivises the Executive Directors for achievement of strategic objectives as measured by short-term KPIs.	The annual bonus is calculated after the end of the financial year based on predetermined targets. The annual bonus consists of a mix of cash and shares.	The committee determines the relevant performance targets at the start of each financial year. The committee also determines the annual bonus split between cash and shares, which by default is 50:50. Targets are set predominantly (at least 75%) in relation to financial measures, with the balance based on non-financial objectives.

Directors' remuneration policy continued
Remuneration policy table continued

Link to strategy	Operation	Framework
Annual Bonus Scheme continued	The cash element of the bonus is paid at or around the time of release of the final results. The shares are deferred for two years and then released. This scheme is operated pursuant to the rules of the Deferred Share Bonus Plan 2017.	The annual bonus for performance significantly ahead of target is up to 100% of base salary. On-target performance will result in an annual bonus of 50% of base salary. Performance below a threshold set by the committee will result in no bonus being paid. The committee has final discretion in determining the value of the bonus payment (and, where the committee deems it appropriate in the circumstances, to adjust the mix between cash and deferred shares), based on its assessment of performance against the set targets and as a whole. Payments and awards are subject to malus and clawback. The maximum annual bonus payable in respect of a year is 100% of base salary.
Long-Term Share Incentive Plan Rewards and incentivises the Executive Directors for achievement of sustained long-term financial growth and returns.	Matching shares are earned on the deferred shares awarded under the Annual Bonus Scheme, depending on long-term financial performance against predetermined targets over the three years following the end of the relevant financial year. This plan is operated pursuant to the rules of the Deferred Share Bonus Plan 2017.	The committee determines the threshold, on-target and stretch targets on growth and return measures over the three subsequent financial years. The matching award is a multiple of the deferred shares awarded under the Annual Bonus Scheme. The multiple applied is determined by reference to a reference matrix of multiples based on actual performance against growth and return measures over that three-year period. The matrix of matching rates is determined in advance by the committee. The committee has final discretion in determining the matching rates and the final award based on its assessment of performance against the set targets and as a whole after the end of the three-year period. Matching awards are subject to continuous employment and to malus and clawback. The maximum matching award multiple is 4x the number of deferred shares.
Share Option Plan 2010 Directly aligns financial incentives with returns to shareholders. Financial reward is created through the creation of shareholder value.	The committee has discretion to make option grants to Executive Directors and other staff, subject to the scheme rules, and to determine appropriate performance conditions.	The share option plans are subject to rules and limits approved by shareholders in general meeting. Options are granted at an exercise price of not less than 110% of the mid-market price of ordinary shares on the day prior to the date of grant. All options are subject to a minimum three-year vesting period, and any exercise is subject to satisfaction of the specified performance conditions, which the committee assesses.
Chairman and Non-Executive Director fees Supports the recruitment and retention of individuals of the calibre required to constitute an effective Board and contribute to the Company's long-term success.	Fees for Non-Executive Directors are set by the Board (excluding Non-Executive Directors). Fees are paid monthly.	A basic fee is set for normal duties, commensurate with fees paid for similar roles in other similar companies, taking account of the time commitment, responsibilities, and committee position(s). Supplementary fees are paid for any additional duties at fixed day rates. Non-Executive Directors are not eligible for pensions, incentives, bonus or any similar payments other than normal out-of-pocket expenses incurred on behalf of the business. Compensation for loss of office is not payable to Non-Executive Directors.

Remuneration policy considerations

Selection of performance measures

The performance measures under the Annual Bonus Scheme and Long-Term Share Incentive Plan are selected to reflect the main KPIs and strategic priorities for the Group. The committee's policy is to set performance targets which are both stretching and achievable and that the maximum outcomes are only available for outstanding performance.

Performance conditions applying to subsisting awards may be amended or substituted by the committee if an event occurs (such as a change in strategy, a material acquisition or divestment of a Group business or a change in prevailing market conditions) which causes the committee to determine that the measures are no longer appropriate and that amendment is required in order that they achieve their original purpose.

Operation of share plans

The committee has discretion to operate the Company's share plans in accordance with their terms, including the ability to settle awards in cash and to adjust the terms of awards in the event of any variation of the Company's share capital or any demerger, delisting, special dividend or other relevant event.

Policy on Director shareholdings

Prior to the year commencing 1 January 2019, the Company had no policy on Director shareholdings.

For the year commencing 1 January 2019 and thereafter, the Company expects Directors, when acquiring shares under the Annual Bonus Scheme or Long-Term Share Incentive Plan, not to dispose of more than 50% of the shares acquired until the day on which his or her holding has a market value equal to that of his or her basic salary. Any shares that are sold to discharge the option holder's fiscal obligations are not treated as having been acquired.

Post employment, the Company expects Directors not to dispose of more than 50% of any shares held as a result of being acquired under the Annual Bonus Scheme or Long-Term Share Incentive Plan for a period of six months following termination of employment. Any shares disposed of during this period shall be done in co-ordination with the Company and its brokers in order to ensure an orderly market is maintained.

Malus and clawback

No malus or clawback provisions apply for payments or awards made in respect of financial year 2018 or earlier.

For up to two years following the payment of a bonus under the Annual Bonus Scheme, the committee may require repayment of some or all of any bonus payment (including by way of reduction in the number of deferred shares released) in circumstances which the committee considers appropriate, including a material misstatement of accounts, an error in assessing performance conditions, or misconduct on the part of the participant.

For up to two years after the vesting of an award under the Long-Term Share Incentive Plan, the committee may cancel an award or require the participant to make a payment to the Company in respect of an award in the event of gross misconduct, fraud, malpractice, a material misstatement of results, a material breach of risk management or other circumstances that, in the opinion of the committee, have a sufficiently significant impact on the reputation of any Group business.

Legacy arrangements

The committee reserves the right to make any remuneration payments and payments for loss of office, notwithstanding that they are not in line with the remuneration policy, where the terms of the payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes "payments" includes the committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

Recruitment

The Company's nomination committee is responsible for leading the process for Board appointments and making recommendations to the Board. Refer to the report of the nomination committee for details.

Loss of office payments

There are no predetermined special provisions for Executive Directors with regard to compensation in the event of loss of office. The remuneration committee considers the circumstances of individual cases of early termination and only in exceptional circumstances would the committee recommend compensation payments in excess of the Company's contractual obligations.

Wider staff employment conditions

The remuneration committee considers pay and employment conditions for other Senior Executives and staff members of the Group when designing and setting executive remuneration. Underpinning all pay is an intention to be fair to all staff of the Group, taking into account the individual's seniority and local market practices.

Directors' remuneration policy continued

Remuneration policy considerations continued

Consultation with shareholders

The remuneration committee is committed to an ongoing dialogue with shareholders and seeks the views of significant shareholders when any major changes are being made to remuneration arrangements. The committee takes into account the views of significant shareholders when formulating and implementing the policy.

Consultation with employees

The Board and the remuneration committee did not consult with employees when formulating and implementing the policy.

Service contracts and letters of appointment

It is the Company's policy to offer Executive Directors service contracts terminable with a maximum of twelve months' rolling notice from either side.

None of the Non-Executive Directors have a service contract. Appointments are for three-year terms, which may be renewed by mutual agreement, subject always to termination by either party at any time on three months' notice.

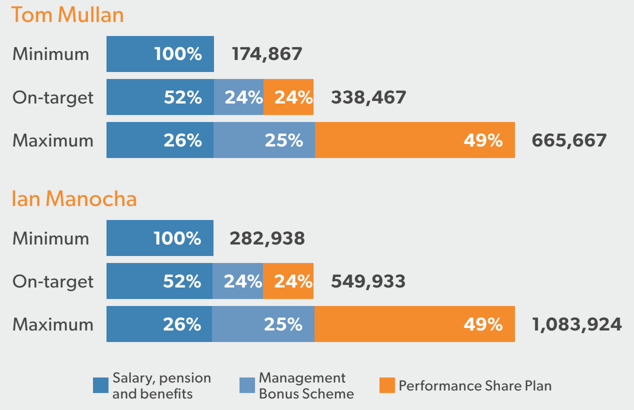
Remuneration scenarios

The following graphs set out an illustration of Executive Director pay for 2020. The potential reward opportunities for 2020 are based on the remuneration policy described herein. Projected values exclude the impact of share price movement and the payment of dividends and actual outcomes may differ from those shown.

Three different remuneration scenarios for 2020 are provided, as follows:

- the "minimum" scenario includes base salary, pension and benefits (i.e. "fixed remuneration") which are the elements of Executive Director pay that are not at risk;
- the "on-target" scenario includes fixed remuneration as defined above, plus an on-target bonus of 50% of base salary under the Annual Bonus Scheme (50% cash and 50% shares) and an assumption that the Executive Directors will be awarded matching shares three years later under the Long-Term Share Incentive Plan based on a 2x multiple of the shares awarded under the Annual Bonus Scheme; and
- the "maximum" scenario includes fixed remuneration as defined above, plus a maximum bonus of 100% of base salary under the Annual Bonus Scheme (50% cash and 50% shares) and an assumption that the Executive Directors will be awarded matching shares three years later under the Long-Term Share Incentive Plan based on a 4x multiple of the shares awarded under the Annual Bonus Scheme.

Executive proposed 2020 remuneration



Directors' remuneration report

Role of the remuneration committee

The remuneration committee's key role is to operate a remuneration policy that supports the Company's strategy and promotes long-term sustainable success and aligns the interests of Directors and Senior Executives with those of shareholders. The policy is designed to attract, retain and motivate executive management of the quality required to run the Company successfully.

The committee's primary responsibilities include:

- determining the Company's remuneration policy;
- approving the total individual remuneration package of each Executive Director;
- setting performance targets for incentive plans including annual bonus and long-term share plans; and
- determining remuneration outcomes in relation to performance-related pay.

Details of the committee's operation, roles and responsibilities are set out in terms of reference, which are available on the Company's website.

Salary increases in 2019

Neither Mr I Manocha nor Mr T Mullan received a base salary increase in 2019. The average increase across Group employees in 2019 was 2.8%.

Variable pay in 2019

In 2019, the variable element of Director pay is comprised of share options under the Share Option Plan 2010 and bonus opportunity under the performance-based annual bonus.

Equity awards

Mr I Manocha holds 1.5m share options under the Share Option Plan 2010, awarded in June 2015. These options have now fully vested. Mr T Mullan was awarded 200,000 share options under the Share Option Plan 2010 in March 2018 upon his commencement and a further 100,000 in March 2019 in accordance with contractual terms. Mr T Mullan's share options are subject to a three-year vesting period and a performance condition relating to a specified minimum level of Clareti annualised recurring revenues (excluding acquisitions) as at the date of exercise. There were no other Director equity awards in the year. Details of options held by Directors are set out further below.

Performance-based annual bonus

Executive Director annual bonus awards for 2019 were assessed by the committee based on predetermined annual performance targets linked to Group objectives and individual performance objectives, as follows:

Measure	Weighting	Attainment (CEO)	Attainment (CFO)
Clareti recurring revenues	22.5%	88%	88%
Group revenue	15.0%	100%	100%
Clareti revenue	22.5%	90%	90%
Group adjusted EBITDA	15.0%	117%	117%
Personal objectives	25.0%	70%	88%
Bonus payable (% of base)		**22.5%**	**23.7%**

In addition, Mr Manocha and Mr Mullan each received a fixed £1,000 (gross) performance-related bonus as a result of a one-off Group-wide bonus declared by the remuneration committee for all employees. The amount paid to Mr Manocha and Mr Mullan was the same as for other employees with the same performance rating as them, irrespective of grade or base salary. The performance-related bonus amounts shown in the table below are inclusive of this additional payment.

Single figure for total remuneration (audited information)

The following table sets out the single figure for total remuneration for Directors for the financial years ended 31 December 2019 and 2018:

31 December 2019	Base salary/fees £	Benefits in kind £	Performance-related bonus £	Pension £	IFRS 2 share-based payment charge £	Total 2019 £
Executive Directors						
I Manocha	**261,245**	**2,223**	**59,806**	**33,056** (1)	**—**	**356,330**
T Mullan	**160,000**	**3,087**	**38,833**	**8,000**	**38,352**	**248,272**
Non-Executive Directors						
K Archer	**80,000**	**—**	**—**	**—**	**—**	**80,000**
I Joss	**40,000**	**—**	**—**	**—**	**—**	**40,000**
A Balchin	**40,000**	**—**	**—**	**—**	**—**	**40,000**
	581,245	**5,310**	**98,639**	**41,056**	**38,352**	**764,602**

(1) Includes a one-off payment in lieu of pension contributions of £20,000 to satisfy an outstanding contractual obligation

31 December 2018	Base salary/fees £	Benefits in kind £	Performance-related bonus £	Pension £	IFRS 2 share-based payment charge £	Total 2018 £
Executive Directors						
I Manocha	259,840	2,882	—	12,980	73,744	349,445
T Mullan(1)	133,521	827	—	6,003	23,591	163,942
R Grubb(2)	42,063	429	—	2,100	—	44,561
Non-Executive Directors						
K Archer	80,000	—	—	—	—	80,000
I Joss	40,000	—	—	—	—	40,000
A Balchin(1)	25,333	—	—	—	—	25,333
	595,424	4,138	—	21,083	97,335	717,979

(1) Appointed as Director 13 March 2018.

(2) Resigned as Director 13 March 2018.

IFRS 2 share-based payment charges referred to in the table above are accounting charges that are calculated in accordance with applicable accounting rules as set out in note 23 of the Group financial statements. These charges do not represent cash payments.

Benefits in kind include provision of private healthcare and death in service insurance.

Remuneration report continued

Directors' remuneration report continued

Interests in options (audited information)

The Group operated the Share Option Plan 2010 (as shown in the remuneration policy) during the year, under which Directors are able to subscribe for ordinary shares in the Company. The interests of the Directors under the Share Option Plan 2010 at the start and end of the year are as set out in the table below. The interests of the Directors to subscribe for or acquire ordinary shares have not changed since the year end. Further details concerning the Share Option Schemes 2010, including vesting conditions, can be found in note 23 to the Group financial statements.

For financial year 2019, the Company introduced new pay arrangements which align with short-term and long-term targets, which will include the grant of nil cost options pursuant to the Long-Term Share Incentive Plan, details of which are set out in the remuneration policy.

	Options at 1 January 2019	Granted	Cancelled	Exercised	**Options at 31 December 2019**	Date of grant	Exercise price	Date first exercisable	Expiry date
Executive Directors									
I Manocha(1)(2)	1,500,000	—	—	—	**1,500,000**	01.06.15	111p	01.06.18	01.06.25
T Mullan(3)	200,000	—	—	—	**200,000**	14.03.18	227p	14.03.21	14.03.28
T Mullan(3)	—	100,000	—	—	**100,000**	28.03.19	97p	28.03.22	28.03.29
Non-Executive Directors									
K Archer(1)(2)	700,000	—	—	—	**700,000**	31.12.10	28p	31.12.13	31.12.20
I Joss	—	—	—	—	**—**	—	—	—	—
A Balchin	—	—	—	—	**—**	—	—	—	—
	2,400,000	100,000	—	—	**2,500,000**				

(1) Options over which the Director has agreed to pay any employer's national insurance arising from the exercise of the options.

(2) Vested.

(3) Yet to vest.

Payments for loss of office (audited information)

No payments for loss of office were made during the year ended 31 December 2019 (2018: £nil).

Percentage change in CEO remuneration

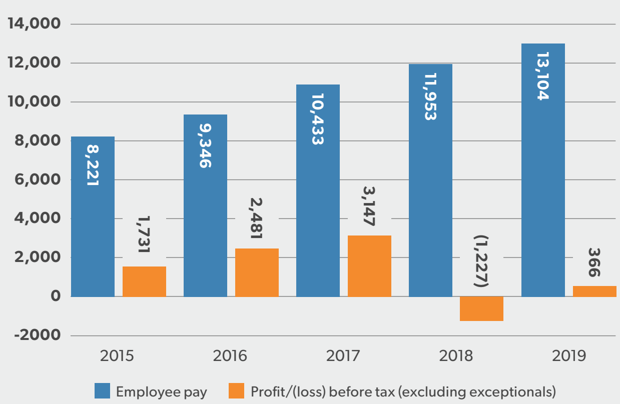
The table below sets out the increase in the total remuneration of the CEO and our staff (excluding promotions where relevant) in 2019. The comparative is all staff (around 140 people) because this group is considered to be the most relevant, due to the structure of total remuneration.

	Change in base salary (effective April 2019)	2019 bonus payment (% of base salary)
CEO (I Manocha)	0.0%	22.5%
All staff	2.8%	6.3%

Relative importance of spend on pay

The chart below shows the total employee pay cost compared to profit before tax (for continuing operations and before exceptional items but including distributions) for the years ended 31 December 2019 and 2018. There were no share buy backs in the year.

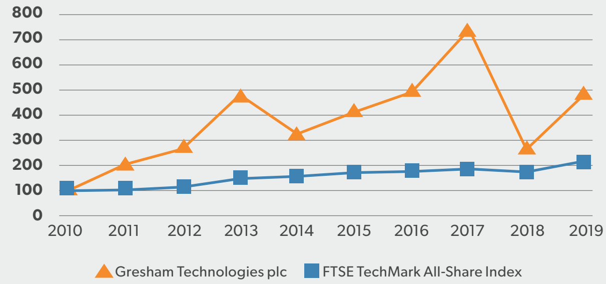
Total employee pay compared to profit before tax (£'000)



Comparison of Company performance

The graph below shows the Company's performance, as measured by total shareholder return, for each of the last six financial years in terms of the change in value (with dividends reinvested) of an initial investment of £100 on 31 December 2010 in a holding of the Company's shares against the corresponding total shareholder return in a hypothetical holding of shares in the FTSE TechMark All-Share Index. The FTSE TechMark All-Share was selected as it represents a broad equity market index in which the Company is a constituent member.

Total shareholder return (£)

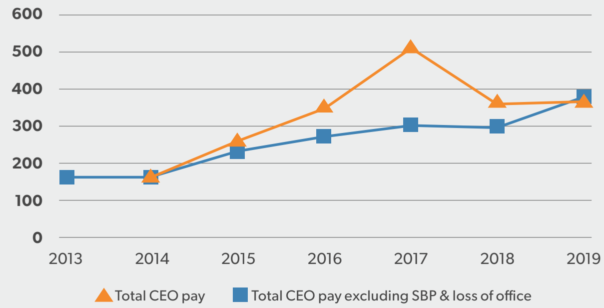


This graph shows the value, by the end of 2019, of £100 invested in Gresham Technologies plc on 31 December 2010 compared with the value of £100 invested in the FTSE TechMark All-Share Index. The other points are values at intervening financial year ends.

