IDE Group Holdings Plc

("IDE", the "Group" or the "Company")

Audited Results for the Year Ended 31 December 2018

Notice of Annual General Meeting

IDE, the mid-market network, cloud and IT Managed Services provider, announces its audited results for the year ended 31 December 2018.

The Annual Report and Accounts for the year ended 31 December 2018 are now available on the Company's website at www.idegroup.com.

Copies of the Annual Report and Accounts, including the Notice of Annual General Meeting ("AGM") and Form of Proxy are being posted to shareholders today. The Company's Annual General Meeting will be held at 10.00 a.m. on 21 August 2019 at the offices of DAC Beachcroft LLP, 25 Walbrook, London EC4N 8AF.

Following the release of these final audited results, the Company announces that the suspension of the Company's ordinary shares of 2.5 pence each ("Ordinary Shares") from trading on AIM will be lifted and trading in the Company's Ordinary Shares on AIM is expected to recommence at 7:30am today.

Summary

- Revenue of £41.1 million from continuing operations* (2017: £53.7 million)
- Adjusted EBITDA** loss of £3.9 million from continuing operations* (2017: profit of £4.1 million), following review of, *inter alia*, onerous contracts, capitalised staff costs and classification of exceptional items
- New leadership team appointed with significant industry experience; Andy Parker as Executive Chairman, Ian Smith as Executive Director and Max Royde as Non-Executive Director
- Total funds of £7.55 million raised by way of equity and convertible loan notes in order to provide working capital and re-capitalise Company's balance sheet
- Strategic and operational review undertaken resulting in a total of £7.2 million of annualised staff cost reductions, along with other operational cost savings
- Settlement reached in relation to an outsourced service contract which resulting in a total saving of c.£3 million over the next three years
- Disposal of 365 ITMS Limited together with PACT business unit in October 2018 for total cash consideration of £3 million, proceeds used to reduce net debt

Post period-end

- Issue of £10 million secured loan notes, the proceeds of which were used to repay the Company's debt facilities with National Westminster Bank plc and to provide additional working capital
    - Loan notes subscribed for by existing shareholders, Company now has no external debt other than with key shareholders
- Strong pipeline of opportunities with both existing and new customers and partners
- Group trading profitably at an Adjusted EBITDA** level for year to date

** Total revenue from continuing and discontinued operations of £51.5 million (2017: £65.0 million) and total Adjusted EBITDA** loss of £3.3 million (2017: profit of £5.4 million) including 9 months' contribution from 365 ITMS Limited and the PACT business unit until date of disposal. 2017 comparative includes 9 months' contribution from 365 ITMS Limited from date of acquisition and 6 months of the PACT business unit from date of establishment*

*** Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, impairment charges, exceptional items, loss on disposal of fixed assets and share-based payments*

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Andy Parker, Executive Chairman

finnCap Limited Tel: +44 (0)20 7220 0500
Nominated Adviser and Broker
Corporate finance: Jonny Franklin-Adams/ Scott Mathieson/ Hannah Boros
ECM: Tim Redfern/ Richard Chambers

Chairman's Statement

The year being reported was a difficult one for IDE. The business has faced significant challenges created by the previous leadership team which have necessitated substantial effort and work in order to right-size the cost base and re-capitalise the balance sheet, the detail of which I will take you through below.

At the beginning of the year, in order to improve cash generation and reduce net debt, the then Board announced a cost reduction programme, targeting a reduction of at least £2.0 million from personnel costs and at least £1.5 million from third party costs on an annualised basis, the benefit of which they expected to come through before the end of March 2018. Furthermore, at the time of reporting the final results for the year ended 31 December 2017 in May 2018 (the "Final Results"), it was noted by the then Chairman that profitability in 2018 was expected to be significantly lower than in 2017 but was expected to improve steadily throughout 2018 following implementation of a strategic and operational review. However, progress with both the cost reductions and the strategic and operational review was at best limited in the hands of the previous leadership team which resulted in the Company facing severe financial pressures.

As a result of these financial pressures, shortly after the publication of the Final Results, the Company raised £2.0 million by way the issue of loan notes in May 2018. This raise was supported by William ("Bill") Dobbie, MXC Capital Limited ("MXC") and Kestrel Partners LLP, the latter two being the largest shareholders of the Company. At the same time Ian Smith, Chief Executive Officer and substantial shareholder of MXC, joined the Board to lead the strategic and operational review and Julian Phipps stepped down from the Board, with the other former executive director, Andy Ross, having resigned in March 2018.

Strategic and Operational Review

As part of the strategic and operational review the little integration that had been initiated by the previous management was reversed and the Group was split back into the three component parts which comprised the original acquisitions made by the Group, namely, IDE Group Manage Limited (formerly Selection Services), IDE Group Connect Limited (formerly C4L) and 365 ITMS Limited. There was a considerable lack of clarity around the trading performance of the Group and in doing this the activities which generate cash and those which are loss-making were able to be identified.

Generally, when completing a "Buy and Build", which was IDE's stated strategy, synergies are part and parcel of the business case and one would reasonably expect that as a result of putting together the three companies that comprised the Group, there would be a smaller number of staff than would have existed across the three companies at the time of acquisition. However, this was far from the case: at the time of the acquisitions there were a combined 440 members of staff across all three companies and as at 31 December 2017 the Group had 525 members of staff, an increase of almost 100 heads for which there was little or no incremental revenue gain. Splitting the Group back into the component parts allowed us to identify where all the additional headcount was added.

As part of the review it was discovered that previous management had entered into various onerous contracts which created little or no value to the Group, including a single outsourced service contract that was costing the Group more than £1.0 million a year and which has only generated net cost savings of £50,000. This contract, alongside others, was signed without due process or compliance with the Group's authority limits. I am pleased to say that in December 2018 we reached a settlement in relation to this contract which will result in a saving of c.£3.0 million over the next three years.

Further investigation into the state of the Company's finances led to a further fundraising of £5.55 million by way of the issue of new equity and zero coupon, unsecured, convertible loan notes ("CLNs") which completed in August 2018. At the same time the £2.0 million loan notes which were issued in May 2018 were repaid; £0.75 million by way of the issue of equity with the remaining £1.25 million reissued as CLNs. The additional funding allowed the Group to continue restructuring with the aim of right-sizing the business to enable the Group to trade profitably.

Having explored various options with respect to the disposal of one or more of the component parts of the business, in October 2018 the Company announced the completion of the strategic and operational review and the disposal of 365 ITMS Limited (the "Sale"), further detail of which can be found below.

It was at this point that I became interim Executive Chairman in order to assist with the Group's restructure. Our focus as a Board was now on right-sizing the Group to enable it to trade profitably. To that end, a total of £7.2 million of annualised staff cost reductions were implemented throughout 2018, along with other operational cost savings including, *inter alia*, a reduction in software licencing costs and property costs and, most significantly, the settlement of the outsourced service contract as detailed above.

