Tracsis plc

Annual Report & Accounts 2016

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Strategic Report

Our Business at a Glance

Tracsis plc was founded in January 2004 to commercialise world class research and expertise developed in the field of transport scheduling and software optimisation technologies.

In the subsequent years Tracsis has grown rapidly, diversified into related transport technologies, and successfully executed a strategy that has seen it make a total of eight acquisitions and two investments. Today, the Group specialises in solving a variety of data capture, reporting and resource optimisation problems along with the provision of a range of associated professional services.

Tracsis' products and services are used to increase efficiency, reduce cost and improve the operational performance and decision making capabilities for its customers. The Group has a blue chip client base which includes the majority of UK transport operators and the business also works extensively with large transport authorities and infrastructure operators such as Network Rail, the Department for Transport, Transport Scotland, Transport for London, local authorities and a variety of large engineering and infrastructure companies.

The Group's products and services comprise two principal offerings:

- Rail Technology & Services
    - Software: Industry strength optimisation and rail management software that cover a variety of asset and information classes, plus related hosting services;
    - Remote Condition Monitoring (RCM): Technology and reporting for critical infrastructure assets in real time, to identify problems and aid with preventative maintenance;
    - Professional Services: Consulting and technology related professional services across the operational and strategic planning horizon for traffic and transport customers and network operators
- Traffic & Data Services:
    - Collection, collation and analytical services of traffic and passenger/customer data within rail, traffic and pedestrian rich environments;
    - Event planning, traffic management and parking for outdoor and sporting event markets.

Tracsis has multiple offices in the UK which service our growing client base. At year end we employed over 400 permanent staff many of whom are shareholders in the company.

The business drives growth both organically and via strategic acquisition and has made eight acquisitions since coming to market in 2007.

Financial highlights
for the year ended 31 July 2016:

- Revenues increased 29% to £32.6m (2015: £25.4m)
- Adjusted EBITDA increased 17% to £7.6m (2015: £6.5m)
- Profit Before Tax of £4.0m (2015: £4.5m)
- Cash balances of £11.4m (2015: £13.3m)
- Full year dividend increased 20% to 1.2p per share (2015: 1.0p)

Strategic Report

Strategy and Business Model

Our vision for Tracsis is to become a leading provider of high value, niche technology solutions and services for the global traffic and transportations markets. Our business model remains focussed on specialist offerings that have high barriers to entry, are sold on a recurring basis under contract, and to a retained customer base that is largely blue chip in nature. Our vision is being achieved via the delivery of a three pronged strategy.

1) Manageable, industry-led organic growth through continual innovation of products and services and an excellent close working relationship with our customers.

2) International expansion into select overseas markets that share problems with the industries we currently serve.

3) Reinvesting company profits to fund further accretive acquisitions that meet with our disciplined investment criteria.

We believe our strategy will allow Tracsis to continue the growth trajectory we have achieved since IPO in 2007 and deliver further significant value to shareholders in the short, medium and long term. Achievements made in the past year in respect of our business strategy can be summarised as follows:

	Strand of Strategy:	Achievements 2015/16:
1	**Organic** further sales from existing products to UK	• First sales of new products achieved: TRACS Enterprise and DayOne • High level of Software licence renewals achieved across the TRACS, Datasys and COMPASS product suites • Good sales made to the Group's key UK customer • Positive levels of trading throughout the UK
2	**Overseas Markets** showing good promise and remain relatively untapped	• Post period end, agreement signed with North American Class 1 Railroad for the Group's Remote Condition Monitoring technology • Traffic Data business in Ireland continues to trade well • Further Software projects delivered in Sweden and New Zealand • Disposal of the Group's non-core Australian business completed during the period for strategic reasons
3	**Acquisitions**	• Ontrac and SEP bring new sales opportunities and increase the Group's product and service offerings • Acquisition of Ontrac Limited and Ontrac Technology Limited completed in the year – improves the Group's software, hosting and bespoke software development capabilities • Acquisition of SEP Limited and SEP Events Limited completed – adds event planning and traffic management to the Group's service offerings • Investment made into Citi Logik in the year • Investment made into Nutshell Software Limited in the year

Strategic Report

Chairman & Chief Executive Officer's Report

A welcome from Chris Cole, Non-Executive Chairman

The enlarged Group has performed well in the year, and 2015-16 was a busy transactional period supporting our strategy, with two acquisitions completed, two small investments made, and the disposal of a non-core asset. This activity was all successfully completed whilst Tracsis delivered a further period of strong trading which is testament to the hard work and dedication from the teams. The Board thanks everyone for their hard work and contribution made during the year.

