



**Unaudited** Interim Condensed Consolidated Financial  
Statements

30 September 2018

Date: 27 November 2018

# Chairman's Statement

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In the first six months of the year GBG has continued to perform well. We are delivering on our strategic objectives and making the investments that will help us grow further in the future. We are also increasing our brand recognition in the expanding global identity data intelligence market.

## Financial performance

Our trading in the first half of the year is in line with the pre-close trading update we issued in October.

Revenue grew by 9% year-on-year on a reported basis. At the underlying level, GBG's organic revenue growth was 11%. As mentioned in October's trading update, the organic revenue growth during the same period last year included £3.5m from the sale of a perpetual licence to a leading European bank. Normally these kind of transactions are fully-delivered over a three-year period, payable in annual instalments. If this had been the case for this particular transaction then our revenue recognition policy would have recognised only one third of the total amount. This means first half revenues for 2017 would have been £50.3 million (the basis for underlying growth) rather than the reported £52.6 million.

At the headline level, adjusted operating profits<sup>†</sup> were £8.8 million (2017: £10.4 million). However, on an underlying basis, when compared to last year (2017 underlying: £8.1 million), this represents an increase of 8%.

Profits after tax were £2.0 million (2017: £2.4 million) after taking account of £6.1 million of costs associated with the amortisation of acquired intangibles, share-based payments and exceptional items (2017: £6.6 million). Of these costs, £5.0 million (2017: £5.7 million) were non-cash items.

Our balance sheet is strong. Revenue deferred to future periods is up by £4.3 million to £28.0 million and net assets increased to £157.8 million (2017 £149.2 million).

GBG continues to be cash generative and cash balances at 30 September 2018 were £27.5 million (2017: £17.9 million). Group operating activities before tax payments generated £10.4 million of cash and cash equivalents (2017: £10.5 million) and an adjusted EBITDA to cash conversion ratio of 106 per cent (2017: 92 per cent). Net cash balances were £18.6 million (2017: £4.1 million).

## Achievements and strategic developments

We have continued to make significant progress developing our international product lines. Our customers are looking for innovative digital solutions to reduce online fraud and meet increasingly stringent compliance regulations. These themes present an important opportunity for us and we are putting them at the centre of our strategy and our execution.

During the first half of the year our Identity Verification services grew as customers such as Coinbase, Stripe and Western Union increased their usage of our international data sets. We saw a shift to digital access from on-premise scanners in our document verification services, which we expect to continue and contribute to future deferred income balances.

Our international Fraud, Risk and Compliance products also maintained strong growth, particularly in Malaysia, Indonesia and China. We will continue to adapt these products to improve our fraud detection services and address our customers' compliance needs.

Our Location Intelligence business, which was rebranded in the year as Loqate, has made progress and saw good growth in the first half of the year. We have continued to win new business in Germany, including contracts with Hugo Boss, Canyon Bikes and Aldi. We are also pleased to report several new business wins in the USA including Kohl's, Abercrombie & Fitch and Ralph Lauren. As a result, we will be expanding our US East Coast team.

We are seeing strong growth through our partnership with Canada Post which provides its AddressComplete solution to Canadian businesses by white-labelling GBG's leading address capture technology. This is in line with a broader focus on partners including IBM, Oracle, Pitney Bowes and Reltio.

## Acquisitions

Shortly after the period end, GBG acquired VIX Verify, a market-leading provider of identity verification and location intelligence solutions to the Australia and New Zealand markets. VIX Verify has a high-quality customer base in sectors like Financial Services and Gaming, where GBG has complementary strengths and products. This acquisition gives us a stronger presence in Australia. The immediate focus will be on its domestic market, but there is the product range and capability to extend further into Asia.

With synergies, we expect the transaction to be earnings accretive in the first 12 months of consolidated GBG ownership.

## People

I'm pleased that we have achieved our highest ever employee engagement scores, with 89% of team members saying at the end of this first half year that they would recommend GBG as a great place to work. This reflects the people focus we outlined in our annual report, including training for people managers and improving our workplaces.

Since the beginning of the financial year, we have recruited a number of new people to GBG with a particular focus on strengthening our product and development teams. In addition, we welcome 74 new people from VIX Verify, who will bring their talent and expertise to key areas of the business.

## Outlook

We have made good strategic and operational progress in the first half of the year and we are building on that by keeping our focus on delivering growth both organically and through strategic acquisitions. We are pleased to see positive momentum thanks to a number of big customer wins. Our business is weighted to the second half of the year and the Board is confident that we will meet our full year expectations for both revenue and profit growth.

## Notes:

*† Adjusted operating profit means profits before amortisation of acquired intangibles, share-based payments, exceptional items, net finance costs and tax. This is a non-GAAP or Adjusted Performance Measure (APM) which is a KPI used both internally and by the majority of our stakeholders. See "Alternative Performance Measures" in the Interim Consolidated Financial Statements for further details.*

# Interim Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2018

	Note	Unaudited 6 months to 30 September 2018 £'000	Unaudited 6 months to 30 September 2017 £'000	Audited Year to 31 March 2018 £'000
<b>Revenue</b>	6	<b>57,279</b>	52,626	119,702
Cost of sales		<b>(13,963)</b>	(11,281)	(27,092)
<b>Gross profit</b>		<b>43,316</b>	41,345	92,610
Operating expenses before amortisation of acquired intangibles, share-based payments and exceptional items		<b>(34,534)</b>	(30,917)	(66,299)
<b>Operating profit before amortisation of acquired intangibles, share- based payments and exceptional items (adjusted operating profit)</b>	6	<b>8,782</b>	10,428	26,311
Amortisation of acquired intangibles	11	<b>(4,077)</b>	(3,802)	(7,885)
Share-based payments	12	<b>(964)</b>	(1,101)	(2,375)
Exceptional items	5	<b>(1,030)</b>	(1,741)	(2,143)
<b>Group operating profit</b>		<b>2,711</b>	3,784	13,908
Finance revenue		<b>29</b>	17	37
Finance costs		<b>(216)</b>	(289)	(545)
<b>Profit before tax</b>		<b>2,524</b>	3,512	13,400
Income tax expense	7	<b>(499)</b>	(1,077)	(2,746)
<b>Profit for the period attributable to equity holders of the parent</b>		<b>2,025</b>	2,435	10,654
<b>Other comprehensive income:</b>				
Exchange differences on retranslation of foreign operations (net of tax)*		<b>968</b>	(1,554)	(3,206)
<b>Total comprehensive income for the period attributable to equity holders of the parent</b>		<b>2,993</b>	881	7,448
<b>Earnings per share</b>				
- adjusted basic earnings per share for the period	8	<b>5.3p</b>	6.1p	15.3p
- adjusted diluted earnings per share for the period	8	<b>5.2p</b>	6.0p	15.0p
- basic earnings per share for the period	8	<b>1.3p</b>	1.6p	7.1p
- diluted earnings per share for the period	8	<b>1.3p</b>	1.6p	7.0p

\* Upon a disposal of a foreign operation, this would be recycled to the Income Statement