Following the Sale, the Group's remaining two trading businesses are IDE Group Manage Limited ("Manage") and IDE Group Connect Limited ("Connect"). Manage provides traditional people-based managed services, including service desk and remote technical support, project management and delivery, onsite and field-based engineering and device lifecycle services, the latter from our IL3 certified Lifecycle facility in Dartford. There is considerable capacity within this facility, and we see this as an opportunity for growth. Connect provides network services and data centre hosting services. A significant number of customers take services from both businesses and therefore we believe there remains the opportunity to upsell to our current customer base as well as growing by bringing new customers on board.

Sale of 365 ITMS Limited

On 15 October 2018 the Company announced the sale of 365 ITMS Limited ("365 ITMS") to PTCA Newco Limited ("PTCA"), a newly incorporated company owned by certain members of the management team within 365 ITMS, on a cash free, debt free basis with a normalised level of working capital.

365 ITMS was acquired by the Group in April 2017 and provides a range of complementary data centre, network, security and cloud services. The consideration for the Sale was £2.8 million, payable in cash.

In addition, as part of the Sale, certain assets including contracts and staff relating to PACT, the Group's business unit focused on cyber security which was established in 2017, were transferred to 365 ITMS for cash consideration of £0.2 million which was paid by 365 ITMS to the Group upon completion of the Sale. The proceeds of the Sale were used to reduce the Company's net debt.

Board Changes

There were wholesale changes to the Board during the year, starting with Jonathan Watts stepping down from his position as Chairman in January 2018 at which time Bill Dobbie stepped up as interim Chairman. Jonathan's departure was followed by Andy Ross' resignation as Chief Executive Officer in March 2018 at which time Julian Phipps, the Chief Financial Officer, also took on the role of Chief Operating Officer. Following a review of the Group's financial position, at the end of May 2018, when the Company announced the issue of £2.0 million of unsecured loan notes, Ian Smith was appointed as Executive Director to lead the Group's strategic and operational review, simultaneously with Julian Phipps stepping down from his position on the Board. MXC Capital Markets LLP, a subsidiary of MXC, was also appointed as financial adviser.

In August 2018, I joined the Board as a Non-Executive Director. Also in August 2018, at the time of the £5.55 million further fundraising, Katherine Ward stepped down from her position of Non-Executive Director. In October 2018, Bill Dobbie stepped down from the Board at which point I became Non-Executive Chairman and Max Royde, co-founder of Kestrel Partners LLP, was appointed as a Non-Executive Director. Kestrel Partners LLP are a significant shareholder of the Company. Finally, in October 2018 when the Company announced the sale of 365 ITMS and the completion of the strategic and operational review, I became interim Executive Chairman in order to lead the restructuring of the Group.

The Board has been supported through these tumultuous times by an interim Chief Financial Officer and the management team within the business. We recognise that the current structure of the Board is not ideal from a corporate governance perspective but believe that we have the skills and experience to best lead the Group at this current time. That said, we are looking to add an independent Non-Executive Director to the Board and intend to further enhance the Board with appropriate executive appointments to lead the Group through its next stage of development.

Trademark Dispute

In July 2017, the UK Intellectual Property Enterprise Court ruled that the CORETX brand (the Group's former trading brand) infringed a pre-existing trade mark. The previous leadership appealed against the decision, which the Court of Appeal did not permit. Consequently, the Group had to re-brand to IDE Group incurring significant cost in doing so. In February 2018, a claim for significant damages was received from Coreix Limited, the party who brought the brand infringement claim. Despite the previous leadership asserting that Coreix Limited's claim should not exceed £10,000, on 29 May 2018 the Group reached a full and final settlement with Coreix Limited, under which the Group had to pay damages of £250,000 over the course of 10 months, plus costs of £3,000 relating to a court hearing. As the previous leadership had believed that the claim would be under the excess amount for insurance purposes, the insurance company was not informed within the appropriate time limit and hence the Group was unable to claim under its policy, meaning that the settlement agreement resulted in a significant cash outflow for the Group.

Bank Refinancing

Throughout the difficulties that faced IDE during 2018, the Group's bankers, National Westminster Bank plc ("Natwest"), remained supportive of the Company. The proceeds of the 365 ITMS Sale were used to reduce IDE's level of debt, however, at the end of the year the Group's remaining revolving credit facility of £4.75 million was fully drawn and the Group had £0.6 million headroom on its £3.5 million overdraft facility (the "Facilities"). In order to provide additional, secure and longer-term funding to replace the Facilities, on 10 January 2019 the Company announced that it proposed to raise £10.0 million by way of an issue of secured loan notes ("Loan Notes") in two tranches. Under the first tranche, £5.3 million of Loan Notes were subscribed for by two existing shareholders of the Company, MXC and Blake Holdings Limited, a company controlled by Richard Griffiths, a significant shareholder in the Company. The second tranche of £4.7 million was made available to all other shareholders by way of an open offer and was fully underwritten by MXC; in the end £1.0 million was taken up by other shareholders with the remaining £3.7 million subscribed for by MXC. The proceeds of the issue of the Loan Notes were used to fully repay the Facilities and provide additional working capital for the Group. With the issue of the Loan Notes, the Group now has no external debt other than with key shareholders and has longer-term funding, thereby affording security for all the Group's stakeholders.

Outlook

As a result of the actions taken during 2018, we ended the year in a much stronger position than we started it with a strong leadership team, an appropriate cost base and clear focus on operational execution and customer service to drive increased profitability and cash generation. The refinancing, which was completed post year end, has provided long term funding and means that the Company has no other external debt, as the Loan Notes are held solely by shareholders, and predominantly by the largest shareholders.

I would like to thank the management and staff for their continued support and resolve to deliver value to our customers during what has been a challenging year. Despite the incredible pressure they have found themselves under, they have behaved impeccably and, in many cases, have gone above and beyond to support the Group and service customers in the most difficult of circumstances.

With the upheaval of last year behind us, we are now focused on driving the core activities necessary to support our customers and rebuild value for shareholders. Towards the end of the year, several of the Group's material customers renewed their contracts with IDE, some on a multi-year basis, and at the time of writing, the pipeline of opportunities across the business both with existing and new customers and partners is the strongest it has been since my involvement. I am also pleased to report that the Group has been trading profitably at an Adjusted EBITDA level in the year to date. We are confident our strategy is on track and look forward to reporting continued progress throughout the current year.

Financial Review

New IFRS Implementation

These are the first full year results which are presented by IDE following the adoption of IFRS 9 and 15. The adoption of both IFRS 15 and IFRS 9 has not resulted in restatements but has resulted in additional disclosure.

IFRS 15 standard sets out revenue recognition requirements, and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the Group's contracts with customers. The standard requires entities to apportion revenue earned from contracts to performance obligations on a relative stand-alone basis, based on a five-step model. Having undertaken a review of all the services and products the Group provides, and the main types of commercial arrangements used with each service and product, the Group has concluded that the implementation of the new standard has not resulted in a change in the revenue recognition accounting policies of the Group. Therefore, following implementation of IFRS 15, there was no impact of transition on retained earnings at 1 January 2018, on the Group's statement of financial position as at 31 December 2018, on its consolidated income statement, its consolidated statement of other comprehensive income, or on the cash flows for the period to 31 December 2018.

