FreeAgent Central Ltd

Report and Financial Statements

Year Ended

31 March 2018

Company Number SC316774

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Directors' Report

The Directors present the annual report and financial statements of FreeAgent Central Ltd and its subsidiaries ("the Group) for the year ended 31 March 2018.

Principal activities

The principal activity of the Group and Company in the year was that of accounting software development.

Business review

Overall growth in 2018 has been strong. Our banking channel has performed particularly well but we have seen some headwinds in the practice channel, courtesy of the turmoil surrounding the IR35 changes (changes made by HMRC in relation to the way contractors are taxed). Revenue for the period was up 22% to £9.8m (Mar 2017: £8.0m) and our forward-looking expectations, measured by our Annualised Committed Monthly Recurring Revenue (ACMRR), increased by 17% to £10.1m (Mar 2017: £8.6m).

Our focus on micro-businesses (those with fewer than 10 employees, which comprise 95% of all businesses in the UK) remains and we believe this gives us a competitive advantage over other providers of cloud-based accounting software who have stated aims of moving up to the larger business end of the market.

Our partnership with the Royal Bank of Scotland Group (RBS) has gone from strength to strength with a growing subscriber base and a continued meaningful investment in product development. On 27 March 2018, the Group announced that RBS had made an offer to acquire the Group. This offer was subsequently accepted by the shareholders and the Scheme of Arrangement was sanctioned at the end of May.

Customer satisfaction levels have remained high throughout the year. The widely-recognised Net Promoter Score (NPS) methodology delivers a rating ranging from -100 to +100, with +50 considered to be very good. During the period our NPS surveys of our direct subscribers averaged a score of +71 (Mar 2017: +72).

Despite these levels of satisfaction we believe it is important to continue to invest in the product. In particular we have made progress in mobile and compliance capabilities during 2018. HMRC's "Making Tax Digital" agenda remains on the horizon and we will be well placed to support small businesses with this move towards digitisation when the time comes.

The FreeAgent team is fundamental to the growth of the business and we work hard to maintain positive culture and values. The period saw growth in the business to 135 employees (Mar 17: 112).

Going concern

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

As a wholly owned subsidiary of FreeAgent Holdings Limited (formerly FreeAgent Holdings plc), part of the Royal Bank of Scotland Group, it is expected that additional resources will be made available for the purposes of investment in product development and customer acquisition. The Directors have reviewed the 12 month forecast and have a reasonable expectation that the Group has adequate resources for the foreseeable future.

Further details regarding the adoption of the going concern basis can be found in the statement of accounting policies in note 1 to the financial statements.

Directors' Report (continued)

Financial risk management

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. For further details on the Group's objectives, policies and processes for managing those risks and the methods used to measure them, please see note 3. Further quantitative information in respect of these risks is presented throughout these financial statements.

Strategic report exemption

The Group is exempt from the preparation of a strategic report.

Results and dividends

The loss for the year ended 31 March 2018 of £1,532k (2017: £2,854k) has been deducted from reserves.
The Directors are unable to recommend the payment of a dividend.

FreeAgent Inc. is not trading and has no net assets at 31 March 2018. Therefore, there is no material difference between the financial statements of the Group and Company.

Directors

The Directors who served during the period and to the date of this report were as follows:

E Molyneux
K Tenner
G Mitchell (appointed 24 July 2017; resigned 3 April 2018)

Disclosure of information to the auditor

Each of the persons who are Directors at the date of approval of this report confirms that:

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

This confirmation is given and should be interpreted in accordance with s418 of the Companies Act 2006.

Small Companies

In preparing the report, the Directors have taken advantage of the small companies exemption provided by section 415A of the Companies Act 2006.

Katherine Tenner

Katherine Tenner
Chief Financial Officer

26 September 2018

Directors' Responsibilities

The Directors are responsible for preparing the strategic report, the Directors' report and the financial statements 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 have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period.

In preparing 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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. 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FREEAGENT CENTRAL LTD

Opinion
We have audited the financial statements of FreeAgent Central Ltd ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 March 2018 which comprise the consolidated and company statement of comprehensive income, the consolidated and company statement of financial position, the consolidated and company statement of cash flows, the consolidated and company statement of changes in equity and the notes to the 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 March 2018 and of the Group's and the Parent Company's loss 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.

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, 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 going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information
The Directors are responsible for the other information. The other information comprises the information included in the annual report, 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

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

- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the Directors' report has 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 the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the director's 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 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; or

- the Directors were not entitled to take advantage of the small companies' exemptions in preparing the Directors' report and from the requirement to prepare a strategic report.

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

In preparing the financial statements, the Directors are responsible for assessing the Group's and the 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 at the Financial Reporting Council's website at:
https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

Alastair Rae (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
Edinburgh
Date 26 SEPTEMBER 2018

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

Consolidated and Company statement of comprehensive income
For the year ended 31 March 2018

	Notes	2018 £'000	2017 £'000
Revenue	4	9,784	8,011
Cost of sales		(2,145)	(1,423)
Gross profit		7,639	6,588
Administrative expenses		(9,468)	(9,000)
Loss from operations	5	(1,829)	(2,412)
Finance expense	6	(93)	(601)
Loss before tax		(1,922)	(3,013)
Tax credit	8	390	159
Loss for the year		(1,532)	(2,854)
Total other comprehensive income		-	-
Total comprehensive loss for the year attributable to shareholders of the parent		(1,532)	(2,854)

FreeAgent Inc., a wholly owned subsidiary detailed in note 11, is not trading and has no net assets at 31 March 2018. Therefore, there is no material difference between the financial statements of the Group and Company.

The notes on pages 14 to 35 form part of these financial statements.