# Interim Consolidated Statement of Changes in Equity

For the six months ended 30 September 2018

	Note	Equity share capital £'000	Merger reserve £'000	Capital redemption reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total equity £'000
<b>Balance at 1 April 2017 (audited)</b>		<b>51,963</b>	<b>6,575</b>	<b>3</b>	<b>4,097</b>	<b>31,545</b>	<b>94,183</b>
Profit for the period		-	-	-	-	2,435	2,435
Other comprehensive income					(1,554)	-	(1,554)
<b>Total comprehensive income for the period</b>		-	-	-	(1,554)	2,435	881
Issue of share capital	15	58,255	-	-	-	-	58,255
Share issue costs	15	(1,739)	-	-	-	-	(1,739)
Share-based payments	12	-	-	-	-	1,101	1,101
Tax on share options		-	-	-	-	51	51
Equity dividend	9	-	-	-	-	(3,582)	(3,582)
<b>Balance at 30 September 2017 (unaudited)</b>		<b>108,479</b>	<b>6,575</b>	<b>3</b>	<b>2,543</b>	<b>31,550</b>	<b>149,150</b>
Profit for the period		-	-	-	-	8,219	8,219
Other comprehensive income		-	-	-	(1,652)	-	(1,652)
<b>Total comprehensive income for the period</b>		-	-	-	(1,652)	8,219	6,567
Issue of share capital		153	-	-	-	-	153
Share issue costs		(1)	-	-	-	-	(1)
Share-based payments		-	-	-	-	1,274	1,274
Tax on share options		-	-	-	-	609	609
<b>Balance at 1 April 2018 (audited)</b>		<b>108,631</b>	<b>6,575</b>	<b>3</b>	<b>891</b>	<b>41,652</b>	<b>157,752</b>
Profit for the period		-	-	-	-	2,025	2,025
Other comprehensive income		-	-	-	968	-	968
<b>Total comprehensive income for the period</b>		-	-	-	968	2,025	2,993
Issue of share capital	15	446	-	-	-	-	446
Share-based payments	12	-	-	-	-	964	964
Tax on share options		-	-	-	-	(343)	(343)
Equity dividend	9	-	-	-	-	(4,049)	(4,049)
<b>Balance at 30 September 2018 (unaudited)</b>		<b>109,077</b>	<b>6,575</b>	<b>3</b>	<b>1,859</b>	<b>40,249</b>	<b>157,763</b>

# Interim Consolidated Balance Sheet

As at 30 September 2018

	Note	Unaudited As at 30 September 2018 £'000	Unaudited As at 30 September 2017 £'000	Audited As at 31 March 2018 £'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Plant and equipment	10	4,434	4,216	4,700
Intangible assets	11	157,991	167,551	161,372
Deferred tax asset		3,930	4,190	4,212
		<b>166,355</b>	<b>175,957</b>	<b>170,284</b>
<b>Current assets</b>				
Inventories		395	211	399
Trade and other receivables		31,470	28,951	37,969
Cash and short-term deposits		27,507	17,923	22,753
		<b>59,372</b>	<b>47,085</b>	<b>61,121</b>
<b>TOTAL ASSETS</b>		<b>225,727</b>	<b>223,042</b>	<b>231,405</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>				
Equity share capital	15	109,077	108,479	108,631
Merger reserve		6,575	6,575	6,575
Capital redemption reserve		3	3	3
Foreign currency translation reserve		1,859	2,543	891
Retained earnings		40,249	31,550	41,652
<b>Total equity attributable to equity holders of the parent</b>		<b>157,763</b>	<b>149,150</b>	<b>157,752</b>
<b>Non-current liabilities</b>				
Loans	13	8,065	12,974	8,451
Trade and other payables		372	-	-
Deferred tax liability		7,447	9,431	8,260
		<b>15,884</b>	<b>22,405</b>	<b>16,711</b>
<b>Current liabilities</b>				
Loans	13	806	850	797
Trade and other payables		50,784	42,111	55,897
Contingent consideration	17	-	7,929	45
Provisions		25	25	25
Current tax		465	572	178
		<b>52,080</b>	<b>51,487</b>	<b>56,942</b>
<b>TOTAL LIABILITIES</b>		<b>67,964</b>	<b>73,892</b>	<b>73,653</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>225,727</b>	<b>223,042</b>	<b>231,405</b>

# Interim Consolidated Cash Flow Statement

For the six months ended 30 September 2018

	Note	Unaudited 6 months to 30 September 2018 £'000	Unaudited 6 months to 30 September 2017 £'000	Audited Year to 31 March 2018 £'000
<b>Group profit before tax</b>		<b>2,524</b>	3,512	13,400
<b>Adjustments to reconcile Group profit before tax to net cash flows</b>				
Finance revenue		(29)	(17)	(37)
Finance costs		216	289	545
Depreciation of plant and equipment	10	771	635	1,430
Amortisation of intangible assets	11	4,318	4,200	8,832
Loss on disposal of plant and equipment		-	36	38
Loss on disposal of intangible assets		47	-	-
Adjustments to contingent consideration	5	-	807	383
Share-based payments	12	964	1,101	2,375
Decrease in provisions		-	(10)	(10)
Decrease/(increase) in inventories		4	22	(166)
Decrease/(increase) in receivables		6,664	3,663	(5,390)
(Decrease)/increase in payables		(5,081)	(3,725)	10,220
Cash generated from operations		<b>10,398</b>	10,513	31,620
Income tax paid		(1,092)	(611)	(3,247)
<b>Net cash generated from operating activities</b>		<b>9,306</b>	9,902	28,373
<b>Cash flows from/(used in) investing activities</b>				
Acquisition of subsidiaries, net of cash acquired	16	-	(62,903)	(70,363)
Purchase of plant and equipment	10	(520)	(588)	(1,902)
Purchase of software	11	(157)	(82)	(212)
Proceeds from disposal of plant and equipment		-	96	96
Finance revenue		29	17	37
<b>Net cash flows used in investing activities</b>		<b>(648)</b>	(63,460)	(72,344)
<b>Cash flows from/(used in) financing activities</b>				
Finance costs paid		(216)	(289)	(545)
Proceeds from issue of shares	15	446	58,255	58,408
Share issue costs	15	-	(1,739)	(1,740)
Proceeds from new borrowings	13	-	10,000	10,000
Repayment of borrowings	13	(406)	(8,430)	(12,839)
Dividends paid to equity shareholders	9	(4,049)	(3,582)	(3,582)
<b>Net cash flows (used in)/ from financing activities</b>		<b>(4,225)</b>	54,215	49,702
Net increase in cash and cash equivalents		<b>4,433</b>	657	5,731
Effect of exchange rates on cash and cash equivalents		321	(352)	(596)
Cash and cash equivalents at the beginning of the period		<b>22,753</b>	17,618	17,618
<b>Cash and cash equivalents at the end of the period</b>		<b>27,507</b>	17,923	22,753

# Notes to the Interim Report

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## 1. CORPORATE INFORMATION

The interim condensed consolidated financial statements of GB Group plc ('the Group') for the six months ended 30 September 2018 were authorised for issue in accordance with a resolution of the directors on 27 November 2018. GB Group plc is a public limited company incorporated in the United Kingdom whose shares are publicly traded on the Alternative Investment Market (AIM) of the London Stock Exchange.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

### Basis of Preparation

These interim condensed consolidated financial statements for the six months ended 30 September 2018 have been prepared in accordance with IAS 34 'Interim Financial Reporting'. The annual financial statements of the company are prepared in accordance with IFRSs as adopted by the European Union.

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

After making appropriate enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, the Board continues to adopt the going concern basis in preparing the interim report.