IFRS 9 introduces principle-based requirements for the classification of financial assets, using the following measurement categories: (i) Amortised cost; (ii) Fair value through Other Comprehensive Income with cumulative gains and losses reclassified to profit or loss upon derecognition; and (iii) Fair value through profit or loss. IFRS 9 also introduces a new impairment model, the expected credit loss model. The Group now reviews the amount of credit loss associated with its trade receivables based on forward looking estimates that consider current and forecast credit conditions as opposed to relying on past historical default. The Group undertook an assessment of how the adoption of IFRS 9 would impact the Group's financial instruments. The key area that was identified across the business was the bad debt provisioning because of the implementation of the expected credit loss model and it was concluded that no restatement was required.

Results for the Year – Continuing Operations

The Group reported total revenues from continuing operations of £41.1 million in the year to December 2018, down from £53.7 million in the year to 31 December 2017 and gross profit of £6.6 million (2017 restated: £15.9 million). The results for the year ended 31 December 2017 have been restated to reflect the change in allocation of certain salary costs which are directly attributable to the provision of services from administrative expenses to cost of sales. Gross margin decreased from 30% in 2017 (restated) to 16% in the year under review. A contributing factor to this decrease in margin was an increase in provisions for onerous contracts amounting to £1.9 million, further detail of which can be found below.

In our managed services division, a large proportion of managed services revenue recorded in 2017 arose from one-off projects, which came to an end either in 2017 or early 2018 resulting in a decrease in overall revenue in that division; £16.5 million from continuing operations in the year to 31 December 2018 vs £23.0 million in 2017. Cost of sales in 2018 were 6% higher as a % of revenue than in 2017 due to the inclusion of the total cost of an onerous outsourced supply contract, whereas in the year to 31 December 2017 the majority of this cost was classed as exceptional. In the interim results to 30 June 2018 (the "Interim Results"), a provision of £2.2 million was recognised in relation to this contract, however, the contract was settled in December 2018 therefore the provision has been utilised with the excess provision released and there are no longer any costs associated with this contract going forward.

In our cloud and hosting division, revenue slightly decreased to £10.2 million compared to £10.7 million due to certain contracts coming to an end during the year. Cost of sales of £10.1 million were significantly higher compared to last year (2017 restated: £7.0 million) due in part to an increase of £1.3 million in the provision relating to a colocation contract following a review of the utilisation of this contract. The resulting gross profit for this division was £0.2 million (2017 restated: £3.7 million).

Networks revenue was £7.3 million for the year (2017: £8.7 million) with the decrease compared to last year due to certain customer contracts finishing during the year, with gross profit of £0.7 million (2017 restated: £2.2 million). The decrease in gross profit can be attributed to, *inter alia*, a £0.6 million increase in the provision relating to a fibre supply contract and the fact that when customer contracts come to an end, the associated costs often do not cease coterminously.

Projects revenue was down £4.2 million to £7.0 million (2017: £11.2 million), although gross margin remained relatively stable at 33% (2017 restated: 35%).

Administrative expenses excluding impairment from continuing operations were £19.2 million (2017 restated: £19.3 million) within which were £2.4 million of exceptional costs (2017: £1.2 million). Exceptional costs include costs relation to the reduction in headcount which took place during the year as well as costs relating to the trademark dispute as detailed in the Chairman's Statement. Over £1.3 million of previously capitalised staff costs were impaired through administrative expenses. In addition, administrative expenses included a charge of £3.3 million for the amortisation of intangible assets (2017: £3.1 million), depreciation of tangible fixed assets of £2.8 million (2017: £3.0 million) and a loss on disposal of fixed assets of £0.4 million (2017: £0.1 million).

The Group uses Adjusted EBITDA which is a non-GAAP measure of performance as it believes this more accurately reflects the underlying performance of the business. This is one of the key operational performance measures monitored by the Board. Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, impairment charges, exceptional items, loss on disposal of fixed assets and share-based payments. The Adjusted EBITDA loss for the year from continuing operations was £3.9 million (2017: profit £4.1 million). A major contributor to this loss was the increase in provisions for onerous supply contracts and property amounting to £3.5 million. Furthermore, though costs were significantly reduced during 2018, the savings were staggered throughout the year hence for part of the year the Group's cost base was disproportionate to its revenue. The trading performance of the Group improved in the second half of the year once the cost savings started to come through.

At the time of the Interim Results, impairment charges totalling £27.5 million were recognised in relation to goodwill and intangible assets resulting from the acquisitions of IDE Group Manage (formerly Selection Services) and 365 ITMS to reflect what the Directors believed at the time to be the then current fair values of these businesses. However, given the restructuring which took place in the second half of the year and the improving performance of IDE Group Manage, the Board has reassessed the value of IDE Group Manage and reversed £13.7 million of impairment in relation to customer contracts which was recognised at the time of the Interim Results. Furthermore, 365 ITMS was sold in October 2018 hence the £4.0 million impairment charge relating to goodwill arising from the acquisition of 365 ITMS, which had been recognised at the time of the Interim Results, has been included in discontinued operations.

At the time of the Interim Results, no impairment charge was recognised in relation to the goodwill arising from the acquisition of IDE Group Connect (formerly C4L), however, a review at the end of the year resulted in an impairment charge of £6.9 million. The resulting net impairment charges for the year ended 31 December 2018 were £17.5 million (2017: £9.3 million). These significant charges have been a major contributor towards the operating loss in relation to continuing operations of £30.2 million (2017: £12.7 million).

After incurring net finance costs of £0.4 million (2017: £0.3 million), the loss before tax on continuing operations was £30.5 million (2017: loss of £13.0 million).

The utilisation of tax losses and a deferred tax credit arising on the amortisation of intangible assets has resulted in a tax credit for the year of £0.6 million (2017: £1.6 million).

The Group therefore reported a loss after tax from continuing operations of £29.5 million (2017: loss of £11.4 million), which equates to a basic loss per share from continuing operations of 11.97p (2017: 5.76p).

Discontinued Operations

During the year the Group undertook a strategic and operational review which culminated in the sale of 365 ITMS in October 2018. 365 ITMS was sold to PTCA, a newly incorporated company owned by certain members of the management team within 365 ITMS, on a cash free, debt free basis with a normalised level of working capital. 365 ITMS was acquired by the Group in April 2017 and provides a range of complementary data centre, network, security and cloud services. The consideration for the Sale was £2.8 million, payable in cash. In addition, as part of the Sale, certain assets including contracts and staff relating to PACT, the Group's business unit focused on cyber security which was established in 2017, were transferred to 365 ITMS for a cash consideration of £0.2 million which was paid to the Group by 365 ITMS upon completion of the Sale. The net proceeds of the Sale were used to reduce the Company's net debt.