Change in CEO pay

The graph below shows the single total figure of remuneration for the role of CEO for the current and previous seven years.

Total CEO pay (£'000)



The graph above is derived from the data in the following table:

	2014	2015	2016	2017	2018	**2019**
I Manocha (CEO from 1 June 2015)						
Base salary	—	145,833(1)	250,000	254,000	259,840	**261,245**
Benefits in kind	—	544(1)	1,983	1,491	2,882	**2,223**
Bonus	—	—	—	20,400	—	**59,806**
Pension	—	7,292(1)	12,500	12,765	12,980	**33,056**
IFRS 2 share-based payment charges	—	35,889(1)	75,441	220,233	73,744	**—**
	—	189,558(1)	339,924	508,889	349,445	**356,330**
C Errington (CEO until 1 June 2015)						
Base salary	150,000	62,500(2)	—	—	—	**—**
Benefits in kind	1,334	545(2)	—	—	—	**—**
Bonus	—	—	—	—	—	**—**
Pension	7,500	3,125(2)	—	—	—	**—**
IFRS 2 share-based payment charges	—	—	—	—	—	**—**
	158,834	66,170(2)	—	—	—	**—**
Total	158,834	255,728	339,924	508,889	349,445	**356,330**

(1) Relates to the seven-month period 1 June 2015 to 31 December 2015.

(2) Relates to the five-month period 1 January 2015 to 30 June 2015.

Corporate Governance

Remuneration report continued

Service contracts

Mr I Manocha has a service agreement dated 15 February 2015, which is terminable by twelve months' rolling notice from either side. Mr T Mullan's service agreement is dated 5 February 2018 and is terminable by six months' rolling notice from either side.

Each of the Non-Executive Directors has a letter of appointment. Appointments are for three-year terms, which may be renewed by mutual agreement, subject always to termination by either party at any time on three months' notice.

All Director service contracts and letters of appointment are available for inspection by shareholders at the Company's registered office, Aldermary House, 10–15 Queen Street, London EC4N 1TX.

Remuneration resolutions at the last AGM

At the last AGM, held on 2 May 2019, the following resolution was moved:

Resolution	For(1)	Against	Withheld
Remuneration report	99.98%	0.01%	0.01%

(1) Includes votes giving the Chairman discretion.

External advisers

The committee did not engage any professional remuneration advisers in 2019 (2018: Pearl Meyer, £27,000).

Imogen Joss
Chair of the remuneration committee
9 March 2020

Directors' report

Registered number 1072032

The Directors present their report and the Group financial statements for the year ended 31 December 2019.

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out within the Strategic Report. Disclosures in respect of principal risks and uncertainties, people (including employees and disabled employees), global greenhouse gas emissions and product development (incorporating research and development activities) are included within the Strategic Report under section 414(c) of the Companies Act 2006. In addition, note 21 to the financial statements includes: the Group's objectives; policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and, if any, hedging activities; and its exposures to credit risk and liquidity risk. The Statement of Corporate Governance beginning on page 31 forms part of the Directors' Report.

Directors and officers

The Directors who served on the Board during the year are set out on page 29. Mr J Cathie served as Company Secretary throughout the year.

Results and dividends

The Group profit for the year, after taxation, attributable to equity shareholders amounted to £1,898,000 (2018: loss of £1,416,000). A final dividend of 0.75 pence per ordinary share (2018: 0.5 pence) has been recommended by the Directors. There has been no interim dividend (2018: £nil).

If approved by the passing of a resolution at the forthcoming Annual General Meeting, it is intended to pay the final dividend on 21 May 2020 to all shareholders on the register at close of business on 3 April 2020. The ex-dividend date will be 2 April 2020.

The profit for the year has been transferred to reserves.

Going concern and viability statement

The Group has sufficient financial resources together with good relationships with a number of customers and suppliers across different geographic areas and industries. The Group has access to a strong underlying cash flow arising from long-established maintenance businesses with long-standing blue-chip customers and strong growth prospects being realised with its flagship solution, CTC, and its other Clareti solutions.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of the financial statements. For this reason, they continue to adopt the going concern basis in preparing the Annual Financial Report 2019.

Refer to page 33 for the viability statement required pursuant to Provision C2.2 of the Code.

Post balance sheet events

There were no post balance sheet events.

Significant relationships

In 2019, the Group had one customer relationship considered to be individually significant to the Group. This relates to APAC Operations and generates a mix of revenues from Clareti Solutions and Other Solutions, including strategic non-recurring revenues. Revenues from this customer relationship individually exceeded 10% of the Group's revenue in 2019. In the opinion of the Directors, the Group does not have any other individually significant relationships.

Fostering relationships with stakeholders

Refer to page 28 for details of the Company's engagement with stakeholders.

Directors and their interests

The Directors at 31 December 2019 and their connected persons' interests in the share capital of the Company (all beneficially held, other than with respect to options to acquire ordinary shares which are detailed in the analysis of options included in the Directors' Remuneration Report) are as follows:

	Ordinary shares of 5 pence each	
	31 December 2019	1 January 2019
K Archer	**150,000**	150,000
I Joss	**5,236**	—
A Balchin	**8,233**	—
I Manocha	**75,000**	75,000
T Mullan	**10,940**	—

There have been no further changes in the Directors' interests disclosed above from 31 December 2019 to 28 February 2020.

Directors' liabilities

The Company has granted an indemnity to one or more of its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report. Directors' and officers' liability insurance with an indemnity limit of £10m has been purchased in order to minimise the potential impact of proceedings against Directors.

Directors' report continued

Registered number 1072032

Major interests in shares

The Company has been notified, either directly or in response to a section 793 request made on its behalf, of the following interests representing 3% or more of the issued ordinary share capital of the Company as at 29 February 2020:

	Ordinary shares of 5 pence each	Percentage held
Kestrel Investment Partners	10,386,443	15.22%
Schroder Investment Management	9,613,194	14.08%
Jupiter Asset Management	4,996,000	7.32%
JO Hambro Capital Management	4,200,000	6.15%
Tellworth Investments	4,047,586	5.93%
Herald Investment Management	3,158,774	4.63%
Mrs M A Green	3,073,290	4.50%
Canaccord Genuity Wealth Mgt	3,029,109	4.44%
Hargreaves Lansdown Asset Mgt	2,515,467	3.69%
Majedie Asset Management	2,308,509	3.38%
Rimmer Worldwide Limited	2,178,091	3.19%

Political donations

No donations were made in 2019 or 2018.

Social and community

No social or community review has been performed for 2019 or 2018.

Special business at the Annual General Meeting

The special business to be conducted at the AGM includes:

- the Directors' authority to allot shares and the partial disapplication of pre-emption rights. Resolutions will be proposed to renew the authorities given to the Directors to allot and grant rights over the unissued share capital up to a maximum nominal amount of £1,137,607 representing one-third of the issued ordinary share capital as at 29 February 2020 and to allot and grant rights over shares for cash up to a maximum nominal amount of £170,641, representing 5% of the issued ordinary share capital as at 29 February 2020, without first making a pro rata offer to all existing shareholders;
- the renewal of the authority of the Company to make market purchases of its own ordinary shares. The Company's authority will be limited to 6,825,646 ordinary shares which represents 10% of the issued ordinary share capital of the Company as at 29 February 2020; and
- the authority to call meetings (other than Annual General Meetings) on not less than 14 clear days' notice.

In the opinion of the Directors, the passing of these resolutions is in the best interests of the shareholders.

Additional information for shareholders

At 31 December 2019, the Company's issued share capital comprised:

	Number	Nominal value £	% of total share capital
Ordinary shares of 5 pence each	68,256,458	3,412,823	100%

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and for voting rights.

During the year ended 31 December 2019, certain share options granted under the Share Option Scheme 2010 were exercised and as a result the Group issued 167,021 ordinary shares (2018: 596,940), such shares ranking pari passu with ordinary shares then in issue. See note 23 of the Group financial statements for further details.

Ordinary shares

On a show of hands at a general meeting of the Company, every holder of ordinary shares present in person and entitled to vote shall have one vote; on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The notice of the general meeting specifies deadlines for exercising voting rights either by proxy notice or present in person or by proxy in relation to resolutions to be passed at general meeting. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the Annual General Meeting and published on the Group's website after the meeting.

There are no restrictions on the transfer of ordinary shares in the Company other than certain restrictions that may from time to time be imposed by laws and regulations (for example, insider trading laws and market requirements relating to close periods).

The Company's Articles of Association may only be amended by a special resolution at a general meeting of the shareholders. Directors are reappointed by ordinary resolution at a general meeting of the shareholders. The Board may appoint a Director but anyone so appointed must be elected by an ordinary resolution at the next Annual General Meeting. Any Director who has held office for more than three years since their last appointment by shareholders at a general meeting must offer themselves up for re-election at the following Annual General Meeting.

Significant interests

Directors' interests in the share capital of the Company are shown in the table on page 47. Major interests (being those greater than 3%) of which the Company has been notified are shown in the table above.

Change of control

In the event of a change of control of the Company, employee share options granted under the Share Option Scheme 2010 and the Deferred Share Bonus Plan 2017 will either accelerate vesting, will be rolled over to the acquiring company's shares or will lapse, depending on the circumstances of the change. Further details are provided in note 23 to the Group financial statements.

There are no agreements between the Group and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) because of a takeover bid.

Power of Directors to issue or buy back shares

The Directors' existing authorities to allot and grant rights over the unissued share capital, to allot and grant rights over the unissued share capital for cash without first making a pro rata offer to all existing shareholders and to make market purchases of shares in the issued share capital of the Company are due to expire at the upcoming AGM. Resolutions will be put to shareholders at the upcoming AGM of the Company to renew previous authorities granted.

Information to be included in the Annual Financial Report 2019

As part of our requirements under the FCA Listing Rules ("LR"), the information required to be disclosed by LR 9.8.4 R can be found in the following locations in this Annual Financial Report 2019:

LR 9.8.4 R	Topic	Location
(1)	Interest capitalised	Not applicable
(2)	Publication of unaudited financial information	Not applicable
(4)	Details of long-term incentive schemes	Not applicable
(5)	Waiver of emoluments by a director	Not applicable
(6)	Waiver of future emoluments by a director	Not applicable
(7)	Non-pre-emptive issues of equity for cash	Page 89
(8)	Item (7) in relation to major subsidiary undertakings	Not applicable
(9)	Parent participation in a placing by a listed subsidiary	Not applicable
(10)	Contracts of significance	Page 47
(11)	Provision of services by a controlling shareholder	Not applicable
(12)	Shareholder waivers of dividends	Not applicable
(13)	Shareholder waivers of future dividends	Not applicable
(14)	Agreements with controlling shareholders	Not applicable

All the information cross-referenced above is hereby incorporated by reference into this Directors' Report.

Auditor

Pending the conclusion of the audit re-tender process that is currently underway, a resolution to reappoint BDO LLP as the Group's auditor will be put to the forthcoming Annual General Meeting.

Directors' statement as to disclosure of information to the auditor

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 29. Having made enquiries of fellow Directors and of the Group's auditor, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information (that is, information needed by the Group's auditor in connection with preparing its report) of which the Group's auditor is unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Group's auditor is aware of that information.

By order of the Board

Jonathan Cathie
Company Secretary
9 March 2020

Statement of Directors' responsibilities

Directors' responsibilities

The Directors are responsible for preparing the Annual Financial Report 2019 in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and have elected to prepare the Company financial statements in accordance with Financial Reporting Standard 100 "Application of Financial Reporting Requirements" and Financial Reporting Standard 101 "Reduced Disclosure Framework" and applicable law. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare a Strategic Report, Directors' Report and Directors' Remuneration Report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the International Accounting Standards ("IAS") Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that the Annual Financial Report 2019, 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.

Website publication

The Directors are responsible for ensuring the Annual Financial Report 2019 is made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' responsibilities pursuant to DTR 4

The Directors confirm to the best of their knowledge:

- the Group financial statements have been prepared in accordance with IFRSs adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and
- the Annual Financial Report 2019 includes a fair review of the development and performance of the business and the financial position of the Group and the Parent Company, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

Ian Manocha
Chief Executive
9 March 2020

Independent auditor's report

Opinion

We have audited the financial statements of Gresham Technologies plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2019 which compromise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cashflow, the Company Balance Sheet, the Company Statement of Changes in Equity and notes to the Company financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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 Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the Directors' confirmation set out on page 18 in the Annual Report that they have carried out a robust assessment of the Group's emerging and principal risks and the disclosures in the Annual Report that describe the principal risks and the procedures in place to identify emerging risks and explain how they are being managed or mitigated;
- the Directors' statement set out on page 33 in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group and the Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 33 in the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key audit matters

Key audit matters ("KAM") 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, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report continued

Key audit matters continued

Key Audit Matter	How we addressed the key audit matter in the audit
Development costs As detailed in the accounting policies on page 61, development costs are recognised as an intangible asset if specific criteria have been met. Upon completion of development, the costs are amortised to the Consolidated Income Statement over a period ranging from five to thirteen years, depending on the product to which they pertain. There are a number of judgements involved in accounting for development expenditure, including whether the activities are appropriate for capitalisation in accordance with the criteria of the standard, the allocation of the development costs to a particular Clareti product and the estimated useful economic life of each product. The risk also encompasses the possibility that the development activities may be maintenance by nature or supersede costs previously capitalised. Due to the level of judgement, there is considered to be an inherent risk of management override.	We reviewed the Group's accounting policy in this area to ensure that it was in accordance with International Accounting Standard 38. We agreed a sample of capitalised costs to underlying supporting documentation, including time records to corroborate the allocation of cost between products, and checked that the five criteria for capitalisation, as required by the standard, had been met. This included gaining an understanding of the projects from the development team, as well as obtaining evidence of future economic benefits such as customer contracts and pipeline opportunities and critically assessing assumptions such as the level of non-productive time inherent in the development of each product based on factors including the product's stage of maturity. Furthermore, we specifically reviewed the nature of costs capitalised as enhancements to software available for sale, ensured that the enhancements did not supersede existing development costs and determined whether such enhancements met each of the five criteria for capitalisation under the standard. In respect of enhancements released to the market during the year, we inspected evidence of when the development projects were first available for sale by reference to communication with customers and prospective customers, Board minutes and market announcements. Additionally, for enhancements to established software, we reviewed the nature of the new releases, and resultant sales opportunities, to assess whether there was evidence of superseding previous development effort. We performed our own calculation of amortisation charges based on these dates and compared this with management's own calculations. We also challenged the amortisation rates used by management with reference to the term of sales contracts associated with each product and external benchmarking reports of companies operating in the sector, together with internal benchmarking based on legacy software. Sensitivity analysis was then performed on the amortisation rates. Key observations Based on the audit work performed we consider that development costs have been capitalised appropriately and in accordance with the Group's accounting policy.
Goodwill and intangible asset impairment risk As detailed in the accounting policies on page 61, goodwill and capitalised development costs during development are tested for impairment at least annually through comparing the recoverable amount of the cash-generating unit, based on a value-in-use calculation, to the carrying value. Furthermore, once available for use, capitalised development costs are tested for impairment where an indicator of impairment arises. Management's review found no evidence of impairment in the Clareti or other cash-generating units, nor indicators of impairment in relation to development costs. This risk is considered significant due to the level of judgement involved and the opportunity for management bias within the impairment model assumptions.	We performed a review of the Group's goodwill and intangible assets and examined for indicators of impairment. We also reviewed impairment reviews prepared by management, specifically reviewing the integrity of management's value-in-use model and, with the assistance of our valuation experts, we challenged the key inputs, being forecast growth rates, operating cash flows and the discount rate. Our audit procedures for the review of operating cash flows and forecast growth rates included, amongst others, comparing the forecast to recent financial performance and budgets approved by the Board; we used market data to independently calculate a discount rate for comparison. We also performed our own sensitivity analysis upon the key valuation inputs. Key observations Based on the procedures performed, we did not identify any material impairments.

Key audit matters continued

Key Audit Matter	How we addressed the key audit matter in the audit
Revenue and profit recognition As detailed in the accounting policies on page 61, the Group earns revenue from the sale of software licences, rendering of services, subscriptions and maintenance and solution sales. Management exercises judgement in their assessment of the stage of completion of service contracts and the unbundling of multi-element solution sales, with reference to the estimated stand-alone selling prices of the deemed performance obligations, both of which determine the recognition of revenue and profit and so present a revenue recognition risk. In line with the requirements of International Financial Reporting Standard 15, management continue to exercise judgement in determining whether performance obligations, such as software licences and support and maintenance contracts, are considered distinct; the level of consideration to be allocated to the performance obligations based on stand-alone selling prices; and whether the revenue in respect of the performance obligations is recognised at a point in time or overtime.	We reviewed in detail the revenue recognition principles applied to the significant new contracts written and performed during the year and ensured that the revenue recognition policies were in accordance with the accounting standards and the accounting policy. In particular, we checked a sample of solution sales and assessed the appropriateness of unbundling contract revenue into separate performance obligations along with any judgements in the allocation of the consideration across the performance obligations based on estimated stand-alone selling prices. We assessed this judgement through benchmarking with reference to historic contracts executed by the Group and external sources in relation to the sector. For the licence element of new contracts executed in close proximity to the year end, we obtained evidence that the software had been delivered to the customer prior to the end of the financial year. We agreed a sample of sales and, where relevant, underlying time costs to supporting contracts and other documentation, including user acceptance evidence, statements of works and time records. **Key observations** Based on the work performed, we consider that revenue and profit recognition has been recognised appropriately and is in accordance with the Group's revenue recognition accounting policy.

The only difference in Key Audit Matters when compared with the prior year is the omission of the "Acquisition of B2 S.a.R.L." This was a one-off event in 2018.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take into account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Group materiality: £110,000 (2018: £120,000)

Our Group planning materiality for the financial statements, for the current year is based on 5% of the profit before tax (2018: 5% of the result before tax), which we consider to be a key performance measure for the Group and its members in assessing financial performance.