The interim condensed consolidated financial statements do not constitute statutory financial statements as defined in section 435 of the Companies Act 2006 and therefore do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 March 2018. The financial information for the preceding year is based on the statutory financial statements for the year ended 31 March 2018. These financial statements, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies. These financial statements did not require a statement under either section 498(2) or section 498(3) of the Companies Act 2006.

### Accounting Policies

Except where disclosed below, the accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2018.

### New standards, amendments and interpretations adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2018, except for the adoption of new standards effective for the Group from 1 April 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' that require restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

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

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 must be applied using the following 5 step model:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies its performance obligations

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.



# Notes to the Interim Report

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## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

The Group adopted IFRS 15 using the modified retrospective method of adoption but there were no material adjustments required to the accounts. The following summarises the Group's accounting policy for revenue based on the principles of IFRS 15 for the current reporting period onwards. The Group's adoption of IFRS 15 did not have any material impact on the policies and practices that were in effect within the Group.

### Revenue Recognition

Revenue is stated net of value-added tax, rebates and discounts and after the elimination of inter-company transactions within the Group.

The Group operates a number of different businesses offering a range of products and services and accordingly applies a variety of methods for revenue recognition, based on the principles set out in IFRS 15.

Revenue is recognised to represent the transfer of promised services to customers in a way that reflects the consideration expected to be received in return. Consideration from contracts with customers is allocated to the performance obligations identified based on their standalone selling price and is recognised when those performance obligations are satisfied and the control of goods or services is transferred to the customer, either over time or at a point in time.

In determining the amount of revenue and profits to record, and related balance sheet items (such as contract assets, contract liabilities, accrued income and deferred income) to recognise in the period, management is required to form a number of judgements and assumptions. These may include an assessment of the costs the Group incurs to deliver the contractual commitments and whether such costs should be expensed as incurred or capitalised. These judgements are inherently subjective and may cover future events such as the achievement of contractual milestones.

For contracts with multiple components to be delivered, management may have to apply judgement to consider whether those promised goods and services are (i) distinct - to be accounted for as separate performance obligations; (ii) not distinct - to be combined with other promised goods or services until a bundle is identified that is distinct or (iii) part of a series of distinct goods and services that are substantially the same and have the same pattern of transfer to the customer.

At contract inception the total transaction price is determined, and the Group allocates this to the identified performance obligations in proportion to their relative stand-alone selling prices and recognises revenue when (or as) those performance obligations are satisfied. Because of the bespoke nature of some solutions, judgement is sometimes required to determine and estimate an appropriate standalone selling price.

#### *(a) Software Licences (Annual or Perpetual)*

Software licences are primarily accounted for as a single performance obligation, with revenue being recognised when delivery to the customer takes place. Software licences are distinguished between on-premise software licences (where revenue is recognised at a point in time based on delivery) and web-service hosted software solutions (where revenue is spread over the period that the service is available to the customer). The adoption of IFRS 15 did not have an impact on the timing of revenue recognition against the Group's previous treatment.

#### *(b) Transactional*

A number of GBG SaaS solutions provide for the provision of transactional identity data intelligence services. Revenue in respect of those solutions is recognised in the period in which the service is provided. The adoption of IFRS 15 did not have an impact on the timing of revenue recognition against the Group's previous treatment.

#### *(c) Rendering of Services*

Revenue from the rendering of services is recognised over time by reference to the stage of completion. Stage of completion of the specific transaction is assessed on the basis of the actual services provided as a proportion of the total services to be provided. Where the services consisted of the delivery of support and maintenance on software licence agreements it is generally considered to be a separate performance obligation and revenue is recognised on a straight-line basis over the term of the support period. The adoption of IFRS 15 did not have an impact on the timing of revenue recognition against the Group's previous treatment.

#### *(d) Contract assets and contract liabilities*

Costs to obtain a contract in the Group typically include sales commissions and under IFRS 15 certain costs such as these are deferred as Contract Assets and are amortised on a systematic basis consistent with the pattern of transfer of the goods or services to which the asset relates. As a practical expedient, these costs are expensed if the amortisation period to which they relate is one year or less. Any contract assets are disclosed within the trade and other receivables in the Consolidated Balance Sheet. This is consistent with the previous application of such costs by the Group and consequently IFRS 15 did not have a material impact on the recognition of contract assets.

# Notes to the Interim Report

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## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Where the Group receives a short-term prepayment or advance of consideration prior to completion of performance obligations under a contract with a customer, the value of the advance consideration received is initially recognised as a contract liability in liabilities. Revenue is subsequently recognised as the performance obligations are completed over the period of the contract (i.e. as control is passed to the customer). Contract liabilities are presented in line with trade and other payables in the Consolidated Balance Sheet.

### *(e) Principal versus agent*

The Group has arrangements with some of its customers whereby it needs to determine if it acts as a principal or an agent as more than one party is involved in providing the goods and services to the customer. The Group acts as a principal if it controls a promised good or service before transferring that good or service to the customer. The Group is an agent if its role is to arrange for another entity to provide the goods or services. Factors considered in making this assessment are most notably the discretion the Group has in establishing the price for the specified good or service, whether the Group has inventory risk and whether the Group bears the responsibility for fulfilling the promise to deliver the service or good.

This assessment of control requires some judgement in particular in relation to certain service contracts. An example is the provision of certain employment screening services where the Group may be assessed to be agent or principal dependent upon the facts and circumstances of the arrangement and the nature of the services being delivered.

Where the Group is acting as a principal, revenue is recorded on a gross basis. Where the Group is acting as an agent revenue is recorded at a net amount reflecting the margin earned.

### *(f) Contract Modifications*

Although infrequent, contracts may be modified for changes in contract terms or requirements. These modifications and amendments to contracts are always undertaken via an agreed formal process. Contract modifications exist when the amendment either creates new or changes the existing enforceable rights and obligations. The effect of a contract modification on the transaction price and the Group's measure of progress for the performance obligation to which it relates, is recognised as an adjustment to revenue in one of the following ways:

- a. Prospectively as an additional separate contract;
- b. Prospectively as a termination of the existing contract and creation of a new contract;
- c. As part of the original contract using a cumulative catch up; or
- d. As a combination of b) and c).

For contracts for which the Group has decided there is a series of distinct goods and services that are substantially the same and have the same pattern of transfer where revenue is recognised over time, the modification will always be treated under either a) or b). d) may arise when a contract has a part termination and a modification of the remaining performance obligations.

The facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract by contract and may result in different accounting outcomes.

### *(g) Interest Income*

Revenue is recognised 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.

### *(h) Presentation and disclosure requirements*

As required for the condensed interim financial statements, the Group has disaggregated revenue recognised from contracts into contract type (Licences, Transaction and Services) as management believe this best depicts how the nature, amount, timing and uncertainty of the Group's revenue and cash flows are affected by economic factors. The Group has also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to Note 6 for the disclosure on disaggregated revenue.

### **IFRS 9 Financial Instruments**

The Group has adopted IFRS 9 'Financial Instruments' with a date of initial application of 1 April 2018. IFRS 9 'Financial Instruments' replaces IAS 39 and impacts upon the classification and measurement of financial instruments and will require certain additional disclosures. Management have confirmed that there are no changes as a result of adopting IFRS 9. The following areas were identified as the main items of interest to the Group:

# Notes to the Interim Report

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### *Credit losses*

IFRS 9 replaced the existing incurred loss model with a forward looking expected credit loss model. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for management judgement concerning factors that are specific to the receivables, general economic conditions and assessment of the current as well as the forecast direction of conditions at the reporting date based on reasonable and supportable information that is available, without undue cost or effort to obtain. Due to the exemption in IFRS 9 there will be no requirement to restate comparative periods in the year of initial application and as a consequence, any adjustments to the carrying amounts of financial assets or liabilities are to be recognised at 1 April 2018. The change from an incurred loss model under IAS 39 to an expected loss model has not had a material impact.