From 1 January 2018 to the date of sale, 365 ITMS and PACT generated revenues of £10.4 million (2017: £11.2 million) and Adjusted EBITDA of £0.6 million (2017: £1.0 million). The previously reported figures for 2017 included 9 months' contribution from 365 ITMS from the date of acquisition and 6 months' contribution from PACT which was established in June 2017. After all costs, including a £4.0 million impairment charge relating to the original acquisition of 365 ITMS and the £0.7 million profit on disposal arising from the sale, the loss after tax from discontinued operations for the year ended 31 December 2018 amounted to £3.2 million (2017: profit of £0.2 million).

Statement of Financial Position

The Group had property, plant and equipment at 31 December 2018 of £9.8 million (2017: £13.0 million). Intangible assets of £27.4 million at the year-end (2017: £55.4 million) related predominantly to customer contracts. As detailed above, net impairment charges relating to continuing operations of £17.5 million were recognised in the year, principally in relation to the goodwill arising on the acquisitions of Selection Services and C4L.

Trade and other receivables of £8.9 million (2017: £15.2 million) include trade receivables of £6.4 million (2017: £8.6 million), a decrease of 26% reflecting the drop in turnover, and includes an expected credit loss provision of £0.7 million (2017: £0.4 million).

Trade and other payables, excluding deferred income, amounted to £7.7 million (2017: £15.4 million), including trade creditors of £4.9 million (2017: £8.8 million) and accruals of £1.8 million (2017: £5.0 million). Deferred income, arising from customers invoiced in advance of services delivered, amounted to £3.0 million (2017: £6.7 million). A review of the utilisation of the Group's onerous contracts, primarily relating to property and supplier contracts, resulted in a net increase in provisions of £1.5 million to £3.2 million (2017: £1.7 million).

Cashflow, Funding and Debt

Cash used in continuing operations during the year was £6.3 million (2017: inflow of £3.8 million) with net cash generated from discontinued operations of £2.4 million. There was a significant decrease in trade and other payables of £7.6 million (2017: increase of £0.5 million) and a decrease in trade and other receivables of £2.3 million (2017: increase of £1.9 million).

There was a net cash inflow during the year of £2.6 million relating to the disposal of 365 ITMS and the PACT business, being the £3.0 million total consideration for the two businesses less working capital adjustments of £0.4 million.

In May 2018, IDE issued £2.0 million of unsecured loan notes with an annual coupon of 10% to support the Group during the strategic and operational review. In August, the Company announced a further fundraising of £5.5 million to be effected by the issue of both equity and convertible loan notes. The convertible loan notes are unsecured, have a term of 5 years, carry no interest and are convertible into ordinary shares in the capital of IDE ("Ordinary Shares") at a price of 2.5 pence per Ordinary Share ("CLNs"). To that end, £1.8 million was raised by the issue of CLNs and £3.75 million was raised by the issue of new Ordinary Shares at price of 2.5 pence per share. At the same time, the £2.0 million of loan notes which were issued in May 2018 were repaid; £1.25 million by way of the issue of new Ordinary Shares at a price of 2.5 pence per share and £0.75 million by way of the issue of CLNs. At 31 December 2018, the Group had £2.55 million CLNs in issue (2017: £nil), with a fair value of £2.55 million, split into an equity component (£0.97 million) and a debt component (£1.58 million).

As at 31 December 2018 the Group had a net overdraft position of £2.9 million (2017: £1.5 million), finance lease liabilities of £0.7 million (2017: £0.8 million) and £4.75 million (2017: £7.5 million) was due under the RCF facility. The net proceeds of the 365 ITMS Sale along with £0.16 million of existing cash resources were put towards reducing the RCF from £7.5 million to £4.75 million in October 2018.

Post year end, on 10 January 2019 the Company announced that it proposed to raise £10.0 million by way of an issue of secured loan notes ("Loan Notes") in two tranches; one in January 2019 and the second in March 2019. The Loan Notes have a term of 6 years and an annual coupon of 12% which is compounded and payable at the end of the term. The proceeds of the issue of the Loan Notes were used to fully repay Natwest and provide additional working capital for the Group. With the issue of the Loan Notes, the Group now has no external debt other than with its major shareholders and has longer-term funding, thereby affording security for all the Group's stakeholders.

Dividend

The Directors do not propose a dividend in respect of the current financial year (2017: £nil).

Update and Outlook for 2019

Following the major cost reduction programme undertaken in 2018, the Group ended the year in a much stronger position than it started it with a strong leadership team, an appropriate cost base and clear focus on operational execution and customer service to drive increased profitability and cash generation. The refinancing, which was completed post year end, has provided long term funding and means that the Company has no external debt, as the Loan Notes are held solely by shareholders, and predominantly by the largest shareholders.

Since the year end there has been a marked improvement in the pipeline of opportunities across the business both with existing and new customers and the Group has been trading profitably at an Adjusted EBITDA level in the year to date. The Board remains confident of the Group's future prospects.

Going Concern

The Directors have prepared detailed cash flow projections; these projections, reasonably taking into account possible changes in trading performance and the timing of key strategic events, show the Group should be able to operate within the level and conditions of available funding. Furthermore, taking into account the support of certain of the Company's significant shareholders, of which two are represented on the Board, as demonstrated by the refinancing at the beginning of the year, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

Consolidated Income Statement

for the year ended 31 December 2018

	Year ended 31 December 2018	Restated** - Year ended 31 December 2017
	£000	£000
Continuing operations		
Revenue	**41,137**	53,745
Cost of sales	**(34,521)**	(37,812)
Gross profit	**6,616**	15,933
Administrative expenses excluding impairment	**(18,549)**	(18,948)
Impairment loss on trade receivables	**(725)**	(380)
Impairment charge on goodwill and intangibles	**(17,528)**	(9,339)
Total administrative expenses	**(36,775)**	(28,667)
Adjusted EBITDA*	**(3,886)**	4,137
Exceptional items	**(2,368)**	(1,212)

Depreciation	**(2,848)**	(3,003)
Amortisation	**(3,290)**	(3,090)
Impairment charge on goodwill and intangibles	**(17,528)**	(9,339)
Loss on disposal of fixed assets	**(441)**	(112)
Charges for share-based payments	**202**	(115)
Operating loss	**(30,159)**	(12,734)
Finance costs	**(389)**	(291)
Loss on ordinary activities before taxation	**(30,548)**	(13,025)
Income tax	**1,089**	1,599
Loss for the year from continuing operations	**(29,459)**	(11,426)
Discontinued Operations		
(Loss) /profit after tax for the year from discontinued operations	**(3,165)**	185
Loss for the year attributable to owners of the parent company	**(32,624)**	(11,241)
From continuing operations		
Basic loss per share	**(11.97)p**	(5.76)p
Diluted loss per share	**(11.97)p**	(5.76)p
From discontinued operations		
Basic (loss)/ profit per share	**(1.29)p**	0.09p
Diluted (loss)/ profit per share	**(1.29)p**	0.09p

* Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, impairment charge, exceptional items, loss on disposal of fixed assets and share-based payments

** *An explanation of the restatement can be found in Note 2 to the financial statements*

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2018

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Loss for the year attributable to the owners of the parent company	**(32,624)**	(11,241)
Items that are or may be reclassified subsequently to the income statement		
Foreign exchange translation differences	**(23)**	3
Total other comprehensive (loss)/ income	**(23)**	3
Total comprehensive loss for the year attributable to the owners of the parent company	**(32,647)**	(11,238)

Statements of Financial Position

As at 31 December 2018

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Non-current assets				
Property, plant and equipment	**9,836**	13,044	**-**	-
Intangible assets	**27,395**	55,350	**-**	-
Investments	**-**	-	**7,877**	7,877
Financial assets	**-**	89	**-**	-
	37,231	68,483	**7,877**	7,877
Current assets				
Trade and other receivables	**8,893**	15,177	**46**	57,653
Inventory	**-**	366	**-**	-
Cash and cash equivalents	**-**	1,106	**5,488**	378
	8,893	16,649	**5,534**	58,031
Total assets	**46,124**	85,132	**13,411**	65,908
Current liabilities				
Trade and other payables	**7,670**	15,429	**1,651**	1,256
Deferred income	**2,962**	6,405	**-**	-
Borrowings	**7,800**	2,895	**4,681**	-
Provisions	**1,514**	1,157	**50**	252
	19,946	25,886	**6,382**	1,508
Non-current liabilities				
Deferred income	**13**	341	**-**	-
Borrowings	**494**	7,920	**-**	7,402
Convertible loan notes	**1,654**	-	**1,654**	-
Provisions	**1,705**	577	**-**	-
Deferred tax liabilities	**3,899**	5,115	**-**	-
	7,765	13,953	**1,654**	7,402
Total liabilities	**27,711**	39,839	**8,036**	8,910
Net assets	**18,413**	45,293	**5,375**	56,998
Equity attributable to equity holders of the parent				
Share capital	**10,020**	5,018	**10,020**	5,018
Share premium	**35,439**	35,439	**35,439**	35,439
Equity reserve	**967**	-	**967**	-
Retained earnings	**(27,863)**	4,963	**(41,051)**	16,541
Foreign currency translation reserve	**(150)**	(127)	**-**	-
Total equity	**18,413**	45,293	**5,375**	56,998

Statements of Changes in Equity

for the year ended 31 December 2018

Group	Share Capital (a)	Share Premium (b)	Equity reserve (c)	Retained Earnings (d)	Foreign currency translation reserve (e)	Total equity
	£000	£000	£000	£000	£000	£000
Balance at 1 January 2017	4,773	32,684	-	16,089	(130)	53,416
Total comprehensive loss for the year						
Loss for the financial year	-	-	-	(11,241)	-	(11,241)
Movement in foreign currency translation	-	-	-	-	3	3
Transactions with owners recorded						
directly in equity						
Share issues	245	2,755	-	-	-	3,000
Share based payments	-	-	-	115	-	115
Balance at 31 December 2017	**5,018**	**35,439**	**-**	**4,963**	**(127)**	**45,293**
Total comprehensive loss for the year						
Loss for the financial year	-	-	-	(32,624)	-	(32,624)
Movement in foreign currency translation	-	-	-	-	(23)	(23)
Transactions with owners recorded						
directly in equity						
Share issues	5,002	-	-	-	-	5,002
Share based payments	-	-	-	(202)	-	(202)
Convertible loan notes	-	-	967	-	-	967
Balance at 31 December 2018	**10,020**	**35,439**	**967**	**(27,863)**	**(150)**	**18,413**

(a) Share capital represents the nominal value of equity shares

(b) Share premium represents the excess over nominal value of the fair value of consideration received for equity shares; net of expenses of the share issue;

(c) The equity reserve consists of the equity component of convertible loan notes that were issued as part of the fundraising in August 2018 less the equity component of instruments converted or settled.

The fair value of the equity component of convertible loan notes issued is the residual value after deduction of the fair value of the debt component of the instrument from the face value of the loan note.

(d) Retained earnings represents retained profits and accumulated losses

(e) On consolidation, the balance sheets of the Group's foreign subsidiaries are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange gains or losses arising from the consolidation of these foreign subsidiaries are recognised in the foreign currency translation reserve.

Statements of Cash Flows
for the year ended 31 December 2018

Group

	2018 £000	2017 £000
Cash flows from operating activities		
Loss for the year	**(32,624)**	(11,241)
Adjustments for:		
Depreciation	**3,033**	3,158
Amortisation	**3,549**	3,602
Impairment charge	**21,505**	9,339
Net finance expenses	**390**	341
Taxation	**(1,216)**	(1,600)
Share based payments	**(202)**	115
Loss on disposal of fixed assets	**425**	112
Other	**-**	13
Profit on disposal of subsidiary	**(680)**	-
	(5,820)	3,839
Decrease/ (increase) in trade and other receivables	**6,284**	(1,570)
Decrease/ (increase) in inventory	**366**	(366)
(Decrease)/ increase in trade and other payables and deferred income	**(11,320)**	496
Increase/ (decrease) in provisions	**1,485**	(1,185)
Net cash (used in)/ from operating activities	**(9,005)**	1,214
Cash flows from investing activities		
Proceeds from sale of subsidiary and PACT business, net of overdraft repaid	**3,611**	
Acquisition of subsidiary, net of cash acquired	**-**	(597)
Acquisition of property, plant and equipment	**(272)**	(2,396)
Acquisition of other intangible assets	**-**	(754)
Realisation/ (acquisition) of non-current financial assets	**89**	(4)
Proceeds from sale of fixed assets	**23**	4
Net cash generated/ (used in) investing activities	**3,451**	(3,747)
Cash flows from financing activities		
Interest paid	**(320)**	(322)
Share issue, net of expenses	**3,752**	-
New loans and borrowings, net of expenses	**3,800**	1,300
Repayment of loans and borrowings	**(2,750)**	(800)
New finance leases	**-**	488
Repayment of finance leases	**(335)**	(763)
Net cash generated / (used in) from financing activities	**4,147**	(97)
Net decrease in cash and cash equivalents	**(1,407)**	(2,630)
Cash and cash equivalents at 1 January	**(1,498)**	1,132
Cash and cash equivalents at 31 December	**(2,905)**	(1,498)
Cash and cash equivalents comprise		
Cash at bank	**-**	1,106
Overdrafts	**(2,905)**	(2,604)
	(2,905)	(1,498)

Notes to the Consolidated Financial Statements

1 Accounting policies

IDE Group Holdings plc ("IDE Group") is a company incorporated in Scotland, domiciled in the United Kingdom and limited by shares which are publicly traded on AIM, the market of that name operated by the London Stock Exchange. The registered office is 24 Dublin Street, Edinburgh EH1 3PP and the principal place of business is in the United Kingdom.

The principal activity of the Group is the provision of network, cloud and IT managed services.