Introduction

The Group has once again enjoyed another year of growth and consolidation, with revenues rising to over £32m - ahead of original expectations, and EBITDA of over £7.5m. Both of these metrics are well ahead of the previous year and are significant achievements for Tracsis. The business continues to benefit from a strong financial position, a great product and service offering, high degrees of predictable and recurring revenue, and a customer base made up of all the major transport owning Groups, infrastructure managers, and multiple blue chip engineering firms. The acquisitions made during the year have strengthened and expanded the Group's customer footprint and opened up a host of new opportunities for its technology and services.

Business overview

Tracsis specialises in providing software products, consultancy services and delivering bespoke projects to solve a variety of problems within the transport and traffic sector. The Group's market offering can be broadly categorised into two distinct offerings:

- **Rail Technology & Services:** Software development and licensing, remote condition monitoring (RCM), and technology led consulting.

  The Group has a long pedigree in developing industrial strength optimisation software that covers a variety of resource/asset classes with the goal of reducing customer costs whilst increasing network performance. This is complemented by the Group's RCM offering (hardware and software) that allows for real-time reporting on the status of critical infrastructure assets, to identify problems and aid with preventative maintenance. Utilizing its expertise in the sector, the Group's professional services division, provides consultancy and specialist advice across the operational and strategic planning horizons and play a key role in advising owning Groups and regulatory bodies. By profit, this is the Group's largest division with higher margins.

- **Traffic & Data Services**: Data capture, analysis and interpretation of traffic and pedestrian data to aid with the planning, investment and ultimate operations of a transport environment.

  The Group has provided a variety of data capture and analytics since 2009, and have bolstered this offering to expand the Group's activities through a number of acquisitions and investments. In the past year – and via the acquisition of SEP – this division has expanded its addressable markets from rail, traffic and pedestrian movement to include the events industry, which is a significant and growing market within the UK. By revenue, this is the largest part of the Tracsis Group and its broad offering uses a variety of technologies (such as WiFi, ATC, ANPR, mobile telco data) to deliver projects for a wide range of blue chip clients.

The Group's mission from the outset has been to solve complex, high value, data driven problems in the transportation markets. Having recognised these problems exist in other related markets including the traffic and events industries and the Group has applied its expertise to address this. These markets contain several attractive traits from a Tracsis perspective – high barriers to entry due to domain knowledge, large and disparate data sets, and with customers that understand the inherent value that can be released through the provision of a good solution or service. In short, Tracsis focuses on solving problems that are well understood by its customers but for which there is poor provision from traditional technology providers due to the niche nature of these problems.

Through the provision of the Group's products and services, Tracsis provides clients with better visibility and information on their operations which assists with key decision making. This ultimately supports improving efficiency and productivity, reducing cost, and delivers a better, safer, more professional solution for the end consumer.

The Directors believe that the traffic, transport and event industries, in particular but not limited to passenger rail, is well positioned for further growth and the Group is able to capitalise on this with an expanding portfolio of products and service offerings.

Chairman & Chief Executive Officer's Report continued

Financial summary

The Group delivered revenue of £32.6m for the year, an increase of 29% on the prior year (2015: £25.4m) which exceeded the Board's original expectations and with contributions made from all parts of the business including the acquisitions completed during the year. Adjusted pre-tax profit of £6.9m was also ahead of expectations and an increase of 19% on the previous year (2015: £5.8m).

Adjusted EBITDA* increased by 17% to £7.6m (2015: £6.5m) with statutory Profit before Tax lower than the previous year at £4.0m (2015: £4.5m). As outlined within the January interim results, statutory PBT was impacted by exceptional items in respect of the two significant acquisitions made in H1 and the disposal of Tracsis Traffic Australia Pty. In addition, share based payments rose due to the adoption and take-up from Tracsis employees of the Group's Long Term Incentive Plan, which has been a great success in terms of attracting, motivating and retaining the best and brightest talent.