Consolidated and Company statement of financial position
As at 31 March 2018

	Notes	2018 £'000	2017 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	1,131	1,079
Intangible assets	10	2,035	1,638
		3,166	2,717
Current assets			
Trade and other receivables	12	1,327	1,139
Corporation tax receivable		421	209
Cash and cash equivalents		2,299	4,263
		4,047	5,611
Total assets		**7,213**	**8,328**
Liabilities			
Non current liabilities			
Long term provisions	14	177	151
		177	151
Current liabilities			
Trade and other payables	13	9,944	9,854
Provisions	14	-	10
		9,944	9,864
Total liabilities		**10,121**	**10,015**
NET LIABILITIES		**(2,908)**	**(1,687)**
Issued capital and reserves attributable to owners of the parent			
Share capital	16	307	307
Share premium		5,904	5,904
Capital contribution reserve		671	360
Share based payment reserve	17	-	-
Foreign exchange reserve		(10)	(10)
Retained earnings		(9,780)	(8,248)
TOTAL EQUITY		**(2,908)**	**(1,687)**

The financial statements were authorised for issue by the Board of Directors on 26 September 2018 and were signed on its behalf by:

Katherine Tenner
Company Number SC316774

The notes on pages 14 to 35 form part of these financial statements.

Consolidated and Company statement of cash flows
As at 31 March 2018

	Notes	2018 £'000	2017 £'000
Cash flows from operating activities			
Loss for the year		(1,532)	(2,854)
Adjustments for:			
Depreciation of property, plant and equipment	9	421	271
Amortisation of intangible fixed assets	10	676	644
Gain on disposal of property, plant and equipment		(4)	(2)
Foreign exchange		(2)	324
Share based payment expense	17	311	802
Finance costs	6	93	601
Income tax credit		(390)	(159)
		(427)	(373)
(Increase) in trade and other receivables		(185)	(535)
Increase in trade and other payables		80	7,938
Increase/ (decrease) in provisions	15	16	(29)
Cash from operations		(517)	7,001
R&D claim received		175	-
Net cash flows from operating activities		(342)	7,001
Investing activities			
Purchase of property, plant and equipment		(472)	(806)
Proceeds from disposal of property, plant and equipment		4	5
Development of intangibles	10	(1,073)	(379)
Net cash used in investing activities		(1,541)	(1,180)
Financing activities			
Issue of ordinary shares, net of issue costs		10	21
Repayment of loan		-	(2,977)
Drawdown of debt		-	-
Finance costs	6	(91)	(421)
Net cash from financing activities		(81)	(3,377)
Net (decrease) / increase in cash and cash equivalents		(1,964)	2,444
Cash and cash equivalents at beginning of year		4,263	1,819
Cash and cash equivalents at end of year		2,299	4,263

The notes on pages 14 to 35 form part of these financial statements.

Consolidated and Company statement of changes in equity
For the year ended 31 March 2018

	Share capital	Share premium	Share based payment reserve	Foreign exchange reserve	Capital contribution reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1 April 2016	**1**	**6,189**	**656**	**(10)**	-	**(6,442)**	**394**
Loss for the year	-	-	-	-	-	(2,854)	(2,854)
Total comprehensive income for the year	-	-	-	-	-	**(2,854)**	**(2,854)**
Transfer for fully vested options	-	-	(1,030)	-	-	1,030	-
Share based payment charge	-	-	516	-	-	-	516
Issue of share capital	306	(306)	-	-	-	-	-
Exercise of options	-	21	(17)	-	-	18	22
Exercise of warrants	-	-	(125)	-	-	-	(125)
Capital contribution	-	-	-	-	360	-	360
31 March 2017	**307**	**5,904**	-	**(10)**	**360**	**(8,248)**	**(1,687)**
Loss for the year	-	-	-	-	-	(1,532)	(1,532)
Total comprehensive income for the year	-	-	-	-	-	**(1,532)**	**(1,532)**
Share based payment charge	-	-	311	-	-	-	311
Capital contribution	-	-	(311)	-	311	-	-
31 March 2018	**307**	**5,904**	-	**(10)**	**671**	**(9,625)**	**(2,908)**

The following describes the nature and purpose of each reserve within equity.

Reserve	**Description and purpose**
Share capital	Nominal value of issued shares
Share premium	Amount subscribed for share capital in excess of nominal value less associated costs. During the prior year, the Group completed a bonus issue of shares. £306,293 was capitalised from the share premium account to pay up in full 895,161,813 ordinary shares, 423,193,518 series A preference shares and 519,404,902 series B preference shares each of £0.0001666666. After completion of the bonus issue, the shares were consolidated into £0.01 shares.

Share based payment reserve	The share based payment reserve represents equity settled share based employee remuneration until such share options are exercised.
Foreign exchange reserve	The difference arising on the translation of the assets and liabilities of the overseas subsidiary company into the functional currency of the Group.
Capital contribution reserve	Recognition of reserve in relation to those share options granted by FreeAgent Holdings Limited (formerly FreeAgent Holdings plc) after the share for share exchange had taken place.
Retained earnings	All other net gains and losses not recognised elsewhere.

The notes on pages 14 to 35 form part of these financial statements.

Notes to the consolidated financial statements for the year ended 31 March 2018

1. Accounting policies

General information

The Company is a private limited company, limited by shares, incorporated and registered in Scotland, UK. The Company's registered office and company number are disclosed on the company information page. The Group and Company's principal activity is as described in the Directors' report. The functional currency used to prepare these financial statements is GBP and is rounded to the nearest thousand.

Basis of preparation

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

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) and IFRS Interpretations Committee (IFRIC) interpretations as adopted by the European Union as at 31 March 2018, and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention and are presented in Sterling rounded to the nearest thousand except where indicated otherwise.