Parent Company materiality: £60,000 (2018: £90,000)

Materiality in respect of the audit of the Parent Company was set at £60,000 (2018: £90,000) using a benchmark of 2% of total assets, limited to Component Materiality of 60% of Group materiality (2018: 2% of total assets, limited to 75% of Group materiality). We considered total assets to be the most appropriate measure for the basis of materiality as the Parent Company is primarily an investment holding company.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. On the basis of our risk assessment, together with our assessment of the Company's control environment, our judgement is that performance materiality for the financial statements should be 70% of planning materiality, namely £77,000 (2018: 65% and £78,000). Our objective in adopting this approach is to ensure that total detected and undetected audit differences do not exceed our planning materiality of £110,000 for the financial statements as a whole.

Materiality levels used for each key component ranged from £60,000 to £83,000 (2018: £60,000 to £90,000).

We agreed with the audit committee that we would report to the committee all audit differences in excess of £2,200 (2018: £2,400).We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

Independent auditor's report continued

An overview of the scope of our audit

The scope of our group audit was established by obtaining an understanding of the Group, including its control environment, and assessing the risks of material misstatement.

We obtained an understanding of the entity-level controls of the Group as a whole which assisted us in identifying and assessing risks of material misstatement due to fraud or error, as well as assisting us in determining the most appropriate audit strategy.

The Group audit team, based in the UK, performed full scope audits of the significant components in the UK and North America, comprising 56% of revenues and 38% of the profit before tax. The audits of the Asia Pacific region were performed by component auditors, BDO Australia, with the Group's Australian subsidiary being the significant component in this region.

Detailed instructions were issued and discussed with the component auditors, and these covered the significant risks (including the Group risks of material misstatement described above) that should be addressed by the audit team. The Group audit team was actively involved in directing the audit strategy of the Asia Pacific audit, reviewed in detail the findings and considered the impact of these upon the Group audit opinion.

In respect of insignificant components, we carried out review procedures in addition to the testing of significant revenue contracts in accordance with that set out above in the KAM.

87% of revenue and 100% of profit before tax was covered by full scope audits.

Capability of the audit in detecting irregularities including fraud

Based on our understanding of the Group, we considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and UK Listing Rules. We evaluated management incentives and opportunities for fraudulent manipulation of the financial statements including management override, and considered that the principal risks were related to the posting of inappropriate journal entries to improve the result before tax for the year.

We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

Procedures performed by the group audit team included:

- discussions with management regarding known or suspected instances of non-compliance with laws and regulations;
- evaluation of controls designed to prevent and detect irregularities; and
- assessed journals entries as part of our planned audit approach.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Financial Report 2019, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable (set out on page 50)** – the statement given by the Directors that they 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 performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting (set out on page 34)** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code (set out on page 31)** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of directors' responsibilities set out on page 50 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 Parent 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 Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 28 October 2010 to audit the financial statements for the year ending 31 December 2010 and subsequent financial periods. The period of total uninterrupted engagement is ten years, covering the years ending 2010 to 2019.

The audit committee have confirmed that in accordance with the requirements of the Third Country Auditor Regulations 2016, they are preparing to conduct a tender process for the year ended 31 December 2020.

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

Our audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions, we have formed.

Malcolm Thixton (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Southampton
United Kingdom
9 March 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated income statement

	Notes	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Revenue	3,4	**24,961**	19,266
Cost of sales		**(3,933)**	(3,260)
Gross profit		**21,028**	16,006
Adjusted administrative expenses		**(19,302)**	(17,222)
Adjusted operating profit/(loss)		**1,726**	(1,216)
Adjusting administrative items:			
Exceptional items	4	**(10)**	(303)
Impairment of development costs	13	**(647)**	—
Amortisation on acquired intangibles	13	**(794)**	(605)
Share-based payments	23	**(77)**	(161)
		(1,528)	(1,069)
Total administrative expenses		**(20,830)**	(18,291)
Statutory operating profit/(loss) from continuing operations	4,5	**198**	(2,285)
Share of post tax profit from joint venture	16	**66**	75
Finance revenue	3,8	**104**	19
Finance costs	8	**(65)**	(6)
Profit/(loss) before taxation from continuing operations		**303**	(2,197)
Taxation	9	**(443)**	114
Loss after taxation from continuing operations		**(140)**	(2,083)
Net gain on sale of discontinued operations	28	**1,985**	—
Profit after taxation from discontinuing operations	28	**53**	667
Profit/(loss) attributable to the Parent		**1,898**	(1,416)
Earnings per share			
Statutory		**pence**	pence
Basic earnings per share	10	**2.78**	(2.09)
Diluted earnings per share	10	**2.72**	(2.09)
Adjusted			
Basic earnings per share	10	**2.11**	(0.50)
Diluted earnings per share	10	**2.07**	(0.50)
Earnings per share – continuing operations			
Statutory			
Basic earnings per share	10	**(0.21)**	(3.07)
Diluted earnings per share	10	**(0.21)**	(3.07)
Adjusted			
Basic earnings per share	10	**2.04**	(1.50)
Diluted earnings per share	10	**1.99**	(1.50)

Consolidated statement of comprehensive income

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Profit/(loss) attributable to the Parent	**1,898**	(1,416)
Other comprehensive expenses		
Items that will or may be re-classified into profit or loss:		
Exchange differences on translating foreign operations	**(3)**	(68)
Total other comprehensive expenses	**(3)**	(68)
Total comprehensive income/(expense) for the year	**1,895**	(1,484)

Consolidated statement of financial position

	Notes	At 31 December 2019 £'000	As restated At 31 December 2018 £'000
Assets			
Non-current assets			
Property, plant and equipment	12	**387**	480
Right-of-use assets	15	**1,292**	—
Intangible assets	13	**25,575**	25,340
Interest in joint venture	16	**—**	57
Deferred tax assets	9	**489**	1,166
		27,743	27,043
Current assets			
Trade and other receivables	18	**4,978**	4,639
Income tax receivable	18	**43**	821
Other financial assets – bank deposits/restricted cash	19	**—**	278
Asset held for sale	28	**—**	74
Cash and cash equivalents	19	**9,605**	5,323
		14,626	11,135
Total assets		**42,369**	38,178
Equity and liabilities			
Equity attributable to owners of the Parent			
Called up equity share capital	22	**3,413**	3,404
Share premium account	24	**3,903**	3,830
Own share reserve	22	**(945)**	—
Other reserves	24	**536**	536
Foreign currency translation reserve	24	**(81)**	(78)
Retained earnings	24	**18,478**	16,801
Total equity attributable to owners of the Parent		**25,304**	24,493
Non-current liabilities			
Contract liabilities	20	**1,329**	486
Lease liabilities	15	**788**	—
Deferred tax liability	9	**952**	1,083
Provisions	20	**144**	59
Contingent consideration	20	**—**	67
		3,213	1,695
Current liabilities			
Trade and other payables	20	**12,976**	11,575
Lease liabilities	15	**457**	—
Income tax payable	20	**419**	5
Liabilities held for sale	28	**—**	384
Provisions	20	**—**	26
		13,852	11,990
Total liabilities		**17,065**	13,685
Total equity and liabilities		**42,369**	38,178

The financial statements were approved by the Board of Directors and authorised for issue on 9 March 2020.

On behalf of the Board

Ian Manocha
Chief Executive
9 March 2020

Tom Mullan
Chief Financial Officer
9 March 2020

Consolidated statement of changes in equity

	Notes	Share capital £'000	Share premium account £'000	Own share reserve £'000	Other reserves £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2018		3,375	3,562	—	313	(10)	18,253	25,493
Attributable loss for the period		—	—	—	—	—	(1,416)	(1,416)
Other comprehensive expenses		—	—	—	—	(68)	—	(68)
Total comprehensive expense		—	—	—	—	(68)	(1,416)	(1,484)
Exercise of share options	22	23	278	—	—	—	—	301
Share issue proceeds	22	6	—	—	223	—	—	229
Share transaction costs	22	—	(10)	—	—	—	—	(10)
Share-based payments	23	—	—	—	—	—	161	161
Dividend paid		—	—	—	—	—	(338)	(338)
At 31 December 2018 as reported		3,404	3,830	—	536	(78)	16,660	24,352
Prior year adjustment	2	—	—	—	—	—	141	141
At 31 December 2018 as restated		3,404	3,830	—	536	(78)	16,801	24,493
Effect of adoption of IFRS 16	27	—	—	—	—	—	41	41
At 1 January 2019 as restated		3,404	3,830	—	536	(78)	16,842	24,534
Attributable profit for the period		—	—	—	—	—	1,898	1,898
Other comprehensive expense		—	—	—	—	(3)	—	(3)
Total comprehensive (expense)/income		—	—	—	—	(3)	1,898	1,895
Exercise of share options	22	9	73	—	—	—	—	82
Purchase of own shares	22	—	—	(995)	—	—	—	(995)
Issue of shares held by Employee Share Ownership Trust	22	—	—	50	—	—	—	50
Share-based payments	23	—	—	—	—	—	77	77
Dividend paid	11	—	—	—	—	—	(339)	(339)
At 31 December 2019		**3,413**	**3,903**	**(945)**	**536**	**(81)**	**18,478**	**25,304**

Consolidated statement of cash flow

	Notes	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Cash flows from operating activities			
Profit/(loss) after taxation		**1,898**	(1,416)
Depreciation of property, plant and equipment	12	**266**	297
Amortisation of intangible assets	13	**2,364**	1,940
Impairment of intangible assets	13	**647**	—
Amortisation of right-of-use assets	15	**461**	—
Share-based payments	23	**77**	161
Net gain on sale of discontinued operations	28	**(1,985)**	—
Share of post tax profit from joint venture	16	**(66)**	(75)
Increase in trade and other receivables		**(243)**	(1,529)
Increase in trade and other payables		**2,239**	2,045
Movement in deferred tax provisions	9	**546**	610
Movement in provisions		**59**	2
Fair value adjustment on deferred contingent consideration		**—**	(30)
Net finance revenue/(costs)	8	**39**	(14)
Cash inflow from operations		**6,302**	1,991
Income taxes received		**1,356**	96
Income taxes paid		**(75)**	(118)
Net cash inflow from operating activities		**7,583**	1,969
Cash flows from investing activities			
Interest received	8	**37**	19
Decrease/(increase) in other financial assets – bank deposits/restricted cash		**278**	(78)
Purchase of property, plant and equipment	12	**(178)**	(188)
Proceeds from sale of property, plant and equipment		**3**	—
Net payments to acquire subsidiary undertaking		**—**	(1,947)
Proceeds from sale of discontinued operations	28	**1,675**	—
Payments to acquire intangible fixed assets	13	**(3,266)**	(2,603)
Net cash used in investing activities		**(1,451)**	(4,797)
Cash flows from financing activities			
Interest paid	8	**(17)**	(6)
Principal paid on lease liabilities	15	**(511)**	—
Dividend paid	11	**(339)**	(338)
Purchase of own shares	22	**(995)**	—
Issue of shares held by Employee Share Ownership Trust	22	**50**	—
Share issue proceeds	22	**82**	292
Net cash used in financing activities		**(1,730)**	(52)
Net increase/(decrease) in cash and cash equivalents		**4,402**	(2,880)
Cash and cash equivalents at beginning of year		**5,323**	8,280
Exchange adjustments		**(120)**	(77)
Cash and cash equivalents at end of year	19	**9,605**	5,323

1. Authorisation of financial statements and statement of compliance with International Financial Reporting Standards

Gresham Technologies plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded as a premium listing on the London Stock Exchange.

The financial statements of Gresham Technologies plc and its subsidiaries ("the Group") for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 9 March 2020 and the consolidated statement of financial position was signed on the Board's behalf by Mr I Manocha and Mr T Mullan.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2019.

The principal accounting policies adopted by the Group are set out below.

2. Accounting policies

Basis of preparation

The Group's financial statements have been prepared in accordance with IFRSs as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2019 and applied in accordance with the Companies Act 2006. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2019.

The Group's financial statements have been prepared on a historical cost basis.

The Group financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. We review our estimates and underlying assumptions on an ongoing basis and recognise revisions to accounting estimates in the period in which we revise the estimate and in any future periods affected. It is considered that all judgements have an element of estimation.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Capitalised development costs

Development costs are accounted for in accordance with IAS 38 "Intangible Assets" and costs that meet the qualifying criteria are capitalised and systematically amortised over the useful economic life of the intangible asset. Determining whether development costs qualify for capitalisation as intangible assets requires judgement, including estimates of the technical and commercial viability of the asset created and its applicable useful economic life. These estimates are continually reviewed and updated based on past experience and reviews of competitor products available in the market.

The capitalised development cost is disclosed in note 13 and the impairment review performed is disclosed in note 14.

Impairment reviews

The Group performs impairment reviews at the reporting period end to identify any intangible assets that have a carrying value that is in excess of its recoverable value. Determining the recoverability of an intangible asset requires judgement in both the methodology applied and the key variables within that methodology. Where it is determined that an intangible asset is impaired, its carrying value will be reduced to its recoverable value with the difference recorded as an impairment charge in the income statement.

The intangible asset impairment reviews are disclosed in note 14.

Sensitivity analysis has been performed for the key assumptions: discount rate, growth rate and revenue growth rates to determine when impairment would occur.

Revenue and profit recognition

Revenue and the associated profit are recognised from sale of software licences, rendering of services, subscriptions and maintenance and solution sales. When software licences are sold, we must exercise judgement as to when the appropriate point in time has passed at which all performance obligations for that software licence have been performed, at which point revenue in relation to the stand-alone sales price of the software licence is recognised. Whilst in most cases performance obligations clearly follow the commercial and contractual arrangement we have agreed with the customer, in some cases the revenue streams are combined as within an overall commercial arrangement. Such combined circumstances require judgement to assess performance obligations associated with each revenue stream and further judgement as to when and how such performance obligations have been discharged in order to recognise the associated revenue. The estimation of the stage of completion, along with the distinct performance obligations of multi-element solution sales, represents a risk of incorrect revenue recognition.

Where licences are delivered to customers on commencement of the contract, the licence fee is recognised upon completion of performance obligations and the remaining revenue for support and maintenance is subsequently recognised over the contract term.

In considering the distinct performance obligations of multi-element solutions, instances may arise whereby the substance of the performance obligations differs from the legal form of the contract. In such circumstances, judgement is required to assess the estimated stand-alone selling price of the constituent elements and recognise revenue accordingly. In such instances we must first determine whether:

- the satisfaction of a performance obligation with a stand-alone selling price is operationally, technically, functionally separate, and deliverable separately, from other deliverables to the customer; or
- the satisfaction of a performance obligation with a stand-alone selling price is not operationally, technically, functionally or deliverable separate from other deliverables to the customer.

Notes to the financial statements continued

2. Accounting policies continued

Basis of preparation continued

Revenue and profit recognition continued

If the agreement is determined to be under the first category, then the stand-alone sales price of each element of a typical software, support and maintenance is determined, unbundled and recognised appropriately for each element. If the agreement is determined to be under the second category then the bundled fee is recognised as the bundled services are delivered over the term of the contract.

We must also exercise judgement in setting the stand-alone selling prices of each element of our bundled contracts. We have concluded that the annual stand-alone sales price of our standard support and maintenance offering will always be equal to 20% of the five-year software licence fee, or of the total combined five-year licence, support and maintenance fees, the stand-alone sales price of the licence will be 50% and the support and maintenance 50%. This ratio is also well aligned to the proportion of development costs capitalised in proportion to our annual support and maintenance costs.

Useful economic life of capitalised development costs

The assessment of the useful economic life of capitalised development costs is estimated by management based on past experience and reviews of competitor products available in the market.

Contingent consideration

Contingent consideration relating to acquisitions is included based on management estimates of the most likely outcome. Those judgements include the forecasting of a number of different outcomes against the performance targets and estimating a probability and risk of each outcome before arriving at a risk weighted value of contingent consideration.

Basis of consolidation

The Group financial statements consolidate the financial statements of Gresham Technologies plc and the entities it controls (its subsidiaries) drawn up to 31 December each year.

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the reporting date. Investees are classified as subsidiaries where the Company has control, which is achieved where the Company has the power to govern the financial and operating policies of an investee entity, exposure to variable returns from the investee and the ability to use its power to affect those variable returns. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets and liabilities are initially recognised at their fair values at acquisition date. The results of acquired entities are included in the consolidated statement of comprehensive income from the date at which control is obtained and are deconsolidated from the date control ceases.

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency by applying an approximation of the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the statement of financial position date. All differences are taken to the income statement; in the instance where the differences on monetary assets and liabilities form part of the Group's net investment in foreign operations, they are moved to the statement of other comprehensive income on consolidation and held in a separate component of equity until the disposal of the net investment, at which time they are recognised in profit or loss.

The assets and liabilities of foreign operations are translated into Sterling at the rate of exchange ruling at the statement of financial position date. Income and expenses are translated at weighted average exchange rates for the year. The resulting exchange differences are taken to the statement of other comprehensive income and recognised directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions, on consolidation; all assets and liabilities of overseas subsidiaries which report in a different functional currency are retranslated using the closing rate.

Goodwill

Business combinations on or after 1 January 2004 have been accounted for under IFRS 3 using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the consolidated statement of financial position as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised immediately in the income statement. Goodwill recognised as an asset as at 31 December 2003 is recorded at its carrying amount under UK GAAP and is not amortised. Any goodwill asset arising on the acquisition of equity accounted entities is included within the cost of those entities.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management, usually at geographical segment level or statutory company level as the case may be. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement.

The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it. Goodwill arising on acquisitions prior to 31 December 1997 remains set off directly against reserves even if the related investment becomes impaired or the business is disposed of.

Intangible assets

Acquired intangibles

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are subject to the same recognition tests as development costs, and if met, they are capitalised.

2. Accounting policies continued

Intangible assets continued

Acquired intangibles continued

Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that they may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset. The useful economic lives of separately acquired software is deemed to be ten years and the useful economic life of customer relations is between six and eight years; the charge in the income statement is made within the amortisation for acquired intangibles.