1.1 Basis of preparation

The consolidated financial statements of IDE Group have been prepared on the going concern basis and in accordance with EU adopted International Financial Reporting Standards (IFRS), IFRS Interpretations Committee (IFRS IC) and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The financial information set out in this preliminary announcement does not constitute the company's statutory financial statements for the years ended 31 December 2019 or 2018.

The financial statements have been prepared on a going concern basis. The Directors have prepared cash flow forecasts for the Group which show that the Group expects to meet its liabilities from existing cash resources as they fall due for a period in excess of 12 months from date of approval of these financial statements.

Post the year end, the Group fully repaid its banking facilities with National Westminster Bank plc which consisted of a £4.75 million Revolving Credit Facility (the total facility was £7.5 million; £2.75 million was repaid in October 2018 with the proceeds of the disposal of 365 ITMS Limited) and a £3.5 million overdraft facility. The facilities were repaid with the proceeds of the issue of 6-year secured loan notes post year to certain of the Company's shareholders.

Based on the above and taking into account the support of certain of the Company's significant shareholders, of which two are represented on the Board, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

1.2 Basis of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the total of the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets are acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with policies adopted by the Group.

1.3 Revenue

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of Valued Added Tax, returns, rebates and discounts and after the elimination sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

Recurring revenue

The largest portion of the Group's revenues relates to a number of network, cloud and IT managed services, which the Group offers to its customers. All of the revenue in this category is contracted and includes a full range of support, maintenance, subscription and service agreements. Revenue for these types of services is recognised as the services are provided on the basis that the customer simultaneously receives and consumes the benefits provided by the Group's performance of the services over the contract term. In terms of performance obligations, the customer can benefit from each service on its own and the Group's promise to transfer the service to the customer is separately identifiable from other promises in the contract. The transaction price for each service is allocated to each performance obligation. The costs incurred for these revenue streams typically match the revenue pattern. Deferred income is recognised when billing occurs ahead of revenue recognition. Accrued revenue is recognised when the revenue recognition criteria were met but in accordance with the underlying contract, the sales invoice has not been issued yet.

Project revenue

These project services include mainly installation and consultancy services. Revenue from these services is recognised in accordance with the underlying contracts. Performance obligations are met once the hours or days have been worked. Revenue is therefore recognised over time based on the hours or days worked at the agreed price per hour or day. The costs incurred for this revenue stream generally match the revenue pattern, as a significant portion of consultancy costs relate to staff costs, which are recognised as incurred. Consultancy services are generally provided on a time and material basis.

1.4 Application of new IFRSs and interpretations

International Financial Reporting Standard (IFRS) 15 "Revenue from contracts with customers"

The Group implemented IFRS 15 Revenue from Contracts with Customers, as of 1 January 2018 and has also considered the impact on the comparative results for the year ended 31 December 2017. The new standard sets out revenue recognition requirements, and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the Group's contracts with customers. The standard requires entities to apportion revenue earned from contracts to performance obligations on a relative stand-alone basis, based on a five-step model. Having undertaken a review of all the services and products the Group provides, and the main types of commercial arrangements used with each service and product, the Group has concluded that the implementation of the new standard has not resulted in a change in the revenue recognition accounting policies of the Group. Therefore, following implementation of IFRS 15, there was no material impact of transition on retained earnings at 1 January 2018 or 1 January 2017, on the Group's consolidated statement of financial position as at 31 December 2018 or 31 December 2017, on its consolidated income statement and consolidated statement of other comprehensive income, or on the cash flows for the year to 31 December 2018 or 31 December 2017. The new standard also introduces expanded disclosure requirements.

The Company has limited or no revenue.

International Financial Reporting Standard (IFRS) 16 "Leases"

IFRS 16 Leases, is effective for periods beginning on or after 1 January 2019. IFRS 16 removes the operating and finance lease classification for lessees in IAS 17 Leases and replaces them with the concept of right-of-use assets and associated financial liabilities. This change results in the recognition of a liability on the balance sheet for all leases which convey a right to use the asset for the period of the contract. The lease liability reflects the present value of the future rental payments, discounted using either the effective interest rate or the incremental borrowing rate of the entity. The operating lease charges currently reflected within operating expenses (and EBITDA) will be eliminated and instead depreciation and finance charges will be recognised in respect of the lease assets and liabilities.

As an indication of the effect of IFRS 16 for the current reporting period, based on the operating leases in place and qualifying for recognition under IFRS 16 it has been estimated that this would have resulted in the recognition of additional lease assets within property, plant and equipment of approximately £2.0 million and additional lease liabilities of approximately £2.0 million in total for the Group. An estimation of the expected depreciation charge against the right of use asset in 2018 has been calculated to be £0.8 million, with an interest charge of £0.4 million, which compares to an operating lease charge within operating expenses of £1.4 million, resulting in an increase in Adjusted EBITDA of £1.4 million.

The Group plans to adopt the modified retrospective approach.

The Company has no operating leases.

International Financial Reporting Standard (IFRS) 9 "Financial Instruments"

The Group implemented IFRS 9 Financial Instruments, as of 1 January 2018 and has also considered the impact on the comparative results. The new standard includes revised guidance on the classification and measurement of financial instruments.

IFRS 9 introduces principle-based requirements for the classification of financial assets, using the following measurement categories: (i) Amortised cost; (ii) Fair value through Other Comprehensive Income with cumulative gains and losses reclassified to profit or loss upon derecognition; and (iii) Fair value through profit or loss. IFRS 9 also introduces a new impairment model, the expected credit loss model.

The Group now reviews the amount of credit loss associated with its trade receivables based on forward looking estimates that take into account current and forecast credit conditions as opposed to relying on past historical default rates. In adopting IFRS 9 the Group has applied the simplified approach applying a provision matrix based on number of days past due to measure lifetime expected credit losses and after taking into account customers with different credit risk profiles and current and forecast trading conditions. Having assessed the requirements according to the new standard, the Group has concluded that no significant additional impairment to the carrying values of the assets was required at 1 January 2018, at 31 December 2018 or at 31 December 2017.

2 Restatement of results for the year ended 31 December 2017

The table below shows the effect of the change in allocation of salary costs of certain employees whose roles were directly related to the provision of services from administrative expenses to cost of sales for the year ended 31 December 2017:

	As reported 31 December 2017 £000	Reallocation of salary costs £000	Restated year ended 31 December 2017 £000
Continuing operations			
Revenue	53,745	-	53,745
Cost of sales	(34,877)	(2,935)	(37,812)
Gross profit	18,868	(2,935)	15,933
Administrative expenses	(22,263)	2,935	(19,328)
Impairment charge	(9,339)	-	(9,339)
Operating loss	(12,734)	-	(12,734)

3 Exceptional costs

In accordance with the Group's policy in respect of exceptional items, the following charges were incurred for the year in relation to continuing operations:

	2018	2017
	£000	£000
Restructuring and reorganisation costs	**2,368**	1,034
Acquisition costs	**-**	178
	2,368	1,212

Restructuring and reorganisation costs in the year ended 31 December 2018 relate to costs incurred on the restructure of the Group, predominantly redundancy costs. Restructuring costs in the year ended 31 December 2017 relate to costs incurred on the integration of the businesses acquired during the year and the previous year. These costs include employment related costs of staff made redundant as a consequence of integration, rebranding costs, other non-recurring costs associated with the integration during the year and costs following the disposal of the Group's legacy business.