Standards or interpretations issued but not yet effective and relevant to the Group

The International Accounting Standards Board has issued a number of standards, amendments and interpretations which are not yet effective and which may have an impact on the Group's financial statements. These are detailed below. The Group has not applied these in preparing these financial statements and will apply each standard in the period in which it becomes mandatory:

IFRS 9 – Financial Instruments – Classification and Measurement: This standard addresses the classification, measurement and de-recognition of financial assets, financial liabilities, impairment of financial assets and hedge accounting, and will be effective for the year ended 31 March 2019. The Directors have considered the impact of this standard and do not believe there will be any significant effect.

IFRS 15 – Revenue from Contracts with Customers: This standard establishes the framework for revenue recognition, and will be effective for the year ended 31 March 2019. The Directors have considered the impact of this standard and do not believe there will be any significant effect.

IFRS 16 – Leases: This standard will be effective for the year ended 31 March 2020 and is expected to have an impact on the amounts recognised in the Group's consolidated financial statements. On adoption of IFRS 16 the Group will recognise within the statement of financial position a right of use asset and lease liability for all applicable leases. Within the consolidated statement of comprehensive income, rent expense will be replaced by depreciation and interest expense. Had the standard been adopted for the year ended 31 March 2018, the Group estimates the impact of this change on the consolidated statement of financial position would be the addition of around £3,106k of assets and £3,546k of liabilities. The Group intends to adopt the standard from 2019.

Basis of consolidation

Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the company considers all relevant facts and circumstances, including:

- The size of the company's voting rights relative to both the size and dispersion of other parties who hold voting rights
- Substantive potential voting rights held by the company and by other parties
- Other contractual arrangements
- Historic patterns in voting attendance.

The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

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, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

Going concern

The financial statements have been prepared on a going concern basis.

Overall progress during the year has been strong, particularly in our Banking channel, despite headwinds in the practice channel driven by the turmoil surrounding the IR35 changes. The RBS partnership has continued to prosper and we were pleased on 27 March to announce the terms of a recommended cash offer for FreeAgent Holdings Limited (formerly FreeAgent Holdings plc), the Group's ultimate controlling party, by a wholly-owned indirect subsidiary of RBS at a price of 120 pence per share. The transaction completed on 1 June 2018.

As a wholly owned subsidiary of FreeAgent Holdings Limited (formerly FreeAgent Holdings plc), part of the Royal Bank of Scotland Group, it is expected that additional resources will be made available for the purposes of investment in product development and customer acquisition. The Directors have reviewed the 12 month forecast and have a reasonable expectation that the Group has adequate resources for the foreseeable future.

Revenue

Revenue in relation to online software subscriptions is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recorded net of VAT and discounts. Revenue is recognised in the accounting period in which the service is rendered. Annual subscriptions are recognised on a straight-line basis over the length of the subscription. Consideration received prior to the service being rendered is recognised in the statement of financial position as deferred income. Revenue in relation to development income is recognised when software engineer's time is incurred at a contracted daily rate in relation to the contracted development activity.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided at the following annual rates in order to write off the cost of each asset to residual value over its estimated useful life:

Computer equipment	-	33.3% on a straight-line basis
Fixtures and fittings	-	20% on a straight-line basis

The Directors assess the property, plant and equipment for impairment on an ongoing basis. The majority of the assets are located in the office in Edinburgh where the Executive Directors are based. Any asset that is impaired is identified by staff members and the Chief Technical Officer is informed. No assets were impaired during the financial year.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Research and development tax credits are claimed in relation to time incurred in researching and developing the software product. Only those costs meeting the qualifying criteria as set out in the HMRC guidance are included in the claim. A provision is recorded using the tax rates as set out under the HMRC R&D SME scheme.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the statement of financial position date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the reporting date. Timing differences are differences between the taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be sufficient taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the reporting date. Deferred tax is measured on a non-discounted basis.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. All differences are taken to profit or loss.

The results of overseas subsidiaries are translated at the rate ruling at the date of the transaction and their financial positions at the rates ruling at the reporting date.

Leasing commitments

Rentals paid under operating leases are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease. Lease incentives are recognised on a straight-line basis over the term of the lease.

Dilapidations provision

On termination of all lease commitments, the Group is required to reinstate leased property to its condition at the time the lease commenced. The cost of this is estimated, with assistance from our building surveyors, and a provision is recorded. The provision is discounted to present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The carrying value of the provision is increased in each period and the increase is recognised as an expense in the consolidated statement of comprehensive income.

Pensions

The Company operates a defined contribution pension scheme. Contributions payable for the period are charged to the consolidated statement of comprehensive income.

Financial assets

The Group classifies its financial assets as loans and receivables. The Group has not classified any of its financial assets as fair value through profit or loss or as held to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. 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 are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses 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.

Loans and receivables 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 and deposits held at call with banks.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Share-based payments

Where equity settled share options are awarded to employees, including awards made under long term incentive plans, the fair value of the options at the date of grant is charged to the consolidated statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

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

Following the share-for-share exchange that occurred on 21 October 2016 the employees of the Company who held share options now hold share options in the parent company, FreeAgent Holdings Limited (formerly FreeAgent Holdings plc). In accordance with IFRS 2:

- the fair value of the options is recognised in the parent company over whose shares the employees hold options
- the share based payment expense in relation to these options is recognised as a charge to the statement of comprehensive income with the corresponding movement in equity recognised as a capital contribution by the parent company

Warrants

Warrants are considered to be share based payments and are accounted for in accordance with IFRS 2. The fair value of issued warrants is credited to the share based payment reserve at the time of issue of the warrants. Upon the exercise of warrants, the fair value held in the share based payment reserve is transferred to the share premium reserve.