### *Modifications to financial liabilities*

Under both IAS 39 and IFRS 9, when the terms of a financial liability are modified, for example, where the maturity date is extended, an entity must consider whether that modification is substantial or non-substantial. Under IAS 39, the Group did not recognise any gain or loss at the time of a non-substantial modification. However, under IFRS 9 it is a requirement to recognise a gain or loss at the time of the non-substantial modification. On transition to IFRS 9, this change in policy was applied retrospectively to all financial liabilities that were still recognised at the date of the initial application. Management have confirmed that the changes to the accounting for non-substantial modifications had no material impact upon the Group at transition to IFRS 9.

The following reflect the new accounting policy for financial assets for the current reporting period onwards.

### **Financial Assets**

#### *Recognition and initial measurement*

Trade receivables, which generally have 14 to 60 day terms, are initially recognised when they originated and are carried at original invoice amount.

#### *Classification and subsequent measurement*

All financial assets are classified as either being measured subsequently at fair value or measured at amortised cost. The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. All financial assets of the Group are classified as measured at amortised cost. Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss. Any gain or loss on de-recognition is recognised in profit or loss.

#### *Impairment of financial assets*

The Group recognises loss allowances for expected credit losses (ECL) on financial assets measured at amortised cost. Loss allowances for trade receivables are always measured at an amount equal to lifetime ECL. ECL are a probability-weighted estimate of credit losses. An assessment of ECL is calculated using a provision matrix model to estimate the loss rates to be applied to each trade receivable category. ECL are discounted at the effective interest rate of the financial asset. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

### **New standards, amendments and interpretations not yet adopted by the Group**

The following standards, amendments and interpretations were in issue, but were not yet effective at the balance sheet date. These standards have not been applied when preparing the interim consolidated financial statements for the period ended 30 September 2018.

#### **International Accounting Standards (IAS/IFRS)**

#### **Effective date**

IFRS 16

Leases

1 January 2019

IFRS 16 'Leases' was issued in January 2016 to replace IAS 17 'Leases'. The standard is effective for accounting periods beginning on or after 1 January 2019 and will be adopted by the Group on 1 April 2019. IFRS 16 will primarily change lease accounting for lessees; lease agreements will give rise to the recognition of an asset representing the right to use the leased item and a loan obligation for future lease payables. Lease costs will be recognised in the form of depreciation of the right to use asset and interest on the lease liability. Lessee accounting under IFRS 16 will be similar in many respects to existing IAS 17 accounting for finance leases, but will be substantively different to existing accounting for operating leases where rental charges are currently recognised on a straight-line basis and no lease asset or lease loan obligation is recognised.

Lessor accounting under IFRS 16 is similar to existing IAS 17 accounting and is not expected to have a material impact for the Group.

# Notes to the Interim Report

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## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

The Group is continuing to evaluate the full impact of the accounting changes that will arise under IFRS 16. However, the following changes to lessee accounting will have an impact as follows:

- There is expected to be an increase in assets, specifically right-of-use assets will be recorded for assets that are leased by the Group; currently no lease assets are included on the Group's consolidated statement of financial position for operating leases.
- There is expected to be an increase in debt as liabilities will be recorded for future lease payments in the Group's consolidated statement of financial position for the 'reasonably certain' period of the lease, which may include future lease periods for which the Group has extension options. Currently liabilities are generally not recorded for future operating lease payments, which are disclosed as commitments. The amount of lease liabilities will not equal the lease commitments that will be reported in the operating lease commitments note in the 2019 Annual Report, but may not be dissimilar.
- Operating lease expenditure will be reclassified and split between depreciation and finance costs, resulting in an increase in EBITDA. Lease expenses will be for depreciation of right-of-use assets and interest on lease liabilities; interest will typically be higher in the early stages of a lease and reduce over the term. Currently operating lease rentals are expensed on a straight-line basis over the lease term within operating expenses.
- Operating lease cash flows are currently included within operating cash flows in the consolidated statement of cash flows; under IFRS 16 these will be recorded as cash flows from financing activities reflecting the repayment of lease liabilities (borrowings) and related interest.

When IFRS 16 is adopted, it can be applied either on a fully retrospective basis, requiring the restatement of the comparative periods presented in the financial statements, or with the cumulative retrospective impact of IFRS 16 applied as an adjustment to equity on the date of adoption; when the latter approach is applied it is necessary to disclose the impact of IFRS 16 on each line item in the financial statements in the reporting period. Depending on the adoption method that is utilised, certain practical expedients may be applied on adoption. The Group has not yet determined which adoption method will be adopted or which expedients will be applied on adoption.

### Judgements and Estimates

Full details of significant accounting judgements, estimates and assumptions used in the application of the Group's accounting policies can be found in the Annual Report and Accounts for the year ended 31 March 2018. IFRS 15 and IFRS 9 have a number of areas of judgement that have been commented on within the accounting policies section and other than those, there have been no changes to the principles or assumptions in these critical accounting estimate and judgement areas during the period.

## 3. CYCLICALITY

Due to the cyclicity of our software renewal business, higher renewals in the second half traditionally result in the Group's performance being biased towards the second half of the year.

## 4. RISKS AND UNCERTAINTIES

Management identifies and assesses risks to the business using an established control model. The Group has a number of exposures which can be summarised as follows: regulatory risk resulting from regulatory developments; changes in the Group's competitive position; non-supply by a major supplier; disaster recovery, business continuity and cyber risk; new product development; and intellectual property risk. These risks and uncertainties facing our business were reported in detail in the 2018 Annual Report and Accounts and all of them are monitored closely by the Group.

The outcome of the recent UK referendum has caused uncertainty in both the political and economic environments in which we operate. Although headquartered in the UK, GBG has an established presence internationally, which last year comprised approximately a third of our group revenues. We believe our global infrastructure will assist the Group in its response to the ultimate changes in trading arrangements between the UK and the EU. Our business model means that we are comparatively well-placed to manage the consequences of the result and of its effect on the economic environment. However, there is the potential for our costs to increase, for example, through any changes required to our systems to reflect new taxes; regulatory risk to increase as a result of any future divergence with the EU regime; and supplier disruption to occur as a result of challenges in suppliers' own organisations and supply chains. At this time, the outcome of Brexit negotiations and post-Brexit arrangements remains unclear and as such, like all companies, we continue to monitor the situation and manage the practical implications as they occur.

# Notes to the Interim Report

## 5. EXCEPTIONAL ITEMS

	<b>Unaudited 6 months to 30 Sept 2018 £'000</b>	Unaudited 6 months to 30 Sept 2017 £'000	Audited Year to 31 March 2018 £'000
Adjustments to contingent consideration (note 17)	-	807	885
Acquisition related costs	<b>898</b>	735	750
Costs associated with staff reorganisations	<b>132</b>	199	508
	<b>1,030</b>	<b>1,741</b>	<b>2,143</b>

Fair value adjustments to contingent consideration in the period to 30 September 2017 relate to the acquisition of IDscan and include £421,000 relating to a contingent purchase price adjustment along with a £386,000 charge relating to the partial unwinding of the discounting relating to the contingent consideration (note 17). This charge arises because contingent consideration due to be paid at a future date is discounted for the time value of money at the point of initial recognition and over the passage of time, this discount unwinds within the Consolidated Statement of Comprehensive Income. These are non-cash items.