Internally generated intangibles

The Group has capitalised development costs in respect of the Clareti platform which has been assessed against the required capitalisation criteria and a remaining useful economic life of 13 years reflecting the maturity and availability of comparable solutions in our markets. The Group has capitalised development costs in respect of individual Clareti applications which have been individually assessed against the required capitalisation criteria and been individually assigned useful economic lives reflecting the maturity and availability of comparable applications in our markets. These useful economic lives are assessed to be between four and fourteen years and is recognised in the income statement within amortisation of development costs.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Purchased intangibles with finite lives, including purchased patents, know-how, trademarks, licences and distribution rights, are capitalised at cost and amortised on a straight-line basis over their estimated useful lives. The estimated useful life of these intangible assets range between two and ten years depending on their nature. Amortisation charges in respect of intangible assets are included in administrative expenses.

Joint ventures

Joint ventures are entities over which activities we have joint control, under a contractual agreement. The Group financial statements include the Group's share of profit or loss arising from joint ventures which is accounted for under the equity accounting method. Related party transactions with Group joint ventures primarily comprise support and maintenance services. The arrangement is a separate legal entity and legal ownership and control are equal with all other parties; there are no significant judgements required to be made.

Research and development costs

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Capitalised product development expenditure is stated at cost less accumulated amortisation and impairment losses. Product development costs that have been capitalised are amortised from the time the product or related enhancement becomes available for use as part of a version release issued to customers on a straight-line basis over five to fifteen years depending on the useful economic life of the asset assessed. During the period of development, the asset is tested for impairment annually.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all property, plant and equipment on a straight-line basis over its expected useful life as follows:

- Fixtures and fittings – over the term of the underlying property lease.
- Plant and equipment – over lives ranging between one and ten years to write down the assets to their residual value based on current prices for an asset of the age the plant and equipment is expected to be at the end of its useful life.

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the income statement in the period of derecognition.

Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for leases of low value assets; and leases with a duration of twelve months or less.

IFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see note 27. The following policies apply subsequent to the date of initial application, 1 January 2019.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes: amounts expected to be payable under any residual value guarantee; the exercise price of any purchase option granted in favour of the Group if it is reasonably certain to assess that option; and any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Notes to the financial statements continued

2. Accounting policies continued

Leases continued

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for: lease payments made at or before commencement of the lease; initial direct costs incurred; and the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the stand-alone price for the additional rights of use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount; and
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

For contracts that both convey a right to the Group to use an identified asset and require services to be provided to the Group by the lessor, the Group has elected to account for the entire contract as a lease, i.e. it does allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that any non-financial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, an appropriate valuation model is used incorporating industry standard valuation multiples or other available fair value indicators. Impairment losses on continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. Impairment charges on goodwill are considered permanent and cannot be reversed. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance policy, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Financial assets

Assets/liabilities held for sale

Assets/liabilities held for sale and discontinued operations are classified as held for sale when the carrying amount will be recovered through a sale transaction rather than through continuing use. The classification is only made if it is highly probable that the assets/liabilities or operations are available for immediate sale in their present condition. The sale is expected to be completed within one year. Assets/liabilities held for sale are measured at the lower of the carrying amount preceding classification as held for sale and fair value less costs to sell.

Impairment of financial assets

The Group assesses at each statement of financial position date whether a financial asset or group of financial assets are impaired.

2. Accounting policies continued

Financial assets continued

Financial assets

The Group's financial assets are all classified within the amortised cost category. The Group's accounting policy for this category is as follows:

Assets carried at amortised cost

These assets arise principally from the provision of sales and services of software and support and maintenance to customers (e.g. trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions current and non-current trade receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within cost of sales in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Impairment provisions from related parties and loans to related parties are recognised based on a forward-looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve-month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

The Group's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and – for the purpose of the statement of cash flows – bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated statement of financial position.

Cash and cash equivalents

Cash and short-term deposits in the consolidated statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flow, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the statement of financial position date.

Research and development tax credits are recognised on an accruals basis and recorded as a credit in the taxation line of the income statement.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date. Deferred income tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Group to make a single net payment.

Income tax is charged or credited to other comprehensive income or directly to equity if it relates to items that are credited or charged to other comprehensive income or directly to equity. Otherwise, income tax is recognised in the income statement.

Purchases and sales of financial assets measured at fair value through other comprehensive income are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the fair value through other comprehensive income reserve.

Notes to the financial statements continued

2. Accounting policies continued

Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired.

The Group's accounting policy for other financial liabilities (which include trade payables and other short-term monetary liabilities), are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Other financial liabilities include the following items:

- Bank borrowings and the Group's redeemable preference shares are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.
- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

Pensions

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the Directors. In the case of final dividends, this is when approved by the shareholders at the AGM.

Revenue recognition

Revenue, comprising sales of products and services to third parties, is recognised to the extent that satisfaction of contractual performance obligations has occurred and it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the stand-alone selling price of the performance obligation delivered, excluding discounts, rebates, VAT and other sales taxes. There is no material impact of variable consideration or financing components across all revenue streams.

The following criteria must also be met before revenue is recognised:

Software licences

Revenue on software licences is recognised when all of the following criteria are met:

- persuasive evidence of an arrangement exists, such as a signed contract or purchase order;
- satisfaction of the contracted performance obligations has been met, which in the case of software licences typically means delivery has occurred and no future elements to be delivered are essential to the functionality of the delivered element;
- a stand-alone selling price of the performance obligation can be measured; and
- collectability is probable.

Provision of services

Revenue and profits from the provision of professional services, such as implementation, development, training and consultancy, are delivered under a time and materials type contract and are therefore recognised over time and based upon number of hours worked. On occasion fixed price services contracts are entered into, upon which revenue is recognised on a percentage-of-completion basis, as costs incurred relate to total costs for the contract, when the outcome of a contract can be estimated reliably. Determining whether a contract's outcome can be estimated reliably requires management to exercise judgement, whilst calculation of the contract's profit requires estimates of the total contract costs to completion. Cost estimates and judgements are continually reviewed and updated as determined by events or circumstances.

Revenue from this revenue stream creates contract assets through yet to be billed time input and expenses at the reporting date.

Support and maintenance

Revenue from support and maintenance services is recognised rateably over the period of the contract. Revenue is recognised when the provision of support and maintenance and completion of the performance obligations are carried out which is deemed to be evenly throughout the term of the contract. The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

Revenue from this revenue stream creates contract liabilities through the invoicing of services prior to performance obligations being performed.

Solution sales

Contracts for the delivery of solutions with multiple elements, typically involving software licences, rendering of services, support, maintenance and infrastructure are unbundled where possible and revenue is recognised based on the accounting policy applicable to each constituent part, for example the stand-alone selling price of the software licence is recognised at a point in time, upon satisfaction of the performance obligations associated to that licence, and the stand-alone selling price of software maintenance and support is recognised over the period over which the service is provided. A typical example of such a scenario is where we sell a subscription licence but are not contracted to provide the hosted infrastructure to deploy the software upon – the customer deploys the software on-premise or on a cloud environment for which we are not responsible.

We have many instances where unbundling is not possible; this is where a bundled element cannot technically or operationally be provided without another. The typical example of this is when the customer contracts our hosted software offering, Clareti as a Service ("CaaS"), under which the customer cannot gain benefit from the software without the Group also providing, and continuing to provide, the hosted infrastructure upon which software is deployed. Where objective unbundling of a solution is not possible, revenue is recognised over the period of the contractual service provision.

2. Accounting policies continued

Revenue recognition continued

Interest income

Interest income is recognised as finance revenue as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Share-based payments

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

Fair value of awards with a market condition-based performance target is determined by an external valuer using a Monte Carlo simulation pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

Fair value of awards with a financial result-based performance target is determined by management using the Black Scholes pricing model.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other vesting conditions are satisfied.

At each statement of financial position date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous statement of financial position date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

The share-based payment expense is recognised as a staff cost and the associated credit entry is made against equity.

Employee Share Ownership Trust ("ESOT")

The Company is deemed to have control of its ESOT therefore the trust is included within the consolidated financial statements. The ESOT investment in the Company's shares is deducted from equity in the consolidated statement of financial position. The shares are valued at the average purchase price.

Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

Changes in accounting policies

New standards, interpretations and amendments effective from 1 January 2019

New standards impacting the Group that will be adopted in the financial statements for the year ended 31 December 2019, and which have given rise to changes in the Group's accounting policies are:

IFRS 16 "Leases"

The impact of this standard is disclosed in note 27.

Other new standards and amended standards and interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these are as follows, which are all effective for the period beginning 1 January 2020:

- IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors;"
- IFRS 3 "Business Combinations;" and
- Revised Conceptual Framework.

The Group is currently assessing the impact of these new accounting standards and amendments.

Prior year adjustments

On a review for IFRS 15 purposes of certain additional licensed software annually renewable revenue contracts entered into in Australia, it came to light that an element of subscription license revenue should be allocated to the annual software licence fees and accounted for up front. This adjustment relates to a limited number of subscription license contracts recognised as at transition to IFRS 15 on 1 January 2018 and in the prior year 2018, for which previously the annual renewal revenue had been accounted for as maintenance and support contracts with revenue recognised rateably over the period of the contract. Where these contracts included annual software licences and maintenance and support services revenue should have been recognised with 50% at the inception of the contract on delivery of the annual software license and 50% recognised rateably over the period of the contract in accordance with the Group's accounting policies.

As a result, the opening IFRS 15 transition adjustment to increase retained earnings at 1 January 2018 and the revenue recognised during 2018 have been understated but not to a material extent. However, these differences have cumulatively had a material impact on the statement of financial position as at 31 December 2018, therefore retained earnings have been increased by £141,000 from £16,660,000 to £16,801,000 and contract liabilities due less than one year have decreased by £141,000 from £8,211,000 to £8,070,000.

There was no impact on the income statement.

Notes to the financial statements continued

3. Revenue

Revenue disclosed in the income statement is analysed as follows:

	Notes	2019 £'000	2018 £'000
Provision of software and services		24,961	19,266
Finance revenue	8	104	19
Revenue from continuing operations		25,065	19,285
Revenue from discontinued operations	28	64	755
Total revenue		25,129	20,040

The Group has disaggregated revenue into various categories in the following table which is intended to:

- depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic data; and
- enable users to understand the relationship with the revenue segment information provided in note 4.

2019	Clareti Solutions £'000	Other Solutions £'000	Contracting Services £'000	Total £'000
Non-recurring software revenue (software licences)	718	300	—	1,018
Recurring software revenue (annually recurring software licences and support and maintenance)	10,362	3,099	—	13,461
Rendering of services	4,409	679	5,394	10,482
	15,489	4,078	5,394	24,961

Timing of revenue recognition	£'000	£'000	£'000	£'000
Annually recurring – at a point in time	2,386	—	—	2,386
Rateably recognised – over contract period	12,385	3,778	5,394	21,557
Non-annually recurring – at a point in time	718	300	—	1,018
	15,489	4,078	5,394	24,961

2018	Clareti Solutions £'000	Other Solutions £'000	Contracting Services £'000	Total £'000
Non-recurring software revenue (software licences)	1,221	70	—	1,291
Recurring software revenue (annually recurring software licences and support and maintenance)	6,699	2,927	—	9,626
Rendering of services	3,890	288	4,171	8,349
	11,810	3,285	4,171	19,266

Timing of revenue recognition	£'000	£'000	£'000	£'000
Annually recurring – at a point in time	573	—	—	573
Rateably recognised – over contract period	10,016	3,215	4,171	17,402
Non-annually recurring – at a point in time	1,221	70	—	1,291
	11,810	3,285	4,171	19,266

3. Revenue continued

Contract balances

	Contract assets 2019 £'000	Contract assets 2018 £'000	Contract liabilities 2019 £'000	Contract liabilities 2018 £'000
At 1 January	**3,809**	4,467	**(8,556)**	(7,742)
Cumulative catch-up adjustments	**—**	(142)	**—**	280
Transfers in the period from contract assets to trade receivables	**(3,809)**	(4,325)	**—**	—
Amounts included in contract liabilities that were recognised as revenue during the period	**—**	—	**8,070**	7,150
Acquired on acquisition of B2 Group	**—**	—	**—**	(570)
Excess of revenue recognised over cash (or rights to cash) being recognised during the period	**3,829**	3,809	**—**	—
Cash received in advance of performance and not recognised as revenue during the period	**—**	—	**(9,670)**	(7,674)
	3,829	3,809	**(10,156)**	(8,556)

Contract assets (services performed but not yet invoiced and prepaid contract costs) and contract liabilities (support and maintenance contracts invoiced with performance obligations yet to be satisfied for revenue recognition) are included within "trade and other receivables" and "trade and other payables" respectively on the face of the statement of financial position. They arise from the Group's support and professional services operations, which enter into contracts that can take in excess of twelve months, which results in cumulative payments received from customers at each statement of financial position date which do not necessarily equal the amount of revenue recognised on the contracts and relate to performance obligations yet to be satisfied. Amounts due to be recognised in more than one year are £1,329,000 (2018: £486,000). Trade receivables included in the above as at 1 January 2018 were £3,964,000. Contract assets relate to contracts with an expected duration of less than one year from inception.

4. Segment information

The segmental disclosures reflect the analysis presented on a monthly basis to the chief operating decision maker of the business, the Chief Executive Officer and the Board of Directors.

In addition, the split of revenues and non-current assets by the UK and overseas have been included as they are specifically required by IFRS 8 "Operating Segments".

For management purposes, the Group is organised into the following reportable segments:

- Clareti Solutions – supply of solutions predominantly to the finance and banking markets across Asia Pacific, EMEA and North America. Includes both software and services. These solutions include:
  - Clareti Transaction Control: a high-performance enterprise data control solution for data validation and real-time transaction matching and reconciliation.
  - Clareti Accounts Receivable Management: a receivables management application with automated matching, reconciliation and allocation to reduce the order-to-cash cycle.
  - Clareti Integration Studio (formerly Clareti 24 Integration Objects): integration software to enable rapid adoption of financial message standards and transform complex data types.
  - Clareti Multi-Bank: real-time visibility of cash and stock portfolios across multiple institutions giving treasurers absolute confidence of their exact positions at all times.
- Other Solutions – supply of a range of well-established solutions to enterprise-level customers in a variety of end markets.
- Contracting Services – supply of IT contracting services to one banking customer

Notes to the financial statements continued

4. Segment information continued

Transfer prices between segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated on consolidation.

			Other			
2019	Notes	Clareti Solutions £'000	Solutions £'000	Contracting Services £'000	Adjustments, central overheads and elimination £'000	Consolidated £'000
Revenue						
External customer		15,489	4,078	5,394	—	24,961
Total revenue	3	15,489	4,078	5,394	—	24,961
Cost of sales		(1,089)	(1,185)	(1,669)	—	(3,943)
Cost of sales capitalised as intangible asset		10	—	—	—	10
Gross profit		14,410	2,893	3,725	—	21,028
		93%	71%	69%	—	84%
Contracted administrative expenses		—	—	(3,062)	—	(3,062)
Gross profit after contracting fully costed		14,410	2,893	663	—	17,966
		93%	71%	12%	—	72%
Adjusted administrative expenses		(16,097)	(143)	—	—	(16,240)
Adjusted operating (loss)/profit		(1,687)	2,750	663	—	1,726
Adjusting items:						
Exceptional costs	4	—	—	—	(10)	(10)
Impairment of development costs	13	—	—	—	(647)	(647)
Amortisation of acquired intangibles	13	—	—	—	(794)	(794)
Share-based payments	23	—	—	—	(77)	(77)
Adjusting administrative expenses		—	—	—	(1,528)	(1,528)
Statutory operating (loss)/profit from continuing operations		(1,687)	2,750	663	(1,528)	198
Share of post tax profit from joint venture	16					66
Finance revenue	8					104
Finance costs	8					(65)
Profit before taxation from continuing operations						303
Taxation	9					(443)
Loss after taxation from continuing operations						(140)
Net gain on sale of discontinued operations						1,898
Profit after taxation from discontinued operations						53
Profit after taxation						1,930
Segment assets						42,369
Segment liabilities						(17,065)

4. Segment information continued

2018	Notes	Clareti Solutions £'000	Other Solutions £'000	Other Contracting Services £'000	Adjustments, central and eliminations £'000	Consolidated £'000
Revenue						
External customer		11,810	3,285	4,171	—	19,266
Total revenue	3	11,810	3,285	4,171	—	19,266
Cost of sales		(860)	(844)	(1,589)	—	(3,293)
Cost of sales capitalised as intangible asset		33	—	—	—	33
Gross profit		10,983	2,441	2,582	—	16,006
		93%	74%	62%	—	83%
Contracted administrative expenses		—	—	(2,039)	—	(2,039)
Gross profit after contracting fully costed		10,983	2,441	543	—	13,967
		93%	74%	13%	—	72%
Adjusted administrative expenses		(14,969)	(214)	—	—	(15,183)
Adjusted operating (loss)/profit		(3,986)	2,227	543	—	(1,216)
Adjusting items:						
Exceptional costs	4	—	—	—	(303)	(303)
Amortisation of acquired intangibles	13	—	—	—	(605)	(605)
Share-based payments	23	—	—	—	(161)	(161)
Adjusting administrative expenses		—	—	—	(1,069)	(1,069)
Statutory operating (loss)/profit		(3,986)	2,227	543	(1,069)	(2,285)
Share of post tax loss from joint venture	16					75
Finance revenue	8					19
Finance costs	8					(6)
Loss before taxation from continuing operations						(2,197)
Taxation	9					114
Loss after taxation from continuing operations						(2,083)
Profit after taxation from discontinuing operations						667
Loss after taxation						(1,416)
Segment assets						38,178
Segment liabilities						(13,826)

The Group has a customer relationship with one banking customer which is considered by the Directors to be individually significant; revenue from this relationship exceeded 10% of the Group's revenue, totalling £10,892,000 (2018: £8,574,000) which includes low-margin contracting revenue of £5,394,000 (2018: £4,171,000) which falls predominantly within the Other Contracting Services segment.

Adjusting administrative items

Operating performance is analysed excluding exceptional items, share-based payment charges, amortisation from intangibles and impairments of development costs which is consistent with the way in which the Board reviews the financial results of the Group. This is also consistent with the manner in which similar small-cap LSE (or for AIM) listed companies present their results and how we understand the investment community to assess performance, with this particularly being the case for growth shares in which the recurring cash performance is considered important.