Internally generated intangible assets (development costs)

Expenditure on internally developed software is capitalised only when it can be demonstrated that:

- it is technically feasible to develop the software for it or its use to be sold
- adequate resources are available to complete the development

- there is an intention to complete and sell the software or its use
- the Group is able to sell the software or its use
- sale of the software or its use will generate future economic benefits, and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Company expects to benefit from selling the software developed or its use. The amortization rate used is 20% per annum on a straight-line basis. The amortisation expense is included within the administrative expenses in the consolidated statement of comprehensive income.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the consolidated statement of comprehensive income as incurred.

The Directors review the development costs twice per annum for impairment (at the half year and at the year-end). They do this by considering the product roadmap and reviewing the plans for improvement or replacement of existing features in the application.

Intangible assets (domain name)

The domain name is stated at cost, net of amortisation and any provision for impairment.

Amortisation is provided at the following annual rate in order to write off the asset to zero over its estimated useful life:

Domain name	-	5% on a straight-line basis

The Directors assess the domain name for impairment annually by reviewing and reporting on the number of monthly visits to the website.

2. Significant accounting judgments and estimates

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Share based payments

Share options, including options issued under the LTIP, are recognised as an expense, based on their fair value at date of grant. The fair value of the options is estimated through the use of a valuation model – which requires inputs such as the risk-free interest rate, expected dividends, expected volatility and expected option life – and is expensed over the vesting period. Some of the inputs used to calculate the fair value are market observable and are based on estimates derived from available data. Following the share for share exchange on 21 October 2016 (see note 17), share capital and the value of any options are now held in FreeAgent Holdings Limited (formerly FreeAgent Holdings plc), therefore the value of the share options in FreeAgent Central Ltd at the year-end was £Nil (2017: £Nil).

Warrants

The fair value of warrants is estimated through the use of a valuation model – which requires inputs such as the risk-free interest rate, expected dividends, expected volatility and expected option life. Some of the inputs used to calculate the fair value are market observable and are based on estimates derived from available data. Following the share for share exchange on 21 October 2016 (see note 17), warrants are now accounted for in FreeAgent Holdings Limited (formerly FreeAgent Holdings plc), therefore the value of the warrants in FreeAgent Central Ltd at the year-end was £Nil (2017: £Nil).

Capitalisation of development costs
It is a requirement under IFRS that development costs that meet the criteria prescribed in the standard are capitalised. The assessment of each project requires that a judgement is made as to the commercial viability and the ability of the Group to bring the software to market. At 31 March 2018 the net book value of capitalised development costs was £2,015k (2017: £1,617k).

Dilapidations provision
A provision has been recognised for the reinstatement of the Group's leasehold property to the condition the property was in at the time the lease commenced. This provision requires a judgement to be made as to the likely dilapidations over the life of the lease. This has been estimated with advice from external surveyors. The cost of the dilapidations will not be known until the premises are vacated at the end of the lease. The lease is a ten year lease with a break at year five. The value of the provision at 31 March 2018 was £177k (2017: £161k).

3. Financial instruments – risk management

The Group is exposed through its operations to the following financial risks:

- Credit risk
- Foreign exchange risk
- Liquidity risk

In common with all other businesses, the Company 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.

The principal financial instruments used by the Company and Group, from which the financial instrument risk arises, are as follows:

- Trade receivables
- Cash and cash equivalents
- Trade and other payables
- Bank borrowings

A summary of the financial instruments held by category is provided below.

Financial assets

	2018 £'000	**2017 £'000**
Current		
Trade receivables	517	552
Other receivables	514	384
Loans and receivables	1,031	936
Cash and cash equivalents	2,299	4,263
Total financial assets	3,330	5,199

All financial assets held by the Company and Group at 31 March 2018 are classified as loans and receivables or cash and cash equivalents and there is no difference between the carrying amount and the fair value.

As at 31 March 2018 the largest customer owed £196k. This balance was settled by 11 April 2018.

Financial liabilities

	2018 £'000	2017 £'000
Current		
Trade payables	883	598
Other payables	790	757
Payable to parent company	6,809	7,141
Current financial liabilities	8,482	8,496
Non-current		
Bank borrowings	-	-
	-	-
Total financial liabilities	8,482	8,496

All financial liabilities held by the Group at 31 March 2018 are classified as held at amortised cost.

At 31 March 2018	**Up to 3 months £'000**	**Between 3 and 12 months £'000**	**Between 1 and 2 years £'000**	**Between 2 and 5 years £'000**	**Over 5 years £'000**
Trade and other payables	8,480	2	-	-	-
Total	8,480	2	-	-	-

At 31 March 2017	**Up to 3 months £'000**	**Between 3 and 12 months £'000**	**Between 1 and 2 years £'000**	**Between 2 and 5 years £'000**	**Over 5 years £'000**
Trade and other payables	8,496	-	-	-	-
Total	8,496	-	-	-	-

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's Chief Executive Officer.

The overall objective of the Board is to set policies that seek to reduce the risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is mainly exposed to credit risk from credit sales.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum "A" rating are accepted.

Further disclosures regarding trade and other receivables are provided in note 13.

Cash at bank and borrowings

All cash is held with Barclays Bank Plc. The Group has an undrawn, committed overdraft facility of £10,000.

Foreign exchange risk

Foreign exchange risk arises when the Group enters into transactions denominated in a currency other than the functional currency. The Company receives less than 5% of sales income in USD.

Liquidity risk

Liquidity risk arises from the management of working capital. The Group manages the risk that it will encounter difficulty in meeting its financial obligations as they fall due by forecasting its short term cash position on a regular basis. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances to meet all liabilities with a cash buffer sufficient to meet the monthly payroll.