Fair value adjustments to contingent consideration in the year to 31 March 2018 relate to the acquisition of IDscan and include £421,000 relating to a contingent purchase price adjustment along with a £457,000 charge relating to the partial unwinding of the discounting in relation to the contingent consideration (note 17).

Acquisition related costs of £898,000 include, but are not limited to, those incurred in relation to the acquisition of Vix Verify Global Pty Ltd (note 19). In prior periods, transaction costs of £735,000 were incurred in relation to the acquisition of PCA (note 16). Such costs include those directly attributable to the transaction and exclude operating or integration costs relating to an acquired business, and due to the size and nature of these costs, management consider that they would distort the Group's underlying business performance.

Costs associated with staff reorganisations in both years primarily relate to exit costs of personnel leaving the business on an involuntary basis due to reorganisations within our operating divisions as a result of integrating acquisitions. Due to the nature of these costs, management deem them to be exceptional in order to better reflect our underlying performance.

# Notes to the Interim Report

## 6. SEGMENTAL INFORMATION

The Group's operating segments are internally reported to the Group's Chief Executive Officer as two operating segments: Fraud, Risk & Compliance Division – which provides ID Verification, ID Compliance & Fraud Solutions, ID Trace & Investigate and ID Employ & Comply and Customer & Location Intelligence Division – which provides ID Location Intelligence and ID Engage Solutions. The measure of performance of those segments that is reported to the Group's Chief Executive Officer is adjusted operating profit, being profits before amortisation of acquired intangibles, share-based payments, exceptional items, net finance costs and tax, as shown below.

Segment results include items directly attributable to either Fraud, Risk & Compliance or Customer & Location Intelligence. Unallocated items for the six months to 30 September 2018 represent Group head office costs £1,101,000 (2017: £707,000), exceptional items £1,030,000 (2017: £1,741,000), Group finance income £29,000 (2017: £17,000), Group finance costs £216,000 (2017: £289,000), Group income tax expense £499,000 (2017: £1,077,000) and share-based payments £964,000 (2017: £1,101,000). Unallocated items for the year ended 31 March 2018 represent Group head office costs £1,196,000, exceptional costs £2,143,000, Group finance income £37,000, Group finance costs £545,000, Group income tax expense £2,746,000 and share-based payments £2,375,000.

	Fraud, Risk & Compliance £'000	Customer & Location Intelligence £'000	Unallocated £'000	Total Unaudited 6 months to 30 September 2018 £'000
<b>Six months ended 30 September 2018</b>				
Licence	14,247	13,446	-	27,693
Transactional Services	18,500	5,853	-	24,353
	890	4,343	-	5,233
Total revenue	33,637	23,642	-	57,279
<b>Adjusted operating profit</b>	<b>5,591</b>	<b>4,292</b>	<b>(1,101)</b>	<b>8,782</b>
Amortisation of acquired intangibles	(1,454)	(2,623)	-	(4,077)
Share-based payments	-	-	(964)	(964)
Exceptional items	-	-	(1,030)	(1,030)
Operating profit	4,137	1,669	(3,095)	2,711
Finance revenue			29	29
Finance costs			(216)	(216)
Income tax expense			(499)	(499)
Profit for the period				2,025

	Fraud, Risk & Compliance £'000	Customer & Location Intelligence £'000	Unallocated £'000	Total Unaudited 6 months to 30 September 2017 £'000
<b>Six months ended 30 September 2017</b>				
Licence	15,927	11,855	-	27,782
Transactional Services	14,811	4,656	-	19,467
	1,317	4,060	-	5,377
Total revenue	32,055	20,571	-	52,626
<b>Adjusted operating profit</b>	<b>7,693</b>	<b>3,442</b>	<b>(707)</b>	<b>10,428</b>
Amortisation of acquired intangibles	(1,480)	(2,322)	-	(3,802)
Share-based payments	-	-	(1,101)	(1,101)
Exceptional items	-	-	(1,741)	(1,741)
Operating profit	6,213	1,120	(3,549)	3,784
Finance revenue			17	17
Finance costs			(289)	(289)
Income tax expense			(1,077)	(1,077)
Profit for the period				2,435

# Notes to the Interim Report

## 6. SEGMENTAL INFORMATION (continued)

	Fraud, Risk & Compliance £'000	Customer & Location Intelligence £'000	Unallocated £'000	Total Audited Year to 31 March 2018 £'000
<b>Year ended 31 March 2018</b>				
Licence	34,884	29,259	-	64,143
Transactional Services	32,388	10,189	-	42,577
	2,495	10,487	-	12,982
Total revenue	69,767	49,935	-	119,702
<b>Adjusted operating profit</b>	<b>16,049</b>	<b>11,458</b>	<b>(1,196)</b>	<b>26,311</b>
Amortisation of acquired intangibles	(2,940)	(4,945)	-	(7,885)
Share-based payments	-	-	(2,375)	(2,375)
Exceptional items	-	-	(2,143)	(2,143)
Operating profit	13,109	6,513	(5,714)	13,908
Finance revenue			37	37
Finance costs			(545)	(545)
Income tax expense			(2,746)	(2,746)
Profit for the year				10,654

## 7. TAXATION

The Group calculates the period income tax expense using a best estimate of the tax rate that would be applicable to the expected total earnings for the year ending 31 March 2019.

## 8. EARNINGS PER ORDINARY SHARE

### Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the basic weighted average number of ordinary shares in issue during the period.

	Unaudited 6 months to 30 September 2018		Unaudited 6 months to 30 September 2017		Audited Year to 31 March 2018	
	Pence per share	£'000	Pence per share	£'000	Pence per share	£'000
Profit attributable to equity holders of the company	1.3	2,025	1.6	2,435	7.1	10,654

# Notes to the Interim Report

## 8. EARNINGS PER ORDINARY SHARE (continued)

### Diluted

Diluted earnings per share amounts are calculated by dividing the profit for the period attributable to equity holders of the company by the weighted average number of ordinary shares outstanding during the period 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.

	<b>30 Sept 2018 No.</b>	30 Sept 2017 No.	31 March 2018 No.
Basic weighted average number of shares in issue	<b>152,793,746</b>	148,506,098	150,552,605
Dilutive effect of share options	<b>3,368,711</b>	2,781,683	2,704,644
Diluted weighted average number of shares in issue	<b>156,162,457</b>	151,287,781	153,257,249

	<b>Unaudited 6 months to 30 September 2018</b>		Unaudited 6 months to 30 September 2017		Audited Year to 31 March 2018	
	Pence per share	£'000	Pence per share	£'000	Pence per share	£'000
Profit attributable to equity holders of the company	<b>1.3</b>	<b>2,025</b>	1.6	2,435	7.0	10,654

### Adjusted

Adjusted earnings per share is defined as adjusted operating profit less net finance costs and tax divided by the basic weighted average number of ordinary shares of the Company.