The adjusting administrative items are:

	2019 £'000	2018 £'000
Acquisition and associated integration costs	**—**	213
Negative goodwill arising on acquisition	**(21)**	—
Fair value adjustment to acquisition contingent consideration and tax cost	**—**	14
Advisory fees for establishment of joint venture and all-staff incentive scheme	**31**	61
Staff costs (recruitment and termination costs)	**—**	15
Exceptional items	**10**	303
Impairment of development costs	**647**	—
Amortisation on acquired intangibles	**794**	605
Share-based payments	**77**	161
Total adjusting administrative items	**1,528**	1,069

Notes to the financial statements continued

4. Segment information continued

Adjusting administrative items continued

The negative goodwill incurred in the year was due to the acquisition of the remaining 50% of the share capital in GMS Loan Technologies. As the purchase price was lower than the net assets acquired the negative goodwill created is disclosed within exceptional items as a non-recurring item.

During the year the Group incurred exceptional legal and tax advisory costs associated with implementing a new all-staff incentive scheme of £31,000 (2018: £61,000). These costs are not expected to occur in the future.

Development costs of £647,000 (2018: £nil) were impaired during the year relating to the termination of a joint venture arrangement, these costs are considered to be significant and non-recurring.

Due to the amount and nature of amortisation of acquired intangibles and share-based payments both costs were treated as an adjusting administrative item.

Adjusted EBITDA – continuing operations

Adjusted EBITDA – continuing operations is disclosed within the financial statements to show the underlying performance of the Group on a consistent basis and to aid understanding of the financial performance during the year.

	Notes	2019 £'000	2018 £'000
Profit/(loss) before tax		**303**	(2,197)
Adjusting items:			
Amortisation of intangibles	13	**2,364**	1,941
Impairment of development costs	13	**647**	—
Depreciation of property, plant and equipment	12	**266**	297
Profit on disposal of property, plant and equipment		**—**	(3)
Amortisation of right-to-use assets	15	**461**	—
IFRS 16 interest charge	8	**48**	—
Finance revenue	8	**(104)**	(19)
Interest payable	8	**4**	—
EBITDA		**3,989**	19
Exceptional items	4	**10**	303
Share-based payments	23	**77**	161
Adjusted EBITDA – continuing operations		**4,076**	483
Property expenses equivalent to IFRS 16		**—**	420
Adjusted EBITDA – continuing operations after IFRS 16 application		**4,076**	903

Adjusted EBITDA is not an IFRS measure or not considered to be a substitute for or superior to any IFRS measures. It is not directly comparable to other companies.

Geographic information

	2019 £'000	2018 £'000
Revenues from external customers (by destination)		
UK	**6,485**	4,286
EMEA	**3,698**	2,733
United States	**2,005**	2,097
North America	**207**	265
Australia	**11,117**	8,664
Asia Pacific	**1,449**	1,221
	24,961	19,266

	2019 £'000	2018 £'000
Non-current assets		
UK	**25,877**	21,103
EMEA	**632**	4,041
North America	**17**	17
Asia Pacific	**728**	716
	27,254	25,877

Non-current assets consist of property, plant and equipment, right-of-use assets and intangible assets.

EMEA includes revenue from external customers located primarily in Germany, France, Luxembourg and Switzerland.

Asia Pacific includes revenue from external customers located primarily in Malaysia and Singapore.

5. Group operating profit/(loss)

The Group operating profit/(loss) is stated after charging:

	Notes	2019 £'000	2018 £'000
Research and development costs written off		**1,127**	1,186
Impairment of development costs	13	**647**	—
Amortisation of deferred development costs recognised in administration expenses	13	**1,502**	1,259
Total research and development costs		**3,276**	2,445
Depreciation of property, plant and equipment	12	**266**	297
Amortisation of right-to-use assets	15	**461**	—
Amortisation of intangible assets (excluding development costs)	13	**862**	682
Total depreciation, impairment and amortisation expense		**1,589**	979
Employee benefit expenses	7	**15,929**	13,567
Net foreign currency differences – losses		**99**	26
Operating lease payments			
Minimum lease payments		**—**	421
		—	421

6. Auditor's remuneration

The Group paid the following amounts to its auditor in respect of the audit of the financial statements and for other services provided to the Group.

	2019 £'000	2018 £'000
Audit fees		
Audit of the Group financial statements and associated company	**24**	22
Other fees to the auditor – auditing the accounts of subsidiaries	**73**	57
– audit of acquisition	**—**	9
	97	88
Non-audit fees		
Corporate taxation compliance services	**—**	8
Accountancy fees	**19**	16
	19	24

7. Staff costs and Directors' emoluments

The following disclosures in respect of the consolidated income statement items are presented in respect of continuing operations only, with comparatives restated where appropriate to exclude discontinuing operations from these disclosures.

Staff and Director costs

31 December 2019	Income statement £'000	Development capitalised £'000	Total excluding contracting £'000	Contracting costs expensed £'000	Discontinued operations £'000	Total £'000
Wages and salaries	**9,189**	**2,360**	**11,549**	**2,422**	**6**	**13,977**
Social security costs	**741**	**232**	**973**	**166**	**1**	**1,140**
Other pension costs	**501**	**81**	**582**	**230**	**—**	**812**
	10,431	**2,673**	**13,104**	**2,818**	**7**	**15,929**

31 December 2018	Income statement £'000	Development capitalised £'000	Total excluding contracting £'000	Contracting costs expensed £'000	Discontinued operations £'000	Total £'000
Wages and salaries	8,590	1,797	10,387	1,396	37	11,820
Social security costs	828	185	1,013	86	5	1,104
Other pension costs	436	75	511	132	—	643
	9,854	2,057	11,911	1,614	42	13,567

Included in wages and salaries is a total expense of share-based payments of £77,000 (2018: £161,000) all of which arises from transactions accounted for as equity-settled share-based payment transactions.

Notes to the financial statements continued

7. Staff costs and Directors' emoluments continued

Staff and Director costs continued

The average monthly number of employees during the year was made up as follows:

	2019	2018
Management	9	10
Sales and administration	27	29
Technical	103	99
Total	139	138
Contracting services	13	14

Directors' emoluments

	2019 £'000	2018 £'000
Remuneration	581	595
Social security costs	87	77
Bonuses	99	7
Pension	41	21
Share-based payments	38	97
	846	797
Number of Directors accruing benefits under defined contribution schemes	2	2

Share-based payments in respect of Directors include the cumulative effect of updates to the assumptions used within the Black Scholes model that calculates the share-based payment charge recorded.

8. Finance revenue and costs

	2019 £'000	2018 £'000
Finance revenue		
Bank interest receivable	37	19
Release of contingent consideration	67	—
Total finance revenue	104	19
Finance costs		
Notional interest on lease liabilities	48	—
Other interest payable	4	—
Other bank charges	13	6
Total finance costs	65	6

There was no finance revenue or costs from discontinued operations in either 2019 or 2018.

9. Taxation

The following disclosures in respect of the consolidated income statement items are presented in respect of continuing operations only, with comparatives restated where appropriate to exclude discontinuing operations from these disclosures.

There is no tax charge in respect of discontinuing operations for the year ended 31 December 2019 (2018: £nil).

9. Taxation continued

Tax on profit/(loss) on ordinary activities

Tax charge/(credit) in the income statement

	2019 £'000	2018 £'000
Current income tax		
Overseas tax charge – adjustment to previous years	**186**	22
Overseas tax charge – current year	**279**	43
UK corporation tax credit – adjustment to previous years	**(568)**	(789)
UK corporation tax credit – current year	**—**	—
Total current income tax	**(103)**	(724)
Deferred income tax		
Release of deferred tax asset	**546**	601
Tax rate change adjustments	**—**	9
Total deferred income tax	**546**	610
Total charge/(credit) in the income statement	**443**	(114)

Reconciliation of the total tax charge

The tax charge/(credit) in the income statement for the year is lower than the standard rate of corporation tax in the UK of 19.0% (2018: 19.0%). The differences are reconciled below:

	2019 £'000	2018 £'000
Profit/(loss) before taxation	**2,341**	(1,530)
Accounting profit/(loss) multiplied by the UK standard rate of corporation tax of 19.0% (2018: 19.0%)	**445**	(291)
Expenses not deductible for tax purposes	**101**	63
Differences in tax rates	**160**	3
Overseas tax credit – adjustment to previous years	**121**	22
Research and development credit – previous year	**(568)**	(789)
Research and development enhanced relief	**(1,262)**	(1,007)
Movement in unrecognised losses carried forward	**1,339**	893
Movement in unrecognised temporary differences	**227**	219
Movement in unrecognised fixed asset temporary differences	**242**	162
Temporary difference on share-based payments	**(231)**	720
Temporary movement on acquired intangibles	**(131)**	(118)
Tax rate change adjustments	**—**	9
Total tax charge/(credit) reported in the income statement	**443**	(114)

Unrecognised tax losses

The Group has tax losses that are available indefinitely for offset against future taxable profits of the companies in which the losses arose as analysed below. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group and they have arisen in subsidiaries that have been loss making for some time.

The tax effect of exchange differences recorded within the consolidated statement of comprehensive income is a credit of £1,000 (2018: credit of £13,000).

Temporary differences associated with Group investments

At 31 December 2019, there was no recognised deferred tax liability (2018: £nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future.

Notes to the financial statements continued

9. Taxation continued

Deferred tax

Recognised deferred tax asset

	2019 £'000	2018 £'000
1 January	1,166	1,894
Movement in the period: – Tax losses	(886)	232
– Employee share award schemes	228	(788)
– Qualifying research and development expenditure	(157)	(206)
– Fixed asset timing differences	138	48
Impact of change in tax rate	—	(14)
31 December	489	1,166
Comprising:		
Tax losses	2,353	3,239
Employee share award schemes	364	136
Qualifying research and development expenditure	(2,566)	(2,409)
Fixed asset timing differences	338	200
31 December	489	1,166

A deferred tax asset of £546,000 (2018: £610,000) has been recognised in the year in respect of tax losses and capital allowances in excess of depreciation and other temporary differences.

Deferred tax liability

	2019 £'000	2018 £'000
Intangible asset acquired on acquisition	952	1,083
Comprising:		
1 January	1,083	596
Recognised in the income statement	(131)	(118)
Acquisition of intangibles in subsidiaries	—	605
31 December	952	1,083

Unrecognised potential deferred tax assets

The deferred tax not recognised in the consolidated statement of financial position is as follows:

	2019 £'000	2018 £'000
Temporary differences	5	(8)
Tax losses	603	501
Unrecognised deferred tax asset	608	493
Gross temporary differences unrecognised	31	(47)
Gross tax losses unrecognised	2,811	2,342
Gross temporary timing differences unrecognised	2,842	2,295

Future tax rates

The Finance Act 2016 which was approved on 15 September 2016 reduces the main rate of corporation tax to 17% from 1 April 2020.

The Group's recognised and unrecognised deferred tax assets in the UK, Australian and US subsidiaries have been shown at the rates in the following table, being the substantively enacted rates in these countries.

	2019 %	2018 %
UK	17/19	17/19
Australia	30	30
US	27	40

10. Earnings

Earnings per share

Basic earnings per share amounts are calculated by dividing net profit or loss for the year attributable to owners of the Parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit or loss attributable to owners of the Parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares except when such dilutive instruments would reduce the loss per share.

The following reflects the earnings and share data used in the basic and diluted earnings per share computations:

	2019	2018
Basic weighted average number of shares	**68,168,602**	67,772,715
Employee share options – weighted (note 23)	**1,499,805**	2,649,668
Diluted weighted average number of shares	**69,668,407**	70,422,383

Including discontinued operations	Notes	2019 £'000	2018 £'000
Adjusted earnings attributable to owners of the Parent – including discontinued operations		**1,441**	(347)
Adjusting items:			
Exceptional items	4	**(10)**	(303)
Amortisation of acquired intangibles	13	**(794)**	(605)
Impairment of development costs	13	**(647)**	—
Net gain on sale of discontinued operations	29	**1,985**	—
Share-based payments	23	**(77)**	(161)
Statutory earnings attributable to owners of the Parent		**1,898**	(1,416)

Earnings per share – including discontinued operations		
Statutory	**Pence**	Pence
Basic earnings per share	**2.78**	(2.09)
Diluted earnings per share	**2.72**	(2.09)
Adjusted		
Basic earnings per share	**2.11**	(0.50)
Diluted earnings per share	**2.07**	(0.50)

Continuing operations	Notes	2019 £'000	2018 £'000
Adjusted earnings attributable to owners of the Parent		**1,388**	(1,014)
Adjusting items:			
Exceptional items	4	**(10)**	(303)
Amortisation of acquired intangibles	13	**(794)**	(605)
Impairment of development costs	13	**(647)**	—
Share-based payments	23	**(77)**	(161)
Statutory earnings attributable to owners of the Parent		**(140)**	(2,083)

Earnings per share – continuing operations		
Statutory	**Pence**	Pence
Basic earnings per share	**(0.21)**	(3.07)
Diluted earnings per share	**(0.21)**	(3.07)
Adjusted		
Basic earnings per share	**2.04**	(1.50)
Diluted earnings per share	**1.99**	(1.50)

During the year ended 31 December 2019, share options granted under the 2010 Share Option Plans were exercised and the Group issued 167,024 (2018: 462,500) ordinary shares accordingly (ranking pari passu with existing shares in issue). See note 22 for further details.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of this Annual Financial Report 2019.

Notes to the financial statements continued

11. Dividends paid and proposed

The final dividend for the year ended 31 December 2018 was approved at the Company Annual General Meeting on 2 May 2019 and paid on 16 May 2019 of 0.5 pence per share, equating to a total of £339,000. The Company will be proposing a final dividend for approval at the AGM for the year ended 31 December 2019 of 0.75 pence per share.

12. Property, plant and equipment

2019	Fixtures and fittings £'000	Property, plant and equipment £'000	Total £'000
Cost			
At 1 January	**752**	**1,243**	**1,995**
Additions	**21**	**157**	**178**
Disposals	**(31)**	**(311)**	**(342)**
Exchange adjustment	**(9)**	**(13)**	**(22)**
At 31 December	**733**	**1,076**	**1,809**
Depreciation and impairment			
At 1 January	**(580)**	**(935)**	**(1,515)**
Charge for year	**(69)**	**(197)**	**(266)**
Disposals	**31**	**308**	**339**
Exchange adjustment	**9**	**11**	**20**
At 31 December	**(609)**	**(813)**	**(1,422)**
Net carrying amount			
At 31 December	**124**	**263**	**387**
At 1 January	**172**	**308**	**480**

2018	Fixtures and fittings £'000	Property, plant and equipment £'000	Total £'000
Cost			
At 1 January	745	1,301	2,046
Additions	58	130	188
Disposals	(68)	(198)	(266)
Additions acquired as part of a business combination	23	14	37
Exchange adjustment	(6)	(4)	(10)
At 31 December	752	1,243	1,995
Depreciation and impairment			
At 1 January	(547)	(909)	(1,456)
Charge for year	(85)	(212)	(297)
Disposals	68	195	263
Additions acquired as part of a business combination	(22)	(14)	(36)
Exchange adjustment	6	5	11
At 31 December	(580)	(935)	(1,515)
Net carrying amount			
At 31 December	172	308	480
At 1 January	198	392	590

13. Intangible assets

2019	Development costs £'000	Patents and licences £'000	Separately identified intangibles on acquisition: Software £'000	Separately identified intangibles on acquisition: Customer relationships £'000	Goodwill £'000	Total £'000
Cost						
At 1 January	**20,086**	**881**	**6,275**	**1,218**	**2,962**	**31,422**
Additions	**3,259**	**7**	**—**	**—**	**—**	**3,266**
Disposals	**—**	**(15)**	**—**	**—**	**—**	**(15)**
Exchange adjustment	**—**	**(1)**	**—**	**—**	**(19)**	**(20)**
At 31 December	**23,345**	**872**	**6,275**	**1,218**	**2,943**	**34,653**
Amortisation and impairment						
At 1 January	**(4,033)**	**(676)**	**(850)**	**(273)**	**(250)**	**(6,082)**
Charge for year	**(1,502)**	**(68)**	**(627)**	**(167)**	**—**	**(2,364)**
Impairment	**(647)**	**—**	**—**	**—**	**—**	**(647)**
Eliminated on disposal	**—**	**15**	**—**	**—**	**—**	**15**
At 31 December	**(6,182)**	**(729)**	**(1,477)**	**(440)**	**(250)**	**(9,078)**
Net carrying amount						
At 31 December	**17,163**	**143**	**4,798**	**778**	**2,693**	**25,575**
At 1 January	**16,053**	**205**	**5,425**	**945**	**2,712**	**25,340**

2018	Development costs £'000	Patents and licences £'000	Separately identified intangibles on acquisition: Software £'000	Separately identified intangibles on acquisition: Customer relationships £'000	Goodwill £'000	Total £'000
Cost						
At 1 January	17,503	923	3,067	866	2,323	24,682
Additions	2,583	20	—	—	—	2,603
Additions acquired as part of business combination	—	—	3,208	352	656	4,216
Disposals	—	(63)	—	—	—	(63)
Exchange adjustment	—	1	—	—	(17)	(16)
At 31 December	20,086	881	6,275	1,218	2,962	31,422
Amortisation and impairment						
At 1 January	(2,774)	(661)	(383)	(135)	(250)	(4,203)
Charge for year	(1,259)	(77)	(467)	(138)	—	(1,941)
Eliminated on disposal	—	63	—	—	—	63
Exchange adjustment	—	(1)	—	—	—	(1)
At 31 December	(4,033)	(676)	(850)	(273)	(250)	(6,082)
Net carrying amount						
At 31 December	16,053	205	5,425	945	2,712	25,340
At 1 January	14,729	262	2,684	731	2,073	20,479

Development costs

Development costs are internally generated and are capitalised at cost. These intangible assets have been assessed as having a finite life and are amortised on a straight-line basis over their useful lives of four to fourteen years. These assets are tested for impairment where an indicator of impairment arises and annually prior to them being made available for use.

For the years ended 31 December 2019 and 31 December 2018 the Group has capitalised development costs in respect of individual Clareti applications which have been individually assessed against the required capitalisation criteria and been individually assigned useful economic lives reflecting the maturity and availability of comparable applications in our markets. These useful economic lives are assessed to be between five and fifteen years.

Notes to the financial statements continued

13. Intangible assets continued

Development costs continued

No changes have been made to development costs capitalised in prior years in respect of the Clareti platform, which continue to be amortised on a systematic basis over the existing useful economic life of thirteen years.