The Board receives rolling 12-month cash flow projections on a monthly basis as well as information regarding cash balances. With cash reserves of £2.3m at the period end and expected investment from the parent company, the Group will have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

In the management of liquidity risk, the Group monitors and tries to maintain a level of cash and cash equivalents deemed adequate by management to finance its operations and mitigate the effects of fluctuations in cash flows.

4. Segmental reporting

All revenue is generated from the sale or use of our online accounting software. As such the Group is not required to provide any detailed segmental analysis. The Group received development income through its partnership with RBSG which will be utilised to progress our revenue stream from this source. During the year the Group received revenue from RBS of £943k (2017: £562k).

The majority of our customers are based in the UK. In the year to 31 March 2018, revenue of £284k (2017: £180k) was generated from customers based outside of the UK.

5. Loss from operations

Loss from operations is stated after taking account of the following items:

	2018 £'000	2017 £'000
Depreciation of property, plant and equipment	421	271
Amortisation of intangibles	676	644
Operating lease expense	477	165
Research and development costs expensed	165	157
Share based payment expense – employee options	34	648
Share based payment expense - LTIP	277	154
Foreign exchange (gain)/loss	(2)	324
Gain on disposal of property, plant & equipment	(4)	(2)
Fees payable to the Group's auditor for the audit of the Group financial statements	34	30
Fees payable to the Group's auditor for tax compliance	3	9

The fee for audit services of £34k includes £25k in relation to the audit of FreeAgent Central Ltd and £9k paid on behalf of the parent company, FreeAgent Holdings Limited (formerly FreeAgent Holdings plc).

6. Finance expense

	2018 £'000	2017 £'000
Warrant expense	-	180
Bank charges	93	234
Interest payable on bank borrowings	-	187
	93	601

7. Employee benefit expenses

	2018 £'000	2017 £'000
Staff costs (including Directors) comprise:		
Wages and salaries	6,164	4,824
Social security contributions and similar taxes	705	564
Defined contribution pension costs	184	113
Share based payment expense	311	802
Transfer to capitalised development	(888)	(329)
	6,476	5,974

The charge related to share based payments in 2018 was £311k (2017: £802k).

As at 31 March 2018, there was a pension creditor of £34k (2017: £23k).

Key management compensation

	2018 £'000	2017 £'000
Salary, fees, benefits in kind	995	868
Social security contributions and similar taxes	129	111
Defined contribution pension cost	42	27
Share based payment expense	231	256
	1,397	1,262

Key management compensation comprises the 9 (2017: 8) members of the executive management team.

Directors' compensation

	2018 £'000	2017 £'000
Salary, fees, benefits in kind	320	327
Social security contributions and similar taxes	41	42
Defined contribution pension cost	12	12
Share based payment expense	31	203
	404	584

Staff numbers

The average monthly number of persons employed, including Directors and individuals employed by the Group are as follows:

	2018 No.	2017 No.
Sales and marketing	41	36
Product and engineering	57	44
Support	20	18
Administration	6	4
Management (including Directors)	11	8
	135	110

8. Income tax credit

Current tax credit	2018 £'000	2017 £'000
Current tax on loss for the year	(224)	(35)
Adjustment to tax in respect of previous periods	(166)	(124)
Total tax credit	(390)	(159)

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits for the year are as follows:

	2018 £'000	2017 £'000
Loss for the year	(1,922)	(3,041)
Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 19% (2017: 20%)	(365)	(608)
Fixed asset timing differences	29	-
Expenses not deductible for tax purposes	26	956
Exercise of share options	-	(28)
Exercise of warrants	-	(111)
Adjustment to tax in respect of prior periods	(166)	(124)
R&D tax relief	(96)	(244)
Deferred tax not recognised	182	-
Total tax credit	(390)	(159)

9. Property, plant and equipment

Cost	Computer equipment £'000	Fixtures & fittings £'000	Total £'000
Balance at 1 April 2017	601	1,291	1,892
Additions	159	314	473
Disposals	(22)	-	(22)
Balance at 31 March 2018	**738**	**1,605**	**2,343**
Accumulated depreciation and impairment			
Balance at 1 April 2017	324	489	813
Depreciation charge for the year	173	248	459
Disposals	(22)	-	(22)
Balance at 31 March 2018	**475**	**737**	**1,212**
Net Book value			
At 31 March 2018	**263**	**868**	**1,131**
At 31 March 2017	277	802	1,079

Cost	Computer equipment £'000	Fixtures & fittings £'000	Total £'000
Balance at 1 April 2016	378	891	1,269
Additions	243	400	643
Disposals	(20)	-	(20)
Balance at 31 March 2017	**601**	**1,291**	**1,892**
Accumulated depreciation and impairment			
Balance at 1 April 2016	241	318	559
Depreciation charge for the year	100	171	271
Disposals	(17)	-	(17)
Balance at 31 March 2017	**324**	**489**	**813**
Net Book value			
At 31 March 2017	**277**	**802**	**1,079**
At 31 March 2016	137	573	710

10. Intangible assets

	Domain name	Development costs	Total
Cost	**£'000**	**£'000**	**£'000**
Balance at 1 April 2017	32	4,074	4,106
Additions	-	1,073	1,073
Balance at 31 March 2018	**32**	**5,147**	**5,179**
Accumulated depreciation and impairment			
Balance at 1 April 2017	11	2,457	2,468
Depreciation charge for the year	1	675	676
Balance at 31 March 2018	**12**	**3,132**	**3,144**
Net Book value			
At 31 March 2018	**20**	**2,015**	**2,035**
At 31 March 2017	21	1,617	1,638