	<b>Unaudited 6 months to 30 September 2018</b>			Unaudited 6 months to 30 September 2017			Audited Year to 31 March 2018		
	Basic pence per share	Diluted pence per share	£'000	Basic pence per share	Diluted pence per share	£'000	Basic pence per share	Diluted pence per share	£'000
Adjusted operating profit	<b>5.7</b>	<b>5.6</b>	<b>8,782</b>	7.0	6.9	10,428	17.5	17.2	26,311
Less net finance costs	<b>(0.1)</b>	<b>(0.1)</b>	<b>(187)</b>	(0.2)	(0.2)	(272)	(0.3)	(0.3)	(508)
Less tax	<b>(0.3)</b>	<b>(0.3)</b>	<b>(499)</b>	(0.7)	(0.7)	(1,077)	(1.9)	(1.9)	(2,746)
Adjusted earnings	<b>5.3</b>	<b>5.2</b>	<b>8,096</b>	6.1	6.0	9,079	15.3	15.0	23,057

Adjusted operating profit means profits before amortisation of acquired intangibles, share-based payments, exceptional items, net finance costs and tax.



# Notes to the Interim Report

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## 9. DIVIDENDS PAID AND PROPOSED

	<b>Unaudited 6 months to 30 Sept 2018 £'000</b>	Unaudited 6 months to 30 Sept 2017 £'000	Audited Year to 31 March 2018 £'000
<i>Declared and paid during the period</i>			
Final dividend for 2018: 2.65p per share (2017: 2.35p per share)	<b>4,049</b>	3,582	3,582
<i>Proposed for approval at AGM (not recognised as a liability at 31 March)</i>			
Final dividend for 2018: 2.65p per share	-	-	4,047

## 10. PLANT AND EQUIPMENT

During the six months ended 30 September 2018, the Group acquired plant and equipment with a cost of £520,000 (2017: £588,000).

In the prior period, land and buildings with a fair value of £1,251,000, and plant and equipment with a fair value of £341,000, were acquired with the acquisition of PCA (note 16).

Depreciation provided during the six months ended 30 September 2018 was £771,000 (2017: £635,000).

Assets with a net book value of £nil were disposed of during the six months ended 30 September 2018 (2017: £132,000).

# Notes to the Interim Report

## 11. INTANGIBLE ASSETS

Group	Customer relationships £'000	Other acquisition intangibles £'000	Total acquisition intangibles £'000	Goodwill £'000	Purchased software £'000	Internally developed software £'000	Total £'000
<b>Cost</b>							
At 1 April 2017	21,776	10,928	<b>32,704</b>	75,598	1,908	1,771	<b>111,981</b>
Additions – business combinations	24,865	6,102	<b>30,967</b>	43,376	-	-	<b>74,343</b>
Additions – purchased software	-	-	-	-	82	-	<b>82</b>
Foreign exchange adjustments	(337)	(138)	<b>(475)</b>	(1,123)	-	-	<b>(1,598)</b>
At 30 September 2017	46,304	16,892	<b>63,196</b>	117,851	1,990	1,771	<b>184,808</b>
Additions – business combinations	-	-	-	(279)	-	-	<b>(279)</b>
Additions – purchased software	-	-	-	-	130	-	<b>130</b>
Foreign exchange adjustments	(378)	(153)	<b>(531)</b>	(1,107)	(2)	-	<b>(1,640)</b>
At 31 March 2018	45,926	16,739	<b>62,665</b>	116,465	2,118	1,771	<b>183,019</b>
Additions – purchased software	-	-	-	-	157	-	<b>157</b>
Disposals	-	-	-	-	(67)	-	<b>(67)</b>
Foreign exchange adjustments	202	85	<b>287</b>	667	2	-	<b>956</b>
At 30 September 2018	46,128	16,824	<b>62,952</b>	117,132	2,210	1,771	<b>184,065</b>
<b>Amortisation and impairment</b>							
At 1 April 2017	6,668	4,598	<b>11,266</b>	-	755	1,207	<b>13,228</b>
Amortisation during the period	2,114	1,688	<b>3,802</b>	-	222	176	<b>4,200</b>
Foreign exchange adjustments	(89)	(82)	<b>(171)</b>	-	-	-	<b>(171)</b>
At 30 September 2017	8,693	6,204	<b>14,897</b>	-	977	1,383	<b>17,257</b>
Amortisation during the period	2,305	1,778	<b>4,083</b>	-	220	329	<b>4,632</b>
Foreign exchange adjustments	(129)	(111)	<b>(240)</b>	-	(2)	-	<b>(242)</b>
At 31 March 2018	10,869	7,871	<b>18,740</b>	-	1,195	1,712	<b>21,647</b>
Amortisation during the period	2,393	1,684	<b>4,077</b>	-	217	24	<b>4,318</b>
Disposals	-	-	-	-	(20)	-	<b>(20)</b>
Foreign exchange adjustments	63	65	<b>128</b>	-	1	-	<b>129</b>
At 30 September 2018	13,325	9,620	<b>22,945</b>	-	1,393	1,736	<b>26,074</b>
<b>Net book value</b>							
At 30 September 2018	32,803	7,204	<b>40,007</b>	117,132	817	35	<b>157,991</b>
At 31 March 2018	35,057	8,868	<b>43,925</b>	116,465	923	59	<b>161,372</b>
At 30 September 2017	37,611	10,688	<b>48,299</b>	117,851	1,013	388	<b>167,551</b>

Goodwill arose on the acquisition of GB Mailing Systems Limited, e-Ware Interactive Limited, Data Discoveries Holdings Limited, Advanced Checking Services Limited, Capscan Parent Limited, TMG.tv Limited, CRD (UK) Limited, DecTech Solutions Pty Ltd, CDMS Limited, Loqate Inc., ID Scan Biometrics Limited and Postcode Anywhere (Holdings) Limited. Under IFRS, goodwill is not amortised and is tested annually for impairment.

Intangible assets categorised as 'other acquisition intangibles' include asset such as non-compete clauses and software technology.

# Notes to the Interim Report

## 12. SHARE-BASED PAYMENTS

The Group operates Executive Share Option Schemes under which executive directors, managers and staff of the Company are granted options over shares.

During the six months ended 30 September 2018, the following share options were granted to executive directors and staff.

Scheme	Date	No. of options	Exercise price	Fair value
Section B options	10 April 2018	100,000	409.0p	120.27p
Matching options	13 August 2018	376,395	2.5p	539.10p

The charge recognised from equity-settled share-based payments in respect of employee services received during the period was £964,000 (2017: £1,101,000).

## 13. LOANS

In April 2014, the Group secured an Australian dollar three year term loan of AUS\$10,000,000. The debt bears an interest rate of +1.90% above the Australian Dollar bank bill interest swap rate ('BBSW'). During the year ending 31 March 2018, this term loan was extended from its original maturity of April 2017 to November 2019. Security on the debt is provided by way of an all asset debenture. During the period, £406,000 (2017: £430,000) was repaid in relation to the Australian dollar term loan.

The Group has a three year revolving credit facility agreement expiring in November 2020 which is subject to a limit of £50,000,000. The facility bears an initial interest rate of LIBOR +1.50%. This interest rate is subject to an increase of 0.25% should the business exceed certain leverage conditions.