A joint venture partnership was set up in 2016 with Mount Street to develop a new software application, Clareti Loan Control. This partnership was terminated during the year, therefore the development costs capitalised for this application were fully impaired. As a result, an impairment charge of £647,000 was charged to the income statement.

Patents and licences

Patents and licences are the third party costs incurred in seeking and obtaining protection for certain of the Group's products and services. These intangible assets have been assessed as having a finite life and are being amortised evenly over their useful economic life, to a maximum of ten years. Patents have a remaining life of three years and licences have a remaining life of one to ten years.

Separately identified acquired intangibles

Separately identified intangibles acquired through business combinations represent software and customer relationships which arose through the acquisition of C24 Technologies Limited in October 2016 and B2 Group in July 2018.

Software is amortised over its useful economic life, which is deemed to be ten years.

Customer relationships acquired in the year are amortised over their useful economic life, which is deemed to be eight years for C24 Technologies Limited acquisition and six years for B2 Group.

Goodwill

Goodwill arose on the acquisition of our Asia Pacific real-time financial solutions business, C24 Technologies Limited and B2 Group. It is assessed as having an indefinite life and is assessed for impairment at least annually.

14. Impairment of goodwill and intangibles

Goodwill

Goodwill acquired through business combinations has been allocated to one individual cash-generating unit ("CGU"), the lowest level at which goodwill is monitored for internal management purposes, for impairment testing.

Carrying amount of goodwill

	2019 £'000	2018 £'000
Clareti Solutions CGU	**2,693**	2,712

Development costs (finite life)

Development costs are reviewed for impairment on an annual basis prior to being made available for use, or sooner where an indicator of impairment exists. The following table summarises the net book value of development costs:

	2019 £'000	2018 £'000
Clareti Solutions CGU	**17,163**	16,053

During the year capitalised development costs of £647,000 were fully impaired. These development costs related to Clareti Loan Control which was being developed as part of a joint venture arrangement which was terminated during the year.

Clareti Solutions cash-generating unit

The recoverable amount of this CGU has been determined based on a value-in-use calculation. To calculate this, cash flow projections are based on financial budgets approved by the Board for 2019, which are extrapolated for five years and extended beyond five years, which the Board considers appropriate given the long-term opportunities that exist in the Asia Pacific, EMEA and North American regions. The discount rate applied to cash flow projections is 15% (2018: 15%) and cash flows beyond the five-year period are extrapolated using a 2% growth rate (2018: 2%) that is a prudent approximation to the long-term average growth rate for the region in which the CGU operates. The recoverable amount of the Clareti Solutions CGU supports the value of goodwill on the statement of financial position.

Key assumptions used in the value-in-use calculations

Key assumptions are made by management based on past experience taking into account external sources of information around gross margins, growth rates and discount rates for similar businesses.

The calculation of value in use is most sensitive to assumptions around:

- operating cash flows, based on financial budgets for 2020 approved by the Board;
- growth rates, based on internally estimated growth rates for the market and business offerings; and
- the discount rate, based on the pre-tax weighted average cost of capital of the Group.

14. Impairment of goodwill and intangibles continued

Development costs (finite life) continued

Sensitivity to changes in assumptions

A change in our key assumption in respect of operating cash flows could cause the carrying value of the goodwill or development costs to exceed the recoverable amount, resulting in an impairment charge.

If any one of the following changes were made to the above key assumptions, the carrying amount and recoverable amount would be equal.

Pre-tax discount rate	Increase from 15% to 27%
Growth rate beyond year 5	Reduction from 2% to -31%
Revenue growth	Reduction from 30% average over five years to 13% average

We are confident the assumptions in respect of operating cash flows remain appropriate. Where the operating cash flows incorporate products or solutions that will be sold in an existing known market, past experience is used as a guide to the level of sales achievable, growth rates and associated margins. Where the operating cash flows relate to products or solutions that will be sold into a new or emerging market, past experience with similar products or solutions is combined with relevant information from external market sources, such as competitor pricing and discussions with potential customers, in arriving at the level of sales achievable, growth rates and associated margins.

15. Leases

IFRS 16 was adopted on 1 January 2019 without restatement of comparative figures. Note 27 includes an explanation of the effect of the change in accounting policy. Details of the new accounting policy are included within note 2.

All leases are accounted for by recognising a right-of-use asset and a lease liability except for leases of low value assets or leases with a duration of twelve months or less. The expense relating to short-term leases of twelve months or less was £236,000. The Group held no low value asset leases.

Right-of-use assets are initially measured at the amount of lease liability reduced for any lease incentives received and increased for initial direct costs incurred and any provision contractually required. Right-of-use assets are amortised on a straight-line basis over the period of the lease.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term with the discount rate determined by reference to the Group's incremental external borrowing rate, 3.1%. Subsequent to the initial measurement lease liabilities are increased as a result of interest charged and reduced for lease payments made.

The Group leases a number of office buildings where payments are fixed until the contracts expire. The Group also leases motor vehicles where payments can be increased if actual mileage is higher than the contracted rates.

Right-of-use assets

	Land and buildings £'000	Motor vehicles £'000	Total £'000
Cost			
At 1 January	**2,324**	**155**	**2,479**
Exchange adjustment	**(41)**	**(9)**	**(50)**
At 31 December	**2,283**	**146**	**2,429**
Amortisation			
At 1 January	**(666)**	**(34)**	**(700)**
Charge for year	**(427)**	**(34)**	**(461)**
Exchange adjustment	**18**	**6**	**24**
At 31 December	**(1,075)**	**(62)**	**(1,137)**
Net carrying amount			
At 31 December	**1,208**	**84**	**1,292**
At 1 January	**1,658**	**121**	**1,779**

Lease liabilities

	Land and buildings £'000	Motor vehicles £'000	Total £'000
At 1 January 2019	1,615	123	1,738
Cash items:			
Lease payments	(474)	(37)	(511)
Non-cash items:			
Interest expense	44	3	47
Foreign exchange movements	(24)	(5)	(29)
At 31 December 2019	**1,161**	**84**	**1,245**

Notes to the financial statements continued

15. Leases continued

Lease liabilities continued

	2019 £'000	2018 £'000
Due between 0 and 3 months	123	—
Due between 3 and 12 months	334	—
Due less than one year	457	—
Due more than one year	788	—
Lease liabilities	1,245	—

16. Equity accounted investees

The Group held a 50% interest in GMS Loan Technologies Limited until 30 September 2019; at that date the remaining 50% of the ordinary share capital was acquired by the Group for a cash consideration of £1. The Group acquired assets of £42,000 comprising the residual cash balance and other receivables. The transaction was not considered material for the purposes of presenting a business combination in accordance with IFRS 3 and the negative goodwill arising has been recognised in profit and loss within administrative expenses.

The Group's share of profit after tax in the period to 30 September 2019 was £66,000 (2018: £75,000).

The carrying value of the investment is reconciled as follows:

	2019 £'000	2018 £'000
1 January	57	(18)
Share of post tax profit of joint ventures	66	75
Share of termination revenue eliminated on consolidation	(102)	—
Negative goodwill written off to the income statement	(21)	—
31 December	—	57

The difference between the carrying value of the investment and the consideration for the remaining 50% of the ordinary share capital of £21,000 has been written off to the income statement as negative goodwill.

Related party transactions with joint ventures

	Transaction value		Balance outstanding	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Support and maintenance services provided to joint venture	290	165	—	52

Below is a summary of financial information for equity accounted investees, adjusted for the percentage ownership held by the Group:

For the period to 30 September 2019:

	Ownership	Revenue £'000	Expenses £'000	Operating profit £'000	Taxation £'000	Profit after tax £'000
Income statement						
GMS Loan Technologies Limited	50%	110	(44)	66	—	66

2018	Ownership	Current assets £'000	Current liabilities £'000	Net assets £'000
Net assets				
GMS Loan Technologies Limited	50%	138	(85)	53

	Ownership	Revenue £'000	Expenses £'000	Operating profit £'000	Taxation £'000	Profit after tax £'000
Income statement						
GMS Loan Technologies Limited	50%	170	(83)	87	(12)	75

17. Investments

Details of Group undertakings

Details of the investments in which the Group holds 20% or more of the nominal value of any class of share capital are as follows:

Name of subsidiary company	Registered address	Holding (shares)	Proportion of voting rights and shares held	Nature of business
Gresham Technologies (UK) Limited	Aldermary House, London, England	Ordinary	100%	Software solutions
Gresham Technologies (Solutions) Limited	Aldermary House, London, England	Ordinary	100%	Software solutions
C24 Technologies Limited[4]	Aldermary House, London, England	Ordinary	100%	Software solutions
Gresham Technologies (Australia) Pty Limited[3]	Level 6, 1 Pacific Highway, North Sydney, Australia	Ordinary	100%	Software solutions
Gresham Technologies (TDI) Limited[1]	Aldermary House, London, England	Ordinary	100%	Software solutions
Gresham Technologies (Malaysia) SDN BHD[1]	Level 7, Menara Milenium, Jalan Damanlela, Malaysia	Ordinary	100%	Software solutions
Gresham Technologies (Singapore) Pte. Limited	138 Cecil Street, Cecil Court, Singapore	Ordinary	100%	Software solutions
Gresham Technologies (US) Inc[1,3]	11 Park Place, New York, USA	Ordinary	100%	Software solutions
Gresham Enterprise Storage Inc[3]	11 Park Place, New York, USA	Ordinary	100%	Software solutions
Gresham Technologies (Holdings) SARL	6E route de Treves, L-2633, Luxembourg	Ordinary	100%	Holding company
Gresham Technologies (Luxembourg) S.A.[1]	6E route de Treves, L-2633, Luxembourg	Ordinary	100%	Software solutions
GMS Loan Technologies Limited	Aldermary House, London, England	Ordinary	100%	Software solutions
Gresham Consultancy Services Limited[2]	Aldermary House, London, England	Ordinary	100%	Dormant
Gresham Tech Limited[2]	Aldermary House, London, England	Ordinary	100%	Dormant
Gresham Telecomputing Limited[2]	Aldermary House, London, England	Ordinary	100%	Dormant
Circa Business Systems Limited[2]	Aldermary House, London, England	Ordinary	100%	Dormant
Cheerkeep Limited[2]	Aldermary House, London, England	Ordinary	100%	Dormant

(1) Held by a subsidiary undertaking.

(2) Subsidiary exempt from UK audit under section 480a of the Companies Act 2006.

(3) Subsidiary has no requirement for a local statutory audit.

(4) Subsidiary exempt from UK audit under section 479a of the Companies Act 2006.

18. Trade and other receivables

	2019 £'000	2018 £'000
Trade receivables	**3,344**	3,231
Accrued income	**166**	446
Prepaid commission	**445**	132
Contract assets	**3,955**	3,809
Prepayments	**856**	830
Other receivables	**167**	—
	4,978	4,639

	2019 £'000	2018 £'000
Income tax	**43**	821

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18. Trade and other receivables continued

Trade receivables are denominated in the following currencies:

	2019 £'000	2018 £'000
Sterling	1,165	1,512
Euro	347	334
US Dollar	345	547
Singapore Dollar	106	26
Canadian Dollar	41	—
South African Rand	26	—
Australian Dollar	1,310	808
Malaysian Ringgit	4	4
Total trade receivables	3,344	3,231

Trade receivables are non-interest bearing and are generally on 30–60 day terms and are shown net of a provision for impairment.

At 31 December, the analysis of trade receivables that were past due but not impaired is as follows:

			Past due but not impaired				
	Total £'000	Due not impaired £'000	<30 days £'000	30–60 days £'000	60–90 days £'000	90–120 days £'000	>120 days £'000
2019	3,344	1,479	1,430	167	40	3	225
2018	3,231	2,101	801	184	5	140	—

The Group's customers primarily comprise national and international banks, Government bodies and substantial private and public companies. As a result, the credit quality of trade receivables that are neither past due nor impaired has been assessed by the Directors to be relatively high, taking account of a low historical experience of bad debts and relatively good ageing profiles.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped based on similar credit risk and ageing. The contract assets have similar risk characteristics to the trade receivables for similar types of contracts.

The expected loss rates are based on the Group's historical credit losses experienced over the three year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers; such factors include but are not limited to gross domestic product ("GDP"), unemployment rate and inflation rates. The Group does not anticipate any expected losses and therefore have not provided for any impairment.

19. Cash and cash equivalents

	2019 £'000	2018 £'000
Cash at bank and in hand	9,605	5,323

Cash at bank earns interest at both fixed-term rates and floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is the same as stated above.

The Group had £nil (2018: £278,000) of restricted cash held separately in respect of lease obligations.

For the purpose of the consolidated statement of cash flow, cash and cash equivalents comprises cash at bank and in hand and short-term deposits.

20. Trade, other payables, provisions and financial liabilities

Trade and other payables

Trade payables, other payables and contract liabilities are non-interest bearing.

Current

	2019 £'000	As restated 2018 £'000
Trade payables	**1,591**	684
Other payables	**2,558**	2,821
Contract liabilities	**8,827**	8,070
	12,976	11,575

	2019 £'000	2018 £'000
Income tax payable	**419**	5

Non-current

	2019 £'000	2018 £'000
Contract liabilities	**1,329**	486

Provisions

	Property provisions	
	2019 £'000	2018 £'000
At 1 January		
– Current	**26**	67
– Non-current	**59**	18
	85	85
Amounts provided during the year	**59**	17
Amounts utilised in the year	**—**	(17)
At 31 December		
– Current	**—**	26
– Non-current	**144**	59
	144	85

The provisions relate to the Group's property portfolio and the resulting lease liabilities, comprising end-of-lease dilapidation costs and empty property costs.

Contingent consideration

	2019 £'000	2018 £'000
At 1 January		
– Current	**—**	356
– Non-current	**67**	—
	67	356
Contingent consideration released during the year	**(67)**	—
Arising on the acquisition of B2 Group	**—**	67
Adjustment due to lower achievement of performance obligations relating to C24 Technologies Limited	**—**	(30)
Amounts paid during the year	**—**	(326)
At 31 December		
– Current	**—**	—
– Non-current	**—**	67
	—	67

Notes to the financial statements continued

21. Financial instruments

The Group is exposed through its operations to credit risk, interest rate risk, capital risk, liquidity risk and currency risk.

The Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements. There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Categories of financial assets and liabilities

Set out below is an analysis by category of the Group's financial assets and liabilities that are carried in the financial statements (there is no material difference between the carrying amounts and fair values):

2019	Fair value through profit and loss £'000	Amortised cost £'000	Total carrying amount £'000
Financial assets			
Trade receivables	—	3,344	3,344
Contract assets	—	1,033	1,033
Cash and cash equivalents	—	9,605	9,605
	—	13,982	13,982
Financial liabilities			
Trade payables	—	1,591	1,591
Other payables	—	2,558	2,558
	—	4,149	4,149

2018	Fair value through profit and loss £'000	Amortised cost £'000	Total carrying amount £'000
Financial assets			
Trade receivables	—	3,231	3,231
Contract assets	—	578	578
Cash deposits	—	278	278
Cash and cash equivalents	—	5,323	5,323
	—	9,410	9,410
Financial liabilities			
Trade payables	—	684	684
Other payables	—	2,033	2,033
Contingent consideration	67	—	67
	67	2,717	2,784

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped based on similar credit risk and ageing. The contract assets have similar risk characteristics to the trade receivables for similar types of contracts.

The expected loss rates are based on the Group's historical credit losses experienced over the three-year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers.

As at 31 December 2019 and 31 December 2018 the Group held no foreign exchange instruments.

Objectives, policies and strategies

The Group's objective is to finance the business through management of existing liquidity, focusing on working capital acceleration to cash and converting illiquid assets to liquid assets and, ultimately, cash. Investments in non-current assets have been made with the benefit of research and development tax credits taken as cash.

The Group's policy towards using financial instruments is to manage credit, liquidity and currency exposure risk without exposing the Group to undue risk or speculation. The policy is kept under review by the Directors according to the Group's foreign exchange and treasury policy.

Risk management

The risks arising from the Group's operations and financial instruments are explained below.

Credit management

The Group monitors exposure to credit risk on an ongoing basis. The risk of financial loss due to a counterparty failure to honour its obligations arises principally in relation to transactions where the Group provides solutions and services on deferred terms and where it invests or deposits surplus cash.

21. Financial instruments continued

Credit management continued

Group policies are aimed at minimising such losses, and require that deferred terms are granted only to customers who demonstrate an appropriate payment history and satisfy creditworthiness procedures. Individual exposures are monitored with customers subject to credit limits to ensure that the Group's exposure to provisions for bad debts is not significant. Solutions and services may be sold on a cash-with-order basis to mitigate credit risk. Bad debt provision insurance is not carried.

Performance of individual businesses is monitored at both operating unit and Group level allowing the early identification of major risks and reducing the likelihood of an unmanaged concentration of credit risk.

Cash investments are only allowed in liquid securities with major financial institutions that satisfy specific criteria. The maximum credit risk exposure at the statement of financial position date is represented by the carrying value of financial assets. There are no significant concentrations of credit risk.

Interest rate risk

The Group has limited exposure to interest rate risk since it has no bank borrowings and interest receivable on cash deposits does not form a material part of Group income.

Capital risk

The Group defines its capital as the Group's total equity and manages capital based on the level of net cash held. Its objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, to provide an adequate return to investors based upon the level of risk undertaken, to have available the necessary financial resources to allow the Group to invest in areas that may deliver future benefit to investors and to maintain sufficient financial resources to mitigate risks and unforeseen events.

In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets to provide additional capital.

Financial liabilities – by maturity

The table below summarises the remaining contractual maturity for the Group's financial liabilities, based on contractual undiscounted payments:

2019	Between 0 and 3 months £'000	Between 3 and 12 months £'000	Between one and two years £'000	Between two and five years £'000
Trade payables	**1,591**	**—**	**—**	**—**
Other payables	**2,558**	**—**	**—**	**—**
Lease liabilities	**114**	**343**	**410**	**378**
	4,263	**343**	**410**	**378**

2018				
Contingent consideration	—	—	67	—

All current liabilities are expected to fall due within one year of the statement of financial position date at their carrying amount.