	Domain name	Development costs	Total
Cost	**£'000**	**£'000**	**£'000**
Balance at 1 April 2016	32	3,695	3,727
Additions	-	379	379
Balance at 31 March 2017	**32**	**4,074**	**4,106**
Accumulated depreciation and impairment			
Balance at 1 April 2016	10	1,814	1,824
Depreciation charge for the year	1	643	644
Balance at 31 March 2017	**11**	**2,457**	**2,468**
Net Book value			
At 31 March 2017	**21**	**1,617**	**1,638**
At 31 March 2016	22	1,881	1,903

11. Investments in subsidiaries

The subsidiaries of FreeAgent Central Ltd are as follows:

Name of subsidiary	Share class	Shareholding	Registered Office and Country of incorporation
FreeAgent Inc	Ordinary	100%	2922 Cleveland Road Wooster, OH 44691 United States of America **Principal place of business** 1 Edinburgh Quay, 133 Fountainbridge, Edinburgh EH3 9QG

12. Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	517	552
Prepayments	296	203
Accrued income	214	93
Other receivables	300	291
	1,327	1,139

Invoices for services rendered are due immediately upon rendering of the invoice. The ageing analysis of the trade receivables is as follows:

	2018 £'000	2017 £'000
Up to 3 months	517	545
3 to 6 months	-	7
6 to 12 months	-	-
Over 12 months	-	-
	517	552

Invoices are payable on receipt and therefore all of the trade receivable balance is past due. As at 31 March 2018 trade receivables of £44k (2017: £5k) were considered bad or doubtful and are provided against. All of the receivables balance which is greater than 3 months old has either been provided against or has been received post year end.

13. Trade and other payables

	2018 £'000	2017 £'000
Trade payables	883	598
Accrued expenses	777	706
Deferred income	918	913
Tax and social security payable	486	445
Other creditors	71	51
Payable to parent company	6,809	7,141
	9,944	9,854

14. Provisions

	Leasehold dilapidations £'000
At 1 April 2017	161
Charged to profit or loss	26
Utilised during the year	(10)
At 31 March 2018	**177**
Due within one year	-
Due after more than one year	177
	177

This provision relates to the estimated cost of returning leasehold properties to their original state at the end of the lease in accordance with the lease terms. The associated cost within fixed assets is being written off to the statement of comprehensive income over a 5-year period in line with the period to the lease break.

15. Deferred tax

The Directors are confident that the Company will be in a profitable position in the future, but there remains sufficient uncertainty over the timing of profits to result in recognition of a deferred tax asset which will be recoverable in the foreseeable future. Accordingly, no deferred tax asset is recognised.

The unrecognised deferred tax asset is made up of the following:

	2018 £'000	2017 £'000
Temporary timing differences	(172)	15
Unused taxed losses	1,007	467
Share based payments	222	243
	1,057	725

16. Share capital

Authorised, allocated, called up and fully paid

	2018 Number	2018 £'000	2017 Number	2017 £'000
Ordinary shares of £0.01				
At 1 April	30,740,470	307	1,494,427	15
Shares issued for cash	-	-	-	-
Bonus issue of shares*	-	-	13,449,843	135
Exercise of options	-	-	60,000	-
Conversion of pref. shares	-	-	15,736,200	157
At 31 March	30,740,470	307	30,740,470	307
Preference A shares of £0.01				
At 1 April	-	-	706,500	7
Bonus issue of shares	-	-	6,358,500	64
Conversion to ord. shares	-	-	(7,065,000)	(71)
At 31 March	-	-	-	-
Preference B shares of £0.01				
At 1 April	-	-	867,120	9
Bonus issue of shares	-	-	7,804,080	78
Conversion to ord. shares	-	-	(8,671,200)	(87)
At 31 March	-	-	-	-

* During the prior year, the Group completed a bonus issue of shares. £306,293 was capitalised from the share premium account to pay up in full 895,161,813 ordinary shares, 423,193,518 series A preference shares and

519,404,902 series B preference shares each of £0.0001666666. After completion of the bonus issue, the shares were consolidated into £0.01 shares. The table above has been presented following the consolidation of shares.

Immediately prior to the IPO by FreeAgent Holdings Limited (formerly FreeAgent Holdings plc), the holders of preference shares converted their shares into ordinary shares on a 1:1 basis.

Options of 60,000 shares were exercised around the time of the IPO in November 2016.

17. Share based payment

During the prior year, a share for share exchange occurred which resulted in all existing shareholders of FreeAgent Central Ltd being granted equivalent shares in the parent company of the newly formed Group, FreeAgent Holdings Limited (formerly FreeAgent Holdings plc). At the same time, all share options and warrants which existed at that time were surrendered and equivalent share options and warrants were granted in FreeAgent Holdings Limited (formerly FreeAgent Holdings plc). In accordance with IFRS2 where there are share based payment arrangements involving equity instruments of the parent company, the share based payment expense is recognised within the subsidiary along with a corresponding balance in a capital contribution reserve.

The Group operates an EMI scheme for employees, a LTIP for senior management and a Sharesave scheme ("SAYE") for employees. There are also some outstanding warrants which were issued in prior years as part of debt financing arrangements.

EMI Options

The Group operates an EMI share option plan for employees. The options are valid for 10 years from the date of grant. Following the IPO in November 2016, all options currently outstanding are exercisable at any time up until the 10 year anniversary of the grant date.