At 31 July 2016, the Group had cash balances of £11.4m (2015: £13.3m), and cash generation remains strong. Overall cash balances decreased by £1.9m in the financial year, which takes account of c. £7.5m of investments being made in acquisitions and investments (net of cash acquired). The business therefore generated net cash of c. £5.6m excluding the acquisitions, which demonstrates excellent conversion of profits to cash. The Group also continues to be debt free.

* Earnings before finance income, tax, depreciation, amortisation, exceptional items and share-based payment charges

Trading Progress and Prospects

Rail Technology & Services

Summary segment results:

Revenue	£14.1m
EBITDA	£5.3m
Profit before Tax	£5.1m

Software

Software sales, excluding Ontrac, which was acquired in December 2015, increased significantly by 18% to £6.6m (2015: £5.6m) with the vast majority of this revenue being made up by software licences, which are recurring in nature. All aspects of the software portfolio performed well, with continued high levels of renewal rates for the TRACS, Compass and Datasys product suites. Additional revenues were delivered from a combination of upselling and cross selling the Group's existing products to its customer base and also initial sales of new product lines. During the year the Group continued to invest in product development and was pleased to secure the first sales for 'TRACS Enterprise' and 'Bugle DayOne'. These new products take advantage of increased connectivity within a customer workforce via mobile devices, to deliver enhanced reporting across an organisation that can lead to improved decision making and service delivery. Both products were developed in conjunction with the UK rail industry and there is a good opportunity to roll these out to the wider Tracsis customer base in due course.

Remote Condition Monitoring (RCM)

As seen in previous years, the timing of the revenue from the Framework Agreement with the Group's major UK customer is variable. As such, revenues of £2.2m were lower than the previous year (2015: £3.0m), largely due to the absence of any significant Framework Agreement orders.

On 17 August 2016, the Group was pleased to announce a significant order from a North American Class 1 railroad operator for its RCM technology, which marks the Group's first major contract outside of the UK. Under the terms of the agreement, the initial order comprises the outright purchase of RCM hardware units, software licences for the Group's data aggregation and analysis tool (Centrix), and various ancillary products. The RCM units have already begun to be installed and this process will continue in the coming months across multiple locations on the client's network. The total order value is in excess of $0.4m and is expected to be fulfilled before the end of 2016.

The Directors continue to view the overseas rail industry as providing exciting growth opportunities for the Group's RCM offering and extensive business development activity is underway. The US market in particular is the largest and most accessible market and in recent years the Group has spent time getting to know the landscape and where remote condition monitoring technology can make a difference. The contract win illustrates that the Group has the capability and product set to address this opportunity, and whilst the specific timing of further sales will always be difficult to predict, management remains confident of further growth and new sales in the short to medium term.

With the nature of this technology being applicable to other industries, the Group has focused on expanding this offering into new ventures in new sectors outside of the rail industry. As such, the Group was pleased to have won several pilots for monitoring of distributed power generation plants both in the UK and overseas. Tracsis achieved its first revenue generating projects post year-end and these will be fulfilled in late 2016 / early 2017.

Chairman & Chief Executive Officer's Report continued

Consultancy and Professional Services

Revenue rose 7% to £2.1m (2015: £2.0m) with the Tracsis team supporting bidders for the East Anglia franchise competition, the Manchester Metrolink bid, and also the South Western franchise competition. Alongside franchise bidding, the team continues to deliver a mix of work and its diversification into new service offerings such as performance modelling and train crew analysis was instrumental in achieving this growth. The Group continues to target projects outside of franchise bid work in order to smooth the inherent revenue volatility that comes with work of this nature and good progress was made in this regard. Looking ahead, the focus within the professional services team will be to further broaden and strengthen its consultancy offering whilst remaining flexible to the significant opportunities that exist within franchise bidding.

Ontrac

Ontrac, which was acquired in December 2015, performed well in the eight months post acquisition and contributed revenue of £3.2m. This revenue came from a combination of software licences, hosting services, and bespoke software development work along with related consultancy services. The business works extensively with Network Rail along with a wide variety of engineering and construction companies within the railway supply chain who use Ontrac's Connect, Rail Hub and National Hazard Directory products.