Liquidity risk

The Group's liquidity risk falls within the following major categories:

- Trade receivables – a significant element of the Group's liquidity is tied up in working capital, which primarily comprises trade receivables. The settlement risk associated with these assets comprises both credit risk (the risk that the counterparty will not settle at all) and liquidity risk (the risk that the counterparty will not settle on time).
- Non-current assets – a significant element of the Group's liquidity is tied up in tangible fixed assets. For those assets required in the business for day to day operations, the Group considers the use of finance lease arrangements to reduce the amount of liquidity tied up in such assets. The Group keeps its investment in fixed assets under review and actively considers converting such assets to more liquid assets.
- Currency risk – this risk is discussed below.

The Group monitors and controls liquidity through the following key controls:

- weekly cash and overdue trade receivables are reported to the Executive Board;
- cash forecasts are maintained;
- foreign exchange risks are hedged where significant; and
- credit control is operated locally with Group oversight.

Where appropriate, discounts are offered for early payment by customers and finance lease and deferred payment arrangements are considered to retain or improve liquidity.

Notes to the financial statements continued

21. Financial instruments continued

Currency risk

The Group has exposures to the following currencies: US Dollar, Australian Dollar, Euro, Malaysian Ringgit, Canadian Dollar and South African Rand.

Currency exposure arises through intra-group loans and trading balances throughout all Group locations. Natural hedging is employed, to the extent possible, to minimise net exposures; however, where significant exposures arise outside of intra-group trading, it is Group policy to enter into formal hedging arrangements where these can be shown to be effective.

At 31 December 2019, the Group had no foreign currency forward contracts (2018: none).

Currency exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the functional currency of the operating unit involved. In general, all overseas operating units trade and hold assets and liabilities in their functional currency.

An analysis of trade receivables by currency is included in note 18.

Sensitivities

The following table details the Group's sensitivities to a change in Sterling exchange rates against the respective foreign currencies. The sensitivities represent management's assessment of the effect on monetary assets of the possible changes in foreign exchange rates, which for 2019 and 2018 take account of the potential fluctuations seen in the most recent periods. The sensitivity analysis of the Group's exposure to foreign currency risk at the year end has been determined based on the assumption that the change is effective throughout the financial year and all other variables remain constant. The impact of translating the net assets of foreign operations into Sterling is excluded from the sensitivity analysis.

A positive number indicates an increase in profit after taxation and other components of equity where Sterling weakens against the respective currencies.

2019	Net foreign currency financial assets £'000	Increase/decrease in exchange rates	Effect on profit before tax £'000
Euro	**616**	**+20%**	**(103)**
		-20%	**154**
Australian Dollar	**4,646**	**+20%**	**(774)**
		-20%	**1,162**
US Dollar	**1,618**	**+20%**	**(270)**
		-20%	**404**
Canadian Dollar	**50**	**+20%**	**(8)**
		-20%	**13**
Malaysian Ringgit	**223**	**+20%**	**(37)**
		-20%	**56**
Singapore Dollar	**112**	**+20%**	**(19)**
		-20%	**28**
South African Rand	**26**	**+20%**	**(4)**
		-20%	**6**

2018	Net foreign currency financial assets £'000	Increase/decrease in exchange rates	Effect on profit before tax £'000
Euro	690	+20%	(115)
		-20%	172
Australian Dollar	2,131	+20%	(355)
		-20%	533
US Dollar	1,348	+20%	(225)
		-20%	338
Canadian Dollar	47	+20%	(8)
		-20%	12
Malaysian Ringgit	160	+20%	(27)
		-20%	40
Singapore Dollar	172	+20%	(29)
		-20%	43

The Group has no material exposure to interest rate sensitivities; however, in addition to the year-end risk quantified we remain susceptible to the changes on foreign exchange rates on our future currency cash inflows and outflows which although are notable, are mitigated through the use of forward exchange contracts from time to time and are not anticipated to materially affect the earnings in the future periods.

22. Issued share capital

Ordinary shares allotted, called up and fully paid

	Number	Nominal value £'000
At 1 January 2018	67,492,497	3,375
Exercise of share options (note 23)	462,500	23
Share issue	134,440	6
At 31 December 2018	68,089,437	3,404
Exercise of share options (note 23)	167,021	9
At 31 December 2019	**68,256,458**	**3,413**

The Company's ordinary share capital consists of individual shares having a nominal value of 5 pence each.

During the year ended 31 December 2019, share options granted under the 2010 Share Option Plans were exercised and the Group issued 167,021 (2018: 462,500) ordinary shares accordingly (ranking pari passu with existing shares in issue).

	Number	Exercise price (pence)	Share premium £'000
April 2019	72,500	28.0	17
September 2019	94,521	64.2	56
	167,021		**73**

At 31 December 2019 and 2018 there were outstanding options granted to acquire ordinary shares in the Company. See note 23 for further details.

There are no preference shares in issue (2018: none).

An explanation of the Group's capital management process and objectives is set out in the discussion of capital management in the Strategic Report and capital risk disclosures in note 21.

Shares held by Employee Share Ownership Trust ("ESOT")

	£'000	Number
At 1 January 2019	—	—
Purchase of own shares	995	1,029,202
Issue of shares	(50)	(52,606)
At 31 December 2019	**945**	**976,596**

The shares held by the ESOT are expected to be issued under share option contracts. The shares are held at the average purchase price.

23. Share-based payments

The following disclosures are in respect of both the Company and the Group.

The grant of all options and awards is made by the remuneration committee and such grants involve equity settlement. In granting executive share options the remuneration committee has regard to both the participant's level of responsibility within the Group and to individual and Group performance.

Share Option Schemes 2010

The Share Option Schemes 2010 were approved by shareholders on 30 December 2010, with amendments subsequently approved by shareholders on May 2012 and February 2015. The schemes consist of:

- the Gresham Technologies plc Enterprise Management ("EMI") Incentive Plan 2010;
- the Gresham Technologies plc Unapproved Share Option Plan 2010; and
- the Gresham Technologies plc Non-Employee Share Option Plan 2010.

As its name implies, the EMI Plan operates as an enterprise management incentive scheme complying with the EMI Code and accordingly being entitled to certain beneficial tax treatment.

The Unapproved Plan enables the remuneration committee to grant share options in excess of the limits applicable under the EMI Code and/or to employees of the Group who do not qualify for EMI treatment.

The Non-Employee Plan enables the remuneration committee to grant share options to persons whose services are made available to the Group without an employment relationship.

The remuneration committee is responsible for administering the Share Option Schemes 2010, and may grant options to acquire ordinary shares to any employees and Directors of the Group, and retains discretion to impose exercise performance conditions as appropriate. Options are granted free of charge and are non-transferable.

Notes to the financial statements continued

23. Share-based payments continued

Share Option Schemes 2010 continued

The exercise price per ordinary share is determined by the remuneration committee but will not be less than 110% of the middle market price for the dealing day immediately preceding the date of grant of the relevant option.

Options may normally be exercised only on or after the third anniversary of the date of grant subject to completion of any relevant performance criteria, save to the extent that the remuneration committee in its discretion declares any other period for exercise and will lapse on cessation of such employment, save again to the extent the remuneration committee in its discretion allows it to remain exercisable for such period following the cessation as it may determine.

Exercise is permitted in conjunction with a takeover or similar transaction and in such circumstances the vesting period does not apply. In the event of a takeover, an option holder may, by agreement with the acquirer, exchange their options for options over shares in the acquiring Company.

At 31 December 2019, 22 participants held awards under this scheme (2018: 28).

Outstanding options to subscribe for ordinary shares of 5 pence at 31 December 2019, including those noted in the Directors' Remuneration Report, are as follows:

	2019 Number	WAEP (pence)	2018 Number	WAEP (pence)
Share Option Schemes 2010				
Outstanding at 1 January	**4,740,021**	**86**	4,852,521	65
Granted during the year	**175,000**	**108**	350,000	227
Forfeited during the year	**(250,000)**	**(206)**	—	—
Exercised during the year	**(167,021)**	**(49)**	(462,500)	(65)
Outstanding at 31 December	**4,498,000**	**81**	4,740,021	86
Exercisable at 31 December	**3,938,000**	**68**	4,055,021	67
Weighted average remaining contractual life (years)	**3.68**		4.61	

During the year 167,021 options were exercised during the period when the Company share price was 89.5 pence (72,500 options) and 111.5 pence (94,521 options).

No price is payable on award of share options.

Outstanding options and awards to subscribe for ordinary shares of 5 pence at 31 December 2019, including those noted in the Directors' Remuneration Report showing the range of exercise prices and dates, are as follows:

	Number of share options	Date of grant	Exercise price £	Date first exercisable	Expiry date	Cash receivable if exercised £
Share Option Schemes 2010	1,900,000	31-Dec-10	0.2805	31-Dec-13	31-Dec-20	532,950
	38,000	05-Aug-11	0.5803	05-Aug-14	05-Aug-21	22,051
	85,000	23-May-12	0.6105	23-May-15	23-May-22	51,893
	45,000	15-Aug-12	0.6850	15-Aug-15	15-Aug-22	30,825
	270,000	01-Aug-13	0.9630	01-Aug-16	01-Aug-23	260,010
	50,000	07-Oct-13	1.3230	07-Oct-16	07-Oct-23	66,150
	1,500,000	01-Jun-15	1.1057	01-Jun-18	01-Jun-25	1,658,550
	50,000	21-Jun-16	1.0945	21-Jun-19	21-Jun-26	54,725
	140,000	20-Mar-17	1.7352	20-Mar-20	20-Mar-27	242,928
	45,000	28-Nov-17	2.1505	28-Nov-20	28-Nov-27	96,773
	200,000	14-Mar-18	2.2715	14-Mar-21	14-Mar-28	454,300
	100,000	28-Mar-19	0.9720	28-Mar-22	28-Mar-29	97,200
	75,000	25-Oct-19	1.2210	25-Oct-22	25-Oct-29	91,575
	4,498,000					**3,659,930**

23. Share-based payments continued

Share Option Schemes 2010 continued

Outstanding options to subscribe for ordinary shares of 5 pence at 31 December 2018, including those noted in the Directors' Remuneration Report showing the range of exercise prices and dates, are as follows:

	Number of share options	Date of grant	Exercise price £	Date first exercisable	Expiry date	Cash receivable if exercised £
Share Option Schemes 2010	1,972,500	31-Dec-10	0.2805	31-Dec-13	31-Dec-20	553,286
	38,000	05-Aug-11	0.5803	05-Aug-14	05-Aug-21	22,051
	94,521	06-Apr-12	0.6424	06-Apr-15	06-Apr-22	60,720
	85,000	23-May-12	0.6105	23-May-15	23-May-22	51,893
	45,000	15-Aug-12	0.6850	15-Aug-15	15-Aug-22	30,825
	270,000	01-Aug-13	0.9630	01-Aug-16	01-Aug-23	260,010
	50,000	07-Oct-13	1.3230	07-Oct-16	07-Oct-23	66,150
	1,500,000	01-Jun-15	1.1057	01-Jun-18	01-Jun-25	1,658,580
	50,000	21-Jun-16	1.0945	21-Jun-19	21-Jun-26	54,725
	50,000	29-Nov-16	1.2434	29-Nov-19	29-Nov-26	62,172
	140,000	20-Mar-17	1.7352	20-Mar-20	20-Mar-27	242,928
	50,000	19-Oct-17	2.2550	19-Oct-20	19-Oct-27	112,750
	45,000	28-Nov-17	2.1505	28-Nov-20	28-Nov-27	96,773
	350,000	14-Mar-18	2.2715	14-Mar-21	14-Mar-28	795,025
	4,740,021					4,067,888

The fair value of equity-settled share options granted by the Share Option Schemes 2010 is estimated as at the date of grant using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. In all cases, the exercise price is at least 110% of the market price on the day prior to the date of grant.

The following table lists the range of inputs to the model used for the grants made during the year:

Vesting date	**25 Oct 22**	28 Mar 22
Expiry date (number of years after grant)	**10**	10
Exercise price	**£1.22**	£0.97
Share price at valuation	**£1.11**	£0.88
Vested options' expected life	**5.8 years**	5.8 years
Volatility	**30%**	30%
Dividend yield	**0%**	0%
Risk free rate	**1.0%**	1.0%
Impact of continued employment conditions	**15%**	15%

Vesting of options is reliant on achievement of any relevant performance conditions set by the remuneration committee, which typically take the form of sales-based targets.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

Notes to the financial statements continued

23. Share-based payments continued

Deferred Share Bonus Plan 2018

On 11 December 2017, shareholders approved the Group's plans for a new all-staff long-term incentive scheme. The Deferred Share Bonus Plan will operate in conjunction with the annual cash bonus scheme currently operated by the Gresham Group. A percentage of each participating employee's net annual bonus entitlement will continue to be paid in cash with the remaining amount of the bonus being paid to the trustee of a newly established employee benefit trust which will have been constituted to acquire existing issued ordinary shares and facilitate the Deferred Share Bonus Plan. These bonus-related shares will be beneficially owned by each participant but held by the trustee as its nominee.

At the same time, a corresponding matching award will be made by the Company, entitling the participant to receive, at nil cost, an entitlement to further ordinary shares. These awards will vest subject to the following conditions:

- the related bonus shares being retained for a specified period;
- any relevant performance targets being met; and
- the participant remaining in employment with the Gresham Group until the end of the specified retention period.

Due to the establishment of the employee benefit trust, which will acquire existing issued ordinary shares, the Deferred Share Bonus Plan will be non-dilutive to existing shareholders above the levels permitted by the Investment Association's remuneration guidelines.

On 21 March 2019 175,717 share options were granted at nil cost with a two-year vesting period; the options expire March 2029.

The fair value of the share options granted by the Deferred Share Bonus Plan 2018 is estimated at the date of grant using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the range of inputs to the model used for the grants made during the year:

Vesting date	**21 March 21**
Expiry date (number of years after grant)	**10**
Exercise price	**£0.05**
Share price at valuation	**£0.90**
Vested options' expected life	**5.8 years**
Volatility	**30.0%**
Dividend yield	**0%**
Risk free rate	**1.0%**
Impact of continued employment conditions	**30%**

The expected life of the option is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other feature of options granted were incorporated into the measurement of fair value.

Share-based payments

The expense recognised in the income statement for all equity-settled share-based payments in respect of employee services received is as follows:

	2019 £'000	2018 £'000
Expense recognised in respect of share-based payments	**77**	161

24. Reserves

Share capital

The balance classified as share capital represents the nominal value arising from the issue of the Company's equity share capital, comprising 5 pence ordinary shares.

During the year ended 31 December 2019, share options granted under the 2010 Share Option Plans were exercised and the Group issued 167,021 (2018: 462,500) ordinary shares accordingly (ranking pari passu with existing shares in issue). See note 22 for further details.

Share premium

The balance classified as share premium represents the premium arising from the issue of the Company's equity share capital, comprising 5 pence ordinary shares, net of share issue expenses. There are restrictions on the use of the share premium account. It can only be used for bonus issues, to provide for the premium payable on redemption of debentures, or to write off preliminary expenses, or expenses of, or commissions paid on, or discounts allowed on, the same issues of shares or debentures of the Company.

Own shares

Weighted average cost of own shares held in trust by the ESOT.

Other reserves

The balance classified as other reserves comprises a special reserve of £313,000. The special reserve arose on the cancellation of deferred ordinary shares in June 1992. In 2018, 134,440 shares were issued as part consideration for the acquisition of B2 Group at a placing price of £1.71. The excess over the nominal value of the shares issued has been credited to other reserves (merger reserve) in compliance with Section 612 and Section 613 of the Companies Act 2006.

Foreign currency translation reserves

The currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Retained earnings

All other net gains and losses and transactions with owners (e.g. dividends) that are not recognised elsewhere.

25. Capital commitments

There were no capital commitments at 31 December 2019 (2018: none).

26. Related party transactions

Key management compensation (including Directors)

	2019 £'000	2018 £'000
Directors' emoluments		
Remuneration	**581**	595
Social security costs	**87**	77
Bonuses	**99**	7
Pension	**41**	21
Share-based payments	**38**	97
	846	797

Details of Directors' compensation are included in the Directors' Remuneration Report.

26. Related party transactions continued

Key management compensation (including Directors) continued

There is no single party known that the Directors consider to be a controlling shareholder or ultimate Parent undertaking. Refer to page 48 for details of all significant shareholders that the Company has been notified of.

The Group provided software support services to its joint venture interest, GMS Loan Technologies Limited, during the year of £291,000 (2018: £165,000) and there is no outstanding balance at the end of the year (2018: £52,000). At 30 September 2019, the Group acquired the remaining shares in GMS Loan Technologies Limited from Mount Street Limited.

During the year the Group received services from Grant Thornton LLP of £218,000 (2018: £107,000) which are related parties by virtue of Ms I Joss holding a position as an independent non-executive on the Grant Thornton partner oversight board and a Director of the Company. At 31 December 2019 the amounts owed to Grant Thornton LLP was £59,000 (2018: £3,000).

27. Effects of changes in accounting policies

The Group adopted IFRS 16 with a transition date of 1 January 2019. The Group has chosen not to restate comparatives on adoption and therefore the revised requirements are not reflected in the prior year financial statements and have been processed at their initial date of application at 1 January 2019 and recognised in the opening equity balances.

Other new and amended standards and interpretations issued by the IASB did not impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

IFRS 16 "Leases"

IFRS 16 has replaced IAS 17 "Leases" and IFRIC 4 "Determining Whether an Arrangement Contains a Lease" and was effective 1 January 2019.

IFRS 16 provides a single lease accounting model, requiring the recognition of assets and liabilities for all leases, excluding leases with a term of less than twelve months or where the value of the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. The Group does not have any leases acting as a lessor.

Transition method

The Group adopted IFRS 16 using the modified retrospective approach, with the recognition of transitional adjustments on the date of initial application (1 January 2019), without restatement of comparative figures. The Group elected to apply the practical expedient to not reassess whether a contract is, or contains, a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Group applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

(a) apply a single discount rate to a portfolio of leases with reasonably similar characteristics;

(b) exclude initial direct costs from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if IFRS 16 had been applied since the commencement date;

(c) reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under IAS 36 as at the date of initial application; and

(d) applied the exemption not to recognise right-of-use assets and liabilities for leases with less than twelve months of lease term remaining as of the date of initial application.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases. However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of twelve months or less.