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

	2018 WAEP		2017 WAEP	
	Number	Price (pence)	Number	Price (pence)
Outstanding at the beginning of the year	1,813,300	64	1,003,800	34
Granted during the year	-	-	927,500	96
Exercised during the year	(28,800)	35	(60,000)	37
Expired during the year	-	-	(58,000)	80
Outstanding at the year end	1,784,500	65	1,813,300	64
Exercisable at the year end	1,784,500	65	1,813,300	64

The options outstanding at the year-end are set out below:

			2018		2017	
Date of grant	**Expiry date**	**Exercise price (p)**	**Share options**	**Remaining life**	**Share options**	**Remaining life**
01/04/2011	31/03/2021	18.89	454,200	3 years	457,200	4 years
12/03/2012	11/03/2022	36.67	180,000	4 years	205,800	5 years
15/03/2013	14/03/2023	45.00	184,800	5 years	184,800	6 years
31/01/2014	30/01/2024	85.76	78,000	6 years	78,000	7 years
31/05/2016	30/05/2026	100.00	675,000	8 years	675,000	9 years
07/11/2016	06/11/2026	84.00	212,500	9 years	212,500	10 years
			1,784,500		1,813,300	

The Group uses a Black Scholes model to estimate the cost of EMI share options.

The following information is relevant in the determination of the fair value of EMI options outstanding during the year. The assumptions inherent in the use of this model are as follows:

- The option life is the estimated average period over which the options will be exercised. The options may be exercised at any time up until the 10 year anniversary of the date of grant.
- There are no vesting conditions remaining which apply to the share options.
- No variables change during the life of the option (eg dividend yield remains zero).
- Volatility has been calculated over the 5 year period prior to the grant date by reference to the daily share price of comparable listed companies. The volatility rate used was 70%.
- Risk free interest rates of 3.7%, 2.3%, 1.9%, 2.9%, 1.6% and 1.4% have been used for each issue in chronological order from 2011 to 2016.

The total expense recognised during the year by the Group was £nil (2017: £648k).

The weighted average remaining life of the options outstanding at the end of the year was 6 years (2017: 7 years).

LTIP Options

The Group operates a LTIP for senior management. The options are valid for 10 years from the date of grant. The awards will vest in 2019 upon achievement of certain performance targets.

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

	2018	WAEP	2017	WAEP
	Number	Price (pence)	Number	Price (pence)
Outstanding at the beginning of the year	532,998	85	-	-
Granted during the year	270,122	102	532,998	85
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the year end	803,120	90	532,998	85
Exercisable at the year end**	803,120	90	-	-

The options outstanding at the year-end are set out below:

			2018		**2017**	
Date of grant	**Expiry date**	**Exercise price (p)**	**Share options**	**Remaining life**	**Share options**	**Remaining life**
16/11/2016	15/11/2026	84.00	214,285^	9	214,285^	10
21/12/2016	18/12/2026	85.50	318,713*	9	318,713*	10
01/06/2017	01/06/2027	101.5	270,122	10	-	-
			803,120		532,998	

The Group uses a Black Scholes model to estimate the cost of LTIP share options.

The following information is relevant in the determination of the fair value of LTIP options outstanding during the year. The assumptions inherent in the use of this model are as follows:

- The option life is the estimated average period over which the options will be exercised.
- ^The options are fully vested but subject to a one year lock-in.
- *The options will vest in FY 2020 following achievement of certain performance targets.
- No variables change during the life of the option (eg dividend yield remains zero).

- Volatility has been calculated over the 5 year period prior to the grant date by reference to the daily share price of comparable listed companies. The volatility rate used was 50%.
- Risk free interest rates of 1.4%, 1.4% and 1.0% have been used for each issue in chronological order.
- **All LTIP options were exercised on 1 June 2018 as a result of the RBS transaction. For more details please refer to note 20

The total expense recognised during the year by the Group in respect of the LTIP was £277k (2017: £154k).

The weighted average remaining life of the options outstanding at the end of the year was 9 years (2017: 10 years).

No LTIP options were exercised during the period (2017: none).

SAYE

The Group operates a Sharesave Scheme ("SAYE") for employees. The scheme was open to all employees of the Group at the launch date. Under the scheme, members save a fixed amount each month for three years. At the end of the three-year period they are entitled to use these savings to buy shares in the Company at 80% of the market value (94.5p) at launch date.

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

	2018 WAEP		2017 WAEP	
	Number	Price (pence)	Number	Price (pence)
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	570,804	120	-	-
Expired during the year*	(44,760)	(120)	-	-
No longer vesting^	(279,116)	(120)	-	-
Outstanding at the year end	246,928	120	-	-
Exercisable at the year end**	246,928	120	-	-

The options outstanding at the year-end are set out below:

			2018		2017	
Date of grant	**Expiry date**	**Exercise price (p)**	**Share options**	**Remaining life**	**Share options**	**Remaining life**
01/07/2017	01/06/2027	120.0	570,804	9	-	-
			570,804		-	

The Group uses a Black Scholes model to estimate the cost of SAYE share options.

The following information is relevant in the determination of the fair value of SAYE options outstanding during the year. The assumptions inherent in the use of this model are as follows:

- The option life is the estimated average period over which the options will be exercised.
- *The options are fully vested but subject to the employee remaining with the Group. All leavers forfeit their rights to any options.
- **All SAYE options were exercised on 1 June 2018 as a result of the RBS transaction. For more details please refer to note 20.
- ^The transaction discussed in the strategic report has reduced amount of SAYE options vesting. For more details please refer to note 20.
- No variables change during the life of the option (eg dividend yield remains zero).

- Volatility has been calculated over the 5 year period prior to the grant date by reference to the daily share price of comparable listed companies. The volatility rate used was 50%.
- A risk free interest rate of 0.39% has been used for the issue.

The total expense recognised during the year by the Group in respect of the SAYE was £34k.

The weighted average remaining life of the options outstanding at the end of the year was 9 years.

No SAYE options were exercised during the period.