Acquisition costs in the year ended 31 December 2017 predominantly related to costs incurred on the acquisition of 365 ITMS during the year and include legal, financial due diligence and corporate advisory fees.

3 Discontinued operations

On 12 October 2018, the Company sold the entire issued share capital of 365 ITMS Limited ("365 ITMS") and its subsidiaries to PTCA Newco Limited ("PTCA"), a newly incorporated company owned by certain members of the management team within 365 ITMS, on a cash free, debt free basis with a normalised level of working capital (the "Sale"). The consideration for the Sale was £2.8 million, payable in cash. The proceeds of the Sale were used to reduce the Group's net debt.

Prior to the Sale certain assets relating to PACT, the Group's business unit focused on cyber security, including contracts and staff, were transferred to 365 ITMS for £0.2 million. The results for 2018 below are from 1 January to the date of the Sale. The figures for 2017 included 9 months' contribution from 365 ITMS from the date of acquisition and 6 months' contribution from PACT which was established in June 2017.

The results of the discontinued operations were as follows:

	2018	2017
	£000	£000
Revenue	**10,428**	11,206
Expenses	**(14,400)**	(11,022)
(Loss)/ profit before tax	**(3,972)**	184
Attributable tax credit	**127**	1
Profit on disposal of discontinued operations	**680**	-
Net (loss)/ profit attributable to discontinued operations	**(3,165)**	185

The net assets and liabilities at disposal and the profit on disposal were as follows:

	2018 Total £000
Goodwill	2,148
Intangible assets	754
Property, plant and equipment	286
Trade and other receivables	3,190
Trade and other payables	(5,328)
Net assets	1,050
Cash consideration	3,000
Working capital adjustment	(1,270)
Net assets disposed of	(1,050)
Profit on disposal	**680**

The working capital adjustment relates to the repayment of the portion of the Group's overdraft which sat within 365 ITMS plus additional amounts to allow for a normalised level of working capital within 365 ITMS at the point of disposal.

	2018 Total £000
Cash consideration	3,000
Overdraft at disposal	2,419
Repayment of intercompany	(1,808)
Net cash inflow from discontinued operations	**3,611**

The statement of cashflows includes the following amounts relating to discontinued operations

	2018 Total £000
Operating activities	1,780
Investing activities	1
Financing activities	610
Net cash from discontinued operations	**2,461**

4 Intangible assets

Group

	Goodwill £000	**Trademarks £000**	**Customer contracts and related relationships £000**	**Technology development £000**	**Total £000**
Cost:					
At 1 January 2017	32,256	1,707	29,076	341	63,380
Business combinations	6,125	-	1,111	-	7,236
Additions	-	-	-	754	754
At 31 December 2017	38,381	1,707	30,187	1,095	71,370

Disposal of discontinued operations	(6,125)	-	(1,111)	(160)	(7,396)
At 31 December 2018	**32,256**	**1,707**	**29,076**	**935**	**63,974**
Impairment and amortisation:					
At 1 January 2017	-	299	2,716	64	3,079
Charge for the year		341	3,125	136	3,602
Impairment charge	9,339	-	-	-	9,339
At 31 December 2017	9,339	640	5,841	200	16,020
Amortisation for the year – continuing operations		341	2,865	84	3,290
Impairment charge – continuing operations	16,986	-	13,655	542	31,183
Reversal of impairment charge	-	-	(13,655)	-	(13,655)
Impairment charge – discontinued operations	3,977	-	-	-	3,977
Amortisation for the year – discontinued operations	-	-	259	-	259
Disposal of discontinued operations	(3,977)	-	(518)	-	(4,495)
At 31 December 2018	**26,325**	**981**	**8,447**	**826**	**36,579**
Net carrying amount:					
31 December 2018	**5,931**	**726**	**20,629**	**109**	**27,395**
31 December 2017	29,042	1,067	24,346	895	55,350

The amortisation charge of £3.3 million relates to continuing operations and is included in the loss for the year from continued operations in the Income Statement within administrative expenses. Prior to disposal, an impairment charge of £4.0 million was recognised in relation to the goodwill recognised on the acquisition of 365 ITMS.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is supported by calculating the discounted cash flows arising from the businesses acquired which represent the cash generating unit ("CGU") to which goodwill is allocated. The Group's CGUs are considered to be the two trading subsidiaries, IDE Group Manage (formerly Selection Services) and IDE Group Connect (formerly C4L).

Other intangible assets are reviewed for impairment indicators in line with the Group's accounting policy.

At the time of the interim results for the six months to 30 June 2018 ("Interim Results"), impairment charges totalling £25.0 million were recognised in relation to goodwill and intangible assets resulting from the acquisition of Selection Services (now IDE Group Manage) to reflect what the Directors believed at the time to be the then current value of the business. However, given the restructuring which took place in the second half of the year and the improving performance of IDE Group Manage, the Board has reassessed the value of IDE Group Manage and reversed £13.7 million of impairment in relation to customer contracts within IDE Group Manage which was recognised at the time of the Interim Results.

The impairment charges in 2018 include a £10.1 million impairment to the goodwill arising on acquisition of Selection Services and £6.9 million impairment to the goodwill arising on the acquisition of C4L.

The recoverable amount of all cash generating units has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets until 31 December 2019 and extrapolated for a further four years by growth rates applicable to the CGU. The financial budgets were approved by the Board of Directors post publication of the Interim Results to 30 June 2018. The recoverable amount in relation to IDE Group

Manage was calculated to be £17.8 million and the recoverable amount in relation to IDE Group Connect was calculated to be £19.4 million.

The calculations used to compute cash flows at CGU level are based on the Group's budget, growth rates, WACC and other known variables. The calculations are sensitive to movements in both WACC and the customer retention ratio. The WACC has been estimated at 15% per annum and the revenue and gross margin growth rates range from 10% to 17.5%. Sensitivities have been run on cash flow forecasts for all CGUs. The Board is satisfied that the key assumptions of revenue, gross margin and EBITDA growth rates are achievable and that reasonably possible changes to those key assumptions would not lead to the carrying amount of the relevant CGU exceeding the recoverable amount. Sensitivity analyses have been performed and the table below summarises the effects of changing certain key assumptions and the resultant excess (or shortfall) of discounted cash flows against the aggregate of goodwill and intangible assets:

Sensitivity analysis

	IDE Group Manage £000s	IDE Group Connect £000s
Base case fair value of intangible assets	17,810	19,386
Excess of fair value over carrying value:		
Base case	5,415	4,386
Discount rate increased to 16%	3,881	2,901
Gross margin growth rate reduced by 5% per annum	91	1,343

Base case calculations demonstrate an adequate level of headroom whilst highlighting that the impairment review is sensitive to the discount rate and growth rate. Given the Group's current pipeline and ability to undertake large projects which could result higher gross margin, as well as the fact that further direct cost savings are in the process of being identified, the Board is satisfied with the rates of growth in the base case and believe there could be significant upside.