On adoption of IFRS 16, the Group recognised right-of-use assets and lease liabilities for property and motor vehicle leases previously classified as operating leases under IAS 17. Right-of-use assets were measured as an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued payments. Lease liabilities were measured as the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate of 3.1%.

27. Effects of changes in accounting policies continued

IFRS 16 "Leases" continued

Transition method continued

The following table presents the impact of adopting IFRS 16 on the statement of financial position as at 1 January 2019:

	As originally presented £'000	IFRS 16 £'000	1 January 2019 £'000
Right-of-use assets	—	1,779	1,779
Lease liabilities	—	(1,738)	(1,738)
Retained earnings	16,660	41	16,701

The following table reconciles the minimum lease commitments disclosed in the Group's 31 December 2018 financial statements to the amount of lease liabilities recognised on 1 January 2019:

	£'000
Minimum operating lease commitments at 31 December 2018	1,987
Effect of rent review	27
Short-term leases not recognised under IFRS 16	(166)
Effect of discounting using the incremental borrowing as at date of initial application	(110)
Lease liability as at 1 January 2019	1,738

28. Discontinued operations

In January 2019, the Group sold its VME mainframe software business for a cash consideration of £1,675,000. The assets and liabilities relating to this business have been disclosed in line with IFRS 5 "Assets Held For Sale"; these included trade receivables and deferred income.

The profits included within the income statement are as follows:

	2019 £'000	2018 £'000
Revenue	**64**	755
Staff costs	**(7)**	(42)
Other administration costs	**(4)**	(46)
Profit from discontinued operations	**53**	667
Net cash from discontinued operations	**53**	667
Basic earnings per share from discontinued operations	**0.1**	1.0
Diluted earnings per share from discontinued operations	**0.1**	1.0

The post tax gain on disposal of discontinued operations in the year to 31 December 2019 is:

	£'000
Cash consideration	**1,675**
Net liabilities disposed of:	
Trade receivables	**(74)**
Deferred income	**384**
Net gain on disposal of discontinued operations	**1,985**

There is no tax charge due to the utilisation of Group relief.

29. Events after the reporting date

A dividend of 0.75 pence per share has been approved by the Board to propose to shareholders at the Annual General Meeting.

Company balance sheet

	Notes	At 31 December 2019 £'000	At 31 December 2018 £'000
Non-current assets			
Property, plant and equipment	5	—	—
Lease receivable	9	794	—
Deferred tax asset	10	211	129
Investments	6	16,946	16,869
		17,951	16,998
Current assets			
Debtors	7	33,547	30,069
Cash at bank and in hand		4,467	2,220
		38,014	32,289
Creditors: amounts falling due within one year	8	32,056	24,283
Net current assets		5,958	8,006
Total assets less current liabilities		23,909	25,004
Contingent consideration due more than one year		—	67
Creditors: amounts falling due more than one year	8	424	—
Total assets less liabilities		23,485	24,937
Capital and reserves			
Called up share capital	11	3,413	3,404
Share premium account	12	3,903	3,830
Own share reserve	12	(945)	—
Special reserve	12	313	313
Merger reserve	12	1,583	1,583
Profit and loss account	12	15,218	15,807
Shareholders' funds – equity interests		23,485	24,937

The Company made a retained loss in the year of £378,000 (2018: £504,000).

The financial statements were approved by the Board of Directors and authorised for issue on 9 March 2020.

On behalf of the Board

Ian Manocha
Chief Executive
9 March 2020

Tom Mullan
Chief Financial Officer
9 March 2020

Company statement of changes in equity

	Notes	Share capital £'000	Share premium £'000	Own shares £'000	Special reserve £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2018		3,375	3,562	—	313	1,360	16,488	25,098
Exercise of share options	15	23	278	—	—	—	—	301
Share issue proceeds	15	6	—	—	—	223	—	229
Share-based payments	15	—	—	—	—	—	161	161
Share transaction costs		—	(10)	—	—	—	—	(10)
Dividend paid	4	—	—	—	—	—	(338)	(338)
Retained loss for the year		—	—	—	—	—	(504)	(504)
At 31 December 2018		3,404	3,830	—	313	1,583	15,807	24,937
Effect of adoption of IFRS 16	17	—	—	—	—	—	51	51
At 1 January 2019 as restated		3,404	3,830	—	313	1,583	15,858	24,988
Exercise of share options	15	9	73	—	—	—	—	82
Share-based payments	15	—	—	—	—	—	77	77
Purchase of own shares	11	—	—	(995)	—	—	—	(995)
Issue of shares held by employee share ownership trust	11	—	—	50	—	—	—	50
Dividend paid	4	—	—	—	—	—	(339)	(339)
Retained loss for the year		—	—	—	—	—	(378)	(378)
At 31 December 2019		**3,413**	**3,903**	**(945)**	**313**	**1,583**	**15,218**	**23,485**

Notes to the Company financial statements

1. Accounting policies

Basis of preparation

The Company financial statements of Gresham Technologies plc (the "Company") have been prepared in accordance with Financial Reporting Standard 100 "Application of Financial Reporting Requirements" and Financial Reporting Standard 101 "Reduced Disclosure Framework" and as required by the Companies Act 2006.

The financial statements are prepared under the historical cost convention as modified for financial instruments that are measured at fair value and were approved for issue on 9 March 2020.

No income statement is presented by the Company as permitted by section 408 of the Companies Act 2006. For the year ended 31 December 2019, the Company recorded a retained loss of £378,000 (2018: loss of £504,000).

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

- certain comparative information as otherwise required by EU-endorsed IFRSs;
- certain disclosures regarding the Company's capital;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel; and
- disclosure of related party transactions with other wholly owned members of the Gresham Technologies plc Group.

In addition, and in accordance with FRS 101, further disclosure exemptions have been adopted because equivalent disclosures are included in the consolidated financial statements. These financial statements do not include certain disclosures in respect of:

- share-based payments;
- business combinations;
- assets held for sale and discontinued operations; and
- impairment of assets.

Investments

Investments are recorded at cost less provision for impairment.

Financial assets

Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

These assets arise principally from the provision of services to the Company's subsidiary, but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions for from related parties and loans to related parties are recognised based on a forward-looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve-month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

The Company's financial assets measured at amortised cost comprise intercompany receivables and cash and cash equivalents in the consolidated statement of financial position.

Cash and cash equivalents include cash in hand for the purpose of the statement of cash flows – bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated statement of financial position.

Taxation

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the statement of financial position date.

Research and development tax credits are recognised on an accruals basis and recorded as a credit in the taxation line of the income statement.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date. Deferred income tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Group to make a single net payment.

Income tax is charged or credited to other comprehensive income or directly to equity if it relates to items that are credited or charged to other comprehensive income or directly to equity. Otherwise, income tax is recognised in the income statement.

1. Accounting policies continued

Foreign currencies

Transactions denominated in foreign currencies are translated at an approximation of the exchange rate ruling on the date of the transaction.

Assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling on the balance sheet date. Resulting exchange gains and losses are taken to the income statement.

Related party transactions

The Company has taken advantage of the exemption under FRS 101 from disclosing related party transactions with entities that are wholly owned subsidiary undertakings of the Gresham Technologies plc Group.

Share-based payments – equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised in the Company financial statements as a capital contribution to the subsidiaries for whom the employees perform services, with the credit entry being made to reserves, over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

Fair value of awards with a market condition-based performance target is determined by an external valuer using a Monte Carlo simulation pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions). Fair value of awards with a financial result-based performance target is determined by management using the Black Scholes pricing model.

No capital contribution is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other vesting conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised as a capital contribution, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised as a capital contribution over the original vesting period. In addition, an expense is recognised as a capital contribution over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is recorded as a capital contribution immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as a capital contribution in the balance sheet.

Employee Share Ownership Trust ("ESOT")

The Company is deemed to have control of its ESOT therefore the investment in the Company's shares is deducted from equity. The shares are valued at the average purchase price.

2. Auditor's remuneration

The figures within the auditor's remuneration note in the Gresham consolidated financial statements include fees charged by the Company's auditor to Gresham Technologies plc in respect of audit and non-audit services. As such, no separate disclosure has been given above.

3. Directors' remuneration

Information concerning Directors' remuneration and gains on exercise of share options can be found in the Directors' Remuneration Report beginning on page 38 and in note 7 to the Group financial statements. There are no staff employed or costs recognised in relation to the Parent Company.

4. Dividends paid and proposed

The final dividend for the year ended 31 December 2018 was approved at the Company Annual General Meeting on 2 May 2019 and paid on 16 May 2019. The Company will be proposing a final dividend for approval at the AGM for the year ended 31 December 2019 (2018: £339,000).

Notes to the Company financial statements continued

5. Property, plant and equipment

	31 December 2019 Total £'000	31 December 2018 Total £'000
Cost		
At 1 January	**31**	31
At 31 December	**31**	31
Depreciation and impairment		
At 1 January	**(31)**	(29)
Charge for year	**—**	(2)
At 31 December	**(31)**	(31)
Net carrying amount		
At 31 December	**—**	—
At 1 January	**—**	2

All fixed assets relate to fixtures and fittings.

6. Investments

	Subsidiaries 2019 £'000	Subsidiaries 2018 £'000
Cost		
At 1 January	**30,461**	28,456
Acquisitions	**—**	1,844
Capital contribution – share-based payments	**77**	161
At 31 December	**30,538**	30,461
Impairment provisions		
At 1 January	**13,592**	13,592
At 31 December	**13,592**	13,592
Net book value		
At 31 December	**16,946**	16,869

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital are included within note 17 to the Group financial statements.

7. Debtors

	2019 £'000	2018 £'000
Amounts owed by subsidiary undertakings	**33,455**	30,007
VAT receivable	**82**	55
Prepayments and accrued income	**10**	7
	33,547	30,069

8. Creditors

Amounts falling due within one year

	2019 £'000	2018 £'000
Amounts owed to subsidiary undertakings	**31,309**	24,209
Lease liabilities	**322**	—
Trade creditors	**422**	8
Other creditors and accruals	**3**	66
	32,056	24,283

Amounts falling due more than one year

	2019 £'000	2018 £'000
Lease liabilities	**424**	—

8. Creditors continued

Contingent consideration in relation to B2 Group acquisition

	2019 £'000	2018 £'000
Amounts due greater than one year	—	67

9. Leases

IFRS 16 was adopted on 1 January 2019 without restatement of comparative figures. Note 17 includes an explanation of the effect of the change in accounting policy. Details of the new accounting policy are included within note 1.

All leases are accounted for by recognising a right-of-use asset and a lease liability except for leases of low value assets or leases with a duration of twelve months or less. There were no short-term leases of twelve months or low value asset leases.

Right-of-use assets are initially measured at the amount of lease liability reduced for any lease incentives received and increased for initial direct costs incurred and any provision contractually required. Right-of-use assets are amortised on a straight-line basis over the period of the lease. As the Company's right-of-use assets are sub-let to other group companies under finance leases, a lease receivable is recognised for an equivalent amount in the Company balance sheet.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term with the discount rate determined by reference to the Group's incremental external borrowing rate, 3.1%. Subsequent to the initial measurement lease liabilities are increased as a result of interest charged and reduced for lease payments made.

The Group leases a number of office buildings where payments are fixed until the contracts expire. The Group also leases motor vehicles where payments can be increased if actual mileage is higher than the contracted rates.

Right-of-use assets

	Land and buildings £'000
Cost	
At 1 January and at 31 December	**1,458**
Amortisation	
At 1 January	**373**
Charge for year	**291**
At 31 December	**664**
Net carrying amount	
At 31 December	**794**
At 1 January	**1,085**

Lease liabilities

	Total £'000
At 1 January 2019	1,034
Cash items:	
Lease payments	(317)
Non cash items:	
Interest expense	29
At 31 December 2019	**746**

	2019 £'000	2018 £'000
Due between 0 and 3 months	**80**	—
Due between 3 and 12 months	**242**	—
Due less than one year	**322**	—
Due more than one year	**424**	—
Lease liabilities	**746**	—

Notes to the Company financial statements continued

10. Deferred tax

The Company has a recognised deferred tax asset as follows:

	2019 £'000	2018 £'000
As at 1 January	**129**	339
Movement in the period within the income statement	**82**	(210)
As at 31 December	**211**	129
Comprising:		
Employee share award schemes	**195**	82
Tax losses	**16**	47
	211	129

11. Issued share capital

Ordinary shares allotted, called up and fully paid

	Number	Nominal value £'000
At 1 January 2018	67,492,497	3,375
Exercise of share options	462,500	23
Share issue	134,440	6
At 31 December 2018	68,089,437	3,404
Exercise of share options (note 23)	167,021	9
At 31 December 2019	**68,256,458**	**3,413**

The Company's ordinary share capital consists of individual shares having a nominal value of 5 pence each.

During the year ended 31 December 2019, share options granted under the 2010 Share Option Plans were exercised and the Group issued 167,021 (2018: 462,500) ordinary shares accordingly (ranking pari passu with existing shares in issue). See note 24 of the Group financial statements for further details.

At 31 December 2019 and 2018 there were outstanding options granted to acquire ordinary shares in the Company. See note 23 of the Group financial statements for further details.

There are no preference shares in issue (2018: none).

Shares held by Employee Share Ownership Trust ("ESOT")

	£'000	Number
At 1 January 2019	—	—
Purchase of own shares	995	1,029,202
Issue of shares	(50)	(52,606)
At 31 December 2019	**945**	**976,596**

The shares held by the ESOT are expected to be issued under share option contracts. The shares are held at the average purchase price.

12. Reserves

Share capital

The balance classified as share capital represents the nominal value arising from the issue of the Company's equity share capital, comprising 5 pence ordinary shares.

During the year ended 31 December 2019, share options granted under the 2010 Share Option Plans were exercised and the Group issued 167,021 (2018: 462,500) ordinary shares accordingly (ranking pari passu with existing shares in issue). See note 24 of the Group financial statements for further details. In 2018, 134,440 shares were issued as part consideration for the acquisition of B2 Group at a placing price of £1.71. The excess over the nominal value of the shares issued has been credited to other reserves (merger) in compliance with Section 612 and Section 613 of the Companies Act 2006.

Share premium

The balance classified as share premium represents the premium arising from the issue of the Company's equity share capital, comprising 5 pence ordinary shares, net of share issue expenses. There are restrictions on the use of the share premium account. It can only be used for bonus issues, to provide for the premium payable on redemption of debentures, or to write off preliminary expenses, or expenses of, or commissions paid on, or discounts allowed on, the same issues of shares or debentures of the Company.

12. Reserves continued

Own share reserve

Weighted average cost of shares held in trust by the ESOT.

Special reserves

The special reserve arose on the cancellation of deferred ordinary shares in June 1992.

Merger reserve

The merger reserve arose on issue of shares in respect of acquisitions and mergers in the period 1992 to 1999. On the 4 July 2018 134,440 shares were issued as part consideration for the acquisition of B2 Group at a placing price of £1.71. The excess over the nominal value of the shares issued has been credited to the merger reserve in compliance with Section 612 and Section 613 of the Companies Act 2006.

Profit and loss account

All other net gains and losses and transactions with owners (e.g. dividends) that are not recognised elsewhere.

13. Capital commitments

There were no capital commitments at 31 December 2019 (2018: none).

14. Contingent liabilities

In the normal course of business, the Company has issued general guarantees in respect of the contractual obligations of certain subsidiary undertakings. The Company has assessed the risk of defaults by subsidiary undertakings and should Gresham Technologies plc have to assume the debt and make settlement, the appropriate provisioning would be provided for within the Company.

15. Share-based payments

Share-based payments in respect of both the Company and the Group are disclosed in note 23 of the consolidated financial statements.

16. Related party transactions

The Company is exempt from disclosing transactions within the wholly owned subsidiaries in the Group. Other related party transactions are included within those given in note 27 of the consolidated financial statements.

17. Effects of changes in accounting policies

The Company adopted IFRS 16 with a transition date of 1 January 2019. The Company has chosen not to restate comparatives on adoption and therefore the revised requirements are not reflected in the prior year financial statements and have been processed at their initial date of application at 1 January 2019 and recognised in the opening equity balances.

Other new and amended standards and interpretations issued by the IASB did not impact the Company as they are either not relevant to the Company's activities or require accounting which is consistent with the Company's current accounting policies.

IFRS 16 "Leases"

IFRS 16 has replaced IAS 17 "Leases" and IFRIC 4 "Determining Whether an Arrangement Contains a Lease" and was effective 1 January 2019.

IFRS 16 provides a single lease accounting model, requiring the recognition of assets and liabilities for all leases, excluding leases with a term of less than twelve months or where the value of the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. The Company does not have any leases acting as a lessor.

Transition method

The Company adopted IFRS 16 using the modified retrospective approach, with the recognition of transitional adjustments on the date of initial application (1 January 2019), without restatement of comparative figures. The Company elected to apply the practical expedient to not reassess whether a contract is, or contains, a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Company applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

(a) apply a single discount rate to a portfolio of leases with reasonably similar characteristics;

(b) exclude initial direct costs from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if IFRS 16 had been applied since the commencement date;

(c) reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under IAS 36 as at the date of initial application; and

(d) applied the exemption not to recognise right-of-use assets and liabilities for leases with less than twelve months of lease term remaining as of the date of initial application.

Notes to the Company financial statements continued

17. Effects of changes in accounting policies continued

IFRS 16 "Leases" continued

Transition method continued

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most leases. However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of twelve months or less.

On adoption of IFRS 16, the Company recognised right-of-use assets and lease liabilities for property leases previously classified as operating leases under IAS 17. Right-of-use assets were measured as an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued payments. Lease liabilities were measured as the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate of 3.1%.

The following table presents the impact of adopting IFRS 16 on the statement of financial position as at 1 January 2019:

	As originally presented £'000	IFRS 16 £'000	1 January 2019 £'000
Right-of-use assets	—	794	794
Lease liabilities	—	(746)	(746)
Retained earnings	15,807	51	15,858

The following table reconciles the minimum lease commitments disclosed in the Group's 31 December 2018 financial statements to the amount of lease liabilities recognised on 1 January 2019:

	£'000
Minimum operating lease commitments at 31 December 2018	834
Effect of rent review	27
Effect of discounting using the incremental borrowing as at date of initial application	(115)
Lease liability as at 1 January 2019	746

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