Warrants

The Group has issued warrants to debt providers as part of the finance cost of providing the loan facility. The warrants are exercisable at any time.

Details of the number of warrants and the weighted average exercise price (WAEP) outstanding during the year are as follows:

	2018 WAEP		2017 WAEP	
	Number	Price (pence)	Number	Price (pence)
Outstanding at beginning of the year	270,000	89	449,330	77
Granted during the year	-	-	-	-
Exercised during the year	-	-	(91,495)	60
Forfeited during the year	-	-	(87,835)	60
Outstanding at the year end	270,000	89	270,000	89
Exercisable at the year end	270,000	89	270,000	89

The warrants outstanding at the year end are set out below:

			2018		**2017**	
Date of grant	**Expiry date**	**Exercise price (p)**	**Warrants**	**Remaining life**	**Warrants**	**Remaining life**
27/02/2015	26/02/2025	89	270,000	7	270,000	8 years
			270,000		270,000	

The Group uses a Black Scholes model to estimate the cost of the warrants.

The following information is relevant in the determination of the fair value of warrants outstanding during the year. The assumptions inherent in the use of this model are as follows:

- The warrant life is the estimated average period over which the warrants will be exercised.
- There are no vesting conditions remaining which apply to the warrants.
- No variables change during the life of the warrant (eg dividend yield remains zero).
- Volatility has been calculated over the 5 year period prior to the grant date by reference to the daily share price of comparable listed companies. The volatility rate used was 70%.
- A risk-free interest rate of 1.86% has been used.

There were no warrants granted during the current or prior year.

The total expense recognised during the year by the Group was £nil (2017: £180k).

The weighted average remaining life of the warrants outstanding at the end of the year was 7 years (2016: 8 years).

During the prior year Kreos Capital IV (Expert Fund) Limited exercised warrants in exchange for 91,495 ordinary shares of 0.01 pence each. The warrant exercise was effected as a cashless exercise in accordance with the terms of the warrant instrument, as a result of which Kreos Capital IV (Expert Fund) Limited waived its rights to the balance of 87,835 warrant shares previously held.

18. Leases

Operating leases – lessee

The total future value of minimum lease payments is due as follows:

	2018 £'000	2017 £'000
Not later than one year	433	376
Later than one year and not later than five years	1,516	1,929
Later than five years	-	-
	1,949	2,305

The Group entered into a 10-year lease (with a break at year 5) in September 2015 for the premises on the 4th Floor at Edinburgh Quay. A further 10-year lease (with a break at year 5) was entered into in January 2017 for the 5th Floor at Edinburgh Quay. The break period for the 4th floor was aligned to the same date as the break period for the 5th Floor (23rd January 2022).

19. Related party transactions

At the year end, there is a balance of £6,809k owed to the parent company, FreeAgent Holdings Limited (formerly FreeAgent Holdings plc). Also during the year, professional fees and administrative expenses were made on behalf FreeAgent Holdings Limited (formerly FreeAgent Holdings plc) of £342k (2017 - £380k), including a payment of £15k to Mr N Halkes, a non-executive director of FreeAgent Holdings Limited (formerly FreeAgent Holdings plc), for consultancy services.

In addition, there is a share based payment expense of £156k (2017 - £360k) in respect of share options granted in FreeAgent Holdings Limited (formerly FreeAgent Holdings plc) to employees of FreeAgent Central Ltd.

20. Events after the statement of financial position date

On 27 March 2018, the terms of a recommended cash offer for the parent company, FreeAgent Holdings Limited (formerly FreeAgent Holdings plc), by a wholly-owned indirect subsidiary of RBS at a price of 120 pence per share was announced. Formal offer documentation was dispatched to FreeAgent shareholders on April 11. The Scheme of Arrangement was sanctioned by the court on 30 May 2018 and the transaction was effective on 1 June 2018.

The terms of the offer state that the Company will remain operationally independent from the RBS group. There are no planned reductions to headcount and the headquarters of the Group will remain at Edinburgh Quay.

An advisory fee of £400,000 was payable in full immediately upon completion of the transaction, when the offer was declared unconditional in all respects. This occurred on 30 May 2018, on the court ordered scheme sanction. There was an additional advisory fee of £150,562, equivalent to 2.5% of the excess of the fully-diluted offer value above 105p per share. There were further associated costs of £95,000 in legal and professional fees. These fees were paid on FreeAgent Holdings Limited (formerly FreeAgent Holdings plc)'s behalf by the Company.

The transaction has resulted in changes to the outstanding share options and warrants.

- The EMI options were all exercised at the time of the transaction;
- The LTIP options were all exercised at the time of the transaction. The performance conditions were waived and the vesting was accelerated so that all granted LTIP options were exercisable. The expense recognised by the Group was £51k;
- The warrants were all exercised at the time of the transaction; and
- Those members of the SAYE plan were given the opportunity to exercise their options at the time of the transaction or to continue saving for 6 months after the effective date. At the balance sheet date, no options had been exercised. The expense recognised by the Group is expected to be £29k.

21. Capital commitments

At 31 March 2018, the Group had no capital commitments (2017: £nil).

22. Controlling Party

The Company is a wholly owned subsidiary of FreeAgent Holdings Limited (formerly FreeAgent Holdings plc). FreeAgent Holdings Limited (formerly FreeAgent Holdings plc) are considered to be the ultimate controlling party. FreeAgent Holdings Limited (formerly FreeAgent Holdings plc) prepare publicly available consolidated financial statements which include these results and can be obtained from the Group's website www.freeagent.com and Companies House.

Company information

Country of incorporation
United Kingdom

Company number
SC316774

Directors
Ed Molyneux
Katherine Tenner
Guy Mitchell (resigned 3 April 2018)

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