	30 Sept 2018 £'000	30 Sept 2017 £'000	31 March 2018 £'000
Opening bank loan	9,248	12,385	12,385
New borrowings	-	10,000	10,000
Repayment of borrowings	(406)	(8,430)	(12,839)
Foreign currency translation adjustment	29	(131)	(298)
Closing bank loan	<u>8,871</u>	<u>13,824</u>	<u>9,248</u>
<b>Analysed as:</b>			
Amounts falling due within 12 months	806	850	797
Amounts falling due after one year	<u>8,065</u>	<u>12,974</u>	<u>8,451</u>
	<u>8,871</u>	<u>13,824</u>	<u>9,248</u>

# Notes to the Interim Report

## 14. RELATED PARTY TRANSACTIONS

During the period, the Group entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into and trading balances outstanding at 30 September are as follows:

Group	Sales to related parties £'000	Purchases from related parties £'000	Net amounts owed by related parties £'000
Directors (see below):			
<b>30 September 2018</b>	-	-	-
30 September 2017	-	-	-
31 March 2018	-	-	-
Other related parties (see below):			
<b>30 September 2018</b>	-	-	-
30 September 2017	-	-	-
31 March 2018	6	-	-

In prior periods, a Non-Executive Director of the Company was a director of Avanti Communications Group Plc which is a client of the Group. A Non-Executive Director of the Company is a Director of Removal Stars Limited which is a client of the Group. Transactions with these companies have been reported under the heading of 'other related parties' in the table above.

### *Terms and conditions of transactions with related parties*

Sales and balances between related parties are made at normal market prices. Outstanding balances with entities other than subsidiaries are unsecured, interest free and cash settlement is expected within 30 days of invoice. Terms and conditions with subsidiaries are the same, with the exception that balances are placed on intercompany accounts with no specified credit period. During the six months ended 30 September 2018, the Group has not made any provision for impairment of financial assets relating to amounts owed by related parties (2017: £nil).

### *Compensation of key management personnel (including directors)*

	Unaudited 6 months to 30 Sept 2018 £'000	Unaudited 6 months to 30 Sept 2017 £'000	Audited Year to 31 March 2018 £'000
Short-term employee benefits	721	753	2,944
Post-employment benefits	36	31	66
Fair value of share options awarded	-	1,980	2,983
	<b>757</b>	<b>2,764</b>	<b>5,993</b>

# Notes to the Interim Report

## 15. EQUITY SHARE CAPITAL

During the period 444,844 (2017: 17,793,273) ordinary shares with a nominal value of 2.5p were issued for an aggregate cash consideration of £446,138 (2017: £58,255,000). The cost associated with the issue of shares was £nil (2017: £1,739,000).

	<b>30 Sept 2018 £'000</b>	30 Sept 2017 £'000	31 March 2018 £'000
<b>Issued</b>			
Allotted, called up and fully paid	<b>3,828</b>	3,812	3,817
Share premium	<b>105,249</b>	104,667	104,814
	<b>109,077</b>	108,479	108,631

## 16. BUSINESS COMBINATIONS

### Acquisitions in the Period Ended 30 September 2018

There were no acquisitions in the period to 30 September 2018.

#### *Contingent consideration IDscan Biometrics*

As part of the share sale and purchase agreement, a contingent consideration amount of up to £8,000,000 was agreed. This payment was subject to certain future revenue and EBITDA targets between 12 and 18 months from completion date. The obligation has been classed as a liability in accordance with the provisions of IAS 32. During the period, final settlement of £45,000 was made (note 17).

### Acquisitions in the Period Ended 30 September 2017

#### *Acquisition of Postcode Anywhere (Holdings) Limited*

On 11 May 2017, the Company acquired 100% of the voting shares of Postcode Anywhere (Holdings) Limited ('PCA'), a provider of UK and International address validation and data quality services, for a total consideration of £73,852,423. The combination of the two businesses represents a highly complementary capability alongside GBG's existing ID registration solutions. The Consolidated Statement of Comprehensive Income includes the results of PCA for the five month period from the acquisition date.

# Notes to the Interim Report

## 16. BUSINESS COMBINATIONS (continued)

The fair value of the identifiable assets and liabilities of PCA as at the date of acquisition was:

	Fair value recognised on acquisition £'000
<b>Assets</b>	
Technology intellectual property	5,733
Customer relationships	24,865
Non-compete agreements	369
Land and buildings	1,251
Plant and equipment	341
Deferred tax assets	440
Trade and other receivables	1,763
Cash	10,949
Trade and other payables	(9,280)
Deferred tax liabilities	(5,676)
<b>Total identifiable net assets at fair value</b>	<b>30,755</b>
Goodwill arising on acquisition	43,097
<b>Total purchase consideration transferred</b>	<b>73,852</b>
<i>Purchase consideration:</i>	
Cash	73,852
<b>Total purchase consideration</b>	<b>73,852</b>
<i>Analysis of cash flows on acquisition:</i>	
Transaction costs of the acquisition (included in cash flows from operating activities)	(735)
Net cash acquired with the subsidiary	10,949
Cash paid	(73,852)
Acquisition of subsidiaries, net of cash acquired (included in cash flows from investing activities)	(62,903)
<b>Net cash outflow</b>	<b>(63,638)</b>

The fair value of the acquired trade receivables amounts to £1,763,000. The gross amount of trade receivables is £1,763,000. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

The goodwill recognised above is attributed to intangible assets that cannot be individually separated and reliably measured from PCA due to their nature. These items include the capability for synergies from bringing the businesses together, combining propositions and capabilities that will help the business achieve accelerated consolidated growth from both cross-sell and up-sell. None of the goodwill is expected to be deductible for income tax purposes.

The transaction costs of £735,000 associated with this acquisition have been expensed and are included in exceptional items in the Consolidated Statement of Comprehensive Income and are part of operating cash flows in the Cash Flow Statement.

From the date of acquisition during the period ending 30 September 2017, PCA has contributed £6,599,000 of revenue and operating profits of £2,388,000 to the Group. If the combination had taken place at the beginning of the six month period, the Group revenue and adjusted operating profits would have been £53,995,000 and £10,446,000, respectively.

# Notes to the Interim Report

## 17. CONTINGENT CONSIDERATION

<b>LIABILITIES</b>	<b>Unaudited 30 Sept 2018 £'000</b>	Unaudited 30 Sept 2017 £'000	Audited 31 March 2018 £'000
Opening	45	7,122	7,122
Fair value adjustment to contingent consideration	-	421	421
Amount foreited by seller	-	-	(495)
Settlement of consideration	(45)	-	(7,460)
Unwinding of discount	-	386	457
Closing	<u>-</u>	<u>7,929</u>	<u>45</u>
<b>Analysed as:</b>			
Amounts falling due within 12 months	-	7,929	45
Amounts falling due after one year	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>7,929</u>	<u>45</u>

The closing balance at 30 September 2017 and at 31 March 2018 relates to provisions for contingent consideration for IDscan. During the year ending 31 March 2018 an amount of £495,000 was forefeited by the seller to allow payment to be made to employees of the acquired company. This amount has been accounted for within exceptional items.

In prior periods, the fair value of contingent consideration was estimated having been determined from management's estimates of the range of outcomes to certain future revenue and EBITDA forecasts for periods between 12 and 18 months from completion date and their estimated respective likelihoods. The contractual cash flows were therefore based on future trading activity, which is estimated based on latest forecasts (Level 3 as defined by IFRS 13). In the current period, management have assessed that it is highly likely that the maximum contingent consideration amount will be payable.