The remaining unamortised life of the intangible assets at 31 December 2018 is as follows:

- Trademarks – 3 years
- Customer contracts and related relationships – 3 to 11 years
- Technology – 2 years

Company

The Company has no intangible assets at 1 January 2017, 31 December 2017 and at 31 December 2018.

5 Borrowings

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Non-current				
Bank loan	**-**	7,500	**-**	7,500
Unamortised loan arrangement fee	**-**	(98)	**-**	(98)
Finance leases	**494**	518	**-**	-
	494	7,920	**-**	7,402

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Current				
Bank loan	**4,750**	-	**4,750**	-
Unamortised loan arrangement fee	**(69)**		**(69)**	
Bank overdraft	**2,905**	2,604	**-**	-
Finance Leases	**214**	291	-	-

	7,800	2,895	**4,681**	-

The carrying amounts and fair value of the non-current borrowings are as follows:

Group	**Carrying value 2018 £000**	**Fair Value 2018 £000**	Carrying Value 2017 £000	Fair Value 2017 £000
Non-current				
Bank loan	**-**	**-**	7,500	7,098
Finance leases	**494**	**494**	518	485
	494	**494**	8,018	7,583

Company	**Carrying value 2018 £000**	**Fair Value 2018 £000**	Carrying Value 2017 £000	Fair Value 2017 £000
Non-current				
Bank loan	**-**	**-**	7,500	7,098

Bank facilities

As at the beginning of the year the Group's facilities with National Westminster Bank plc ("Natwest") comprised a five-year £7.5 million Revolving Credit Facility ("RCF") available to the Group until 22 January 2021 and a £3.5 million overdraft facility, renewable annually (the "Facilities"). In October £2.75 million was repaid and the RCF was reduced to £4.75 million. Interest was payable on the utilised RCF at 2% above LIBOR. Interest was payable on the unutilised RCF at 0.8%. As at 31 December 2018, £4.75 million of the RCF was drawn (31 December 2017: £7.5 million).

Post year end, in January 2019, £4.125 million was repaid to Natwest and the RCF was reduced to £625,000. In March 2019 the remaining RCF was repaid alongside the overdraft and the Facilities were cancelled.

Post year end, in January 2019 the Company issued £5.3 million of secured loan notes with a six year term and a 12% coupon ("Secured LNs"). The proceeds of the Secured LNs were used to part repay the Facilities. In March 2019 a further £4.7 million of Secured LNs were issued to repay the remaining Facilities and provide additional working capital. The Secured LNs carry an arrangement fee of 2.5 per cent., payable at the end of the term, and an exit fee of 2.5 per cent., also payable at the end of the term.

Finance leases

The present value of finance lease liabilities is as follows:

Group	**Minimum lease payments 2018 £000**	**Interest 2018 £000**	**Principal 2018 £000**
Less than one year	**254**	**40**	**214**
Between one and five years	**558**	**64**	**494**

	812	**104**	**708**

Group	Minimum lease payments 2017 £000	Interest 2017 £000	Principal 2017 £000
Less than one year	336	45	291
Between one and five years	591	73	518
	927	118	937

The Company has no finance leases at 31 December 2018 or at 31 December 2017.

Reconciliation of borrowings:

Group	Non-current Borrowings £000	Current Borrowings £000	**Total Borrowings £000**
Balance at 1 January 2018	7,920	2,895	**10,815**
Transfer from non-current to current	(7,402)	7,402	**-**
Issue of loan notes	2,000	-	**2,000**
Repayment of loan notes	(2,000)	-	**(2,000)**
Repayment of loan	-	(2,750)	**(2,750)**
New finance leases	190	43	**233**
Reclassification of finance lease payment	(214)	214	**-**
Repayment of finance leases	-	(335)	**(335)**
Overdraft	-	301	**301**
Amortisation of loan fee	-	30	**30**
Balance at 31 December 2018	494	7,800	**8,294**

Company	Non-current Borrowings £000	Current Borrowings £000	**Total Borrowings £000**
Balance at 1 January 2018	7,402	-	**7,402**
Transfer from non-current to current	(7,402)	7,402	**-**
Issue of loan notes	2,000	-	**2,000**
Repayment of loan notes	(2,000)	-	**(2,000)**
Repayment of bank loan	-	(2,750)	**(2,750)**
Amortisation of loan fee	-	29	**29**
Balance at 31 December 2018	-	4,681	**4,681**

6 Convertible loan notes

Group and Company

	£000
Balance at 1 January 2018	-
Additions	1,583
Interest unwound	71
Balance at 31 December 2018	**1,654**

On 21 August 2018, as part of a wider fundraising, the Company issued £2.55 million of unsecured loan notes, which have a term of 5 years and a zero per cent. Coupon ("CLNs"). The CLNs can be converted into new ordinary shares in the capital of IDE at a price of 2.5 pence per share. Conversion is at the option of the holder at any time during the 5 year term. At the end of the term, if the holder has not chosen to convert the CLNs, the CLNs will be settled with a cash repayment. The CLNs have a fair value of £2.54 million, split into an equity component (£0.96 million) and a debt component (£1.58 million).

7 Post balance sheet events

Issue of Loan Notes & Bank Repayment

In January 2019 the Company announced an issue of £10 million secured loan notes (the "Loan Notes"), the proceeds of which were used to repay IDE's £8.25 million debt facilities with National Westminster Bank plc ("Natwest") consisting of a revolving credit facility ("RCF") of £4.75 million and an overdraft of £3.5 million (together, the "Facilities") and to provide additional working capital for the Company. The Facilities were repaid in two tranches; £4.125 million in January 2019 and the remainder in March 2019.

The Loan Notes have a term of six years (the "Term") and an annual coupon of 12%, which is rolled up, compounded annually and payable at the end of the Term. The Loan Notes carry an arrangement fee of 2.5 per cent., payable at the end of Term, and an exit fee of 2.5 per cent., also payable at the end of the Term. The Loan Notes have first charge over the Company's assets. The Loan Notes can be redeemed at any time at the Company's option, however, should the Company opt to redeem the Loan Notes prior to the end of the Term, all interest due until the end of the Term will become payable, together with the arrangement and exit fees, upon such early redemption.

Part Surrender of Property Lease

Due to the reduction in staff over the year to 31 December 2018, a significant proportion of the Company's offices at Interchange, Croydon, were empty. Therefore, on 18 April 2019, IDE Group Manage Limited entered into an agreement for surrender and a deed of variation in relation to part of the property it leases at Interchange which has resulted in a reduction in the annual rent and service charge payable.