The acquisition of Ontrac has added significant breadth and depth to the Group's software offering, and also increased the weighting of recurring revenue (via licensing and hosting) as a proportion of overall Group income. Furthermore, the diversity of the Ontrac customer base outside of the core UK rail market further diversifies Group revenue and offers some attractive cross-selling opportunities.

Traffic & Data Services

Summary segment results:

Revenue	£18.5m
EBITDA	£2.3m
Profit before Tax	£1.3m

Traffic Data and Passenger Counts

Traffic Data and Passenger Counts remains the largest part of the Group by revenue. Revenues from continuing operations increased 5% from £12.7m to £13.2m. As announced, in the period the Group disposed of Tracsis Traffic Data Pty Limited, a non-core operation which had contributed £2.2m of revenue in 2015 and £1.2m of revenue in 2016. Taking the disposal into account, there was a small decrease in sales from £14.9m to £14.4m in the year.

In the past year trading conditions have remained positive and the Group's traffic data business is the largest of its type within the UK with an estimated market share of c. 45%. The strategy for the division remains one of margin improvement through a variety of initiatives. Good progress has already been made and the focus over the coming years will be to continue to transition to a business that achieves enhanced operational efficiencies via an increased use of technology and process improvements. In doing so management believes significant improvements can be made to underlying profit margins. Good progress has already been made, which should be reflected in future results although the full process is likely to take one to two years to complete.

SEP

SEP was acquired in the year, and has significantly increased the service offering and customer base of the Traffic Data division. SEP's core business is traffic planning, consultancy and on-the-ground management of pedestrian and vehicle rich environments within the events industry, which covers a variety of large and complex venues ranging from music festivals to sporting events where the customer experience is critical. With the Group's existing offering in place, SEP was an obvious target for Tracsis, particularly with its long pedigree spanning over 25 years and an excellent reputation within the event space. SEP continues to work with major, high profile clients, and has undertaken projects for a multitude of clients and event days. Its client base includes Silverstone, Goodwood, a Premier League Football Club, Jockey Club and many more.

SEP achieved revenues of £4.1m in the period since acquisition (10 months) and traded in line with expectations.

Australian disposal

As previously announced, on 22 December 2015, the Group disposed of Tracsis Traffic Data Pty Limited ('TTD'), a data capture operation that was originally acquired as part of the Sky High PLC acquisition in 2013. The disposal took the form of a management buy-out and was in line with the Group's strategy to maintain strength in core markets where there is obvious ability to leverage from Group resources.

Chairman & Chief Executive Officer's Report continued

The disposal proceeds include an initial payment of AUS $285k and deferred consideration of AUS $799k payable over three years to give total consideration of AUS $1,084k. As part of the disposal agreement, the Group has security arrangements over the shares and assets of TTD and connected parties, which will remain in place until the consideration is paid in full.

Dividends

In February 2012, the Board implemented a progressive dividend policy and the Group intends to maintain this going forwards. An interim dividend of 0.5p per share for FY 2015/16 was paid in April 2016. A final dividend of 0.7p per share in respect of FY 2015/16 is proposed, to take the full year dividend to 1.2p. This represents a 20% increase on the previous year's dividend of 1.0p per share.

The dividends remain well covered by the Group's profitability and cash position, which supports its primary focus on growth via acquisition and further development of new products and services. The Board is committed to maintaining the progressive dividend policy provided the business continues to trade in line with expectations.

The dividend will be paid on 10 February 2017 to shareholders on the register on 27 January 2017.

Acquisitions

This was a busy year for Tracsis from an M&A perspective, with the Group completing the acquisitions of SEP and Ontrac, and making investments into Citi Logik and Nutshell.

<u>SEP Limited</u>

On 25 September 2015, the Group acquired SEP Limited ('SEP'). Based from Boroughbridge, North Yorkshire, SEP is a leading provider of traffic planning, consultancy and management services for the events industry. Since its formation in 1989, SEP's client list has grown to include many of the UK's largest and most prestigious outdoor entertainment and sporting fixtures, along with major agricultural events, air shows and