# Notes to the Interim Report

## 18. FINANCIAL INSTRUMENTS – FAIR VALUE MEASUREMENT

The objectives, policies and strategies pursued by the Group in relation to financial instruments are described within the 2018 Annual Report. Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the Group:

	30 September 2018		30 September 2017		31 March 2018	
	Loans and receivables £'000	Fair value profit or loss £'000	Loans and receivables £'000	Fair value profit or loss £'000	Loans and receivables £'000	Fair value profit or loss £'000
<b>Financial assets:</b>						
Trade and other receivables	26,279	-	23,601	-	33,503	-
<b>Total current</b>	<b>26,279</b>	<b>-</b>	<b>23,601</b>	<b>-</b>	<b>33,503</b>	<b>-</b>
<b>Total financial assets</b>	<b>26,279</b>	<b>-</b>	<b>23,601</b>	<b>-</b>	<b>33,503</b>	<b>-</b>
<b>Financial liabilities:</b>						
Loans	8,065	-	12,974	-	8,451	-
<b>Total non-current</b>	<b>8,065</b>	<b>-</b>	<b>12,974</b>	<b>-</b>	<b>8,451</b>	<b>-</b>
Trade and other payables	23,053	-	18,421	-	27,550	-
Loans	806	-	850	-	797	-
Contingent consideration	-	-	-	7,929	-	45
<b>Total current</b>	<b>23,859</b>	<b>-</b>	<b>19,271</b>	<b>7,929</b>	<b>28,347</b>	<b>45</b>
<b>Total financial liabilities</b>	<b>31,924</b>	<b>-</b>	<b>32,245</b>	<b>7,929</b>	<b>36,798</b>	<b>45</b>

Trade and other receivables exclude the value of any prepayments or accrued income. Trade and other payables exclude the value of deferred income. All financial assets and liabilities have a carrying value that approximates to fair value. For trade and other receivables, allowances are made within the book value for credit risk. The Group does not have any derivative financial instruments.

### Contingent consideration

The fair value of contingent consideration is the present value of expected future cash flows based on latest forecasts of future performance.

	Unaudited 30 Sept 2018 £'000	Unaudited 30 Sept 2017 £'000	Audited 31 March 2018 £'000
<b>Fair value within current liabilities:</b>			
Contingent consideration	-	7,929	45

Assets and liabilities for contingent consideration are Level 3 financial instruments under IFRS 13. The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of inputs used in making measurements of fair value. The fair value hierarchy has the following levels:

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



# Notes to the Interim Report

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## 18. FINANCIAL INSTRUMENTS – FAIR VALUE MEASUREMENT (continued)

For financial instruments that are recognised at the fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### **Financial Liabilities**

The Group has an Australian dollar three year term loan of AUS\$10,000,000 maturing in November 2019. The debt bears an interest rate of +1.90% above the Australian Dollar bank bill interest swap rate ('BBSW').

The Group has a 3 year revolving credit facility agreement expiring in November 2020. The facility is subject to a limit of £50,000,000 and bears an initial interest rate of LIBOR +1.50%.

The facilities are secured by way of an all asset debenture.

The Group is subject to a number of covenants in relation to its borrowings which, if breached, would result in loan balances becoming immediately repayable. These covenants specify certain maximum limits in terms of the following:

- Leverage
- Interest cover

At 30 September 2018, 31 March 2018 and 30 September 2017 the Group was not in breach of any bank covenants.

## 19. EVENTS AFTER THE BALANCE SHEET DATE

### **Acquisition of Vix Verify Global Pty Ltd**

On 22 October 2018 the Group acquired 100% of the share capital of Vix Verify Global Pty Ltd ('VVG') an Australian provider of identity verification and location intelligence software, for a cash consideration of A\$38.3 million (circa £21.2 million). The consideration was funded through a combination of existing cash deposits and a £10 million draw down on the Group's existing borrowing facilities.

The acquisition of VVG brings additional scale to GBG's identity verification and location intelligence solutions in Australia and New Zealand, two markets where GBG currently provides fraud detection solutions to customers.

As the completion accounts are yet to be finalised, no information has been disclosed at this time on the fair value of assets and liabilities acquired and goodwill arising.

Further details of the acquisition are set out in a separate regulatory announcement released on 22 October 2018.

# Notes to the Interim Report

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## ALTERNATIVE PERFORMANCE MEASURES

Management assess the performance of the group using a variety of alternative performance measures. In the discussion of the Group's reported operating results, alternative performance measures are presented to provide readers with additional financial information that is regularly reviewed by management. However, this additional information presented is not uniformly defined by all companies including those in the Group's industry. Accordingly, it may not be comparable with similarly titled measures and disclosures by other companies. Additionally, certain information presented is derived from amounts calculated in accordance with IFRS but is not itself an expressly permitted GAAP measure. Such measures are not defined under IFRS and are therefore termed 'non-GAAP' measures and should not be viewed in isolation or as an alternative to the equivalent GAAP measure.

The Group's income statement and segmental analysis separately identify trading results before certain items. The directors believe that presentation of the Group's results in this way is relevant to an understanding of the Group's financial performance, as such items are identified by virtue of their size, nature or incidence. This presentation is consistent with the way that financial performance is measured by management and reported to the Board and assists in providing a meaningful analysis of the trading results of the Group. In determining whether an event or transaction is presented separately, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence. Examples of charges or credits meeting the above definition and which have been presented separately in the current and/or prior years include amortisation of acquired intangibles, share-based payments, acquisition related costs and business restructuring programmes. In the event that other items meet the criteria, which are applied consistently from year to year, they are also presented separately.

The following are the key non-GAAP measures used by the Group:

### ***Adjusted Operating Profit***

Adjusted operating profit means profits before amortisation of acquired intangibles, share-based payments, exceptional items, net finance costs and tax. This is used throughout the Group by management for internal performance analysis and to assess the execution of our strategies. Management believe that it is both useful and necessary to report these measures as they are used for internal performance reporting, these measures are used in setting director and management remuneration and they are useful in connection with discussion with the investment analyst community and debt rating agencies.

### ***Organic Growth***

Organic growth is defined by the Group as year-on-year continuing revenue growth, excluding acquisitions, until the date of their anniversary and represents performance on a comparable basis. Whilst organic growth is neither intended to be a substitute for reported growth, nor is it superior to reported growth, the Group believes that these measures provide useful and necessary information to investors and other interested parties. Specifically, it provides additional information on the underlying growth of the business, it is used for internal performance analysis and it facilitates comparability of underlying growth with other companies (although the term 'organic' is not a defined term under IFRS and may not, therefore, be comparable with similarly titled measures reported by other companies).

### ***Adjusted Earnings and Adjusted Earnings Per Share***

Adjusted earnings represents adjusted operating profit less net finance costs and tax and adjusted EPS represents adjusted earnings divided by the weighted average number of shares in issue, and is disclosed to indicate the underlying profitability of the Group.

# Independent Review Report to GB Group plc

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## Introduction

We have been engaged by the Company to review the condensed set of consolidated financial statements in the half-yearly financial report for the 6 months ended 30 September 2018 which comprises Interim Consolidated Statement of Comprehensive Income, Interim Consolidated Statement of Changes in Equity, Interim Consolidated Balance Sheet, Interim Consolidated Cash Flow Statement and the related explanatory notes 1 to 19. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of consolidated financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

## Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with International Accounting Standards 34 'Interim Financial Reporting' as adopted by the European Union.

As disclosed in note 2, the annual financial statements of the company are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of consolidated financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standards 34 'Interim Financial Reporting' as adopted by the European Union.

## Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of consolidated financial statements in the half-yearly financial report based on our review.

## Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the half-yearly financial report for the 6 months ended 30 September 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

Ernst & Young LLP  
Manchester  
27 November 2018

The maintenance and integrity of the GB Group plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial information since it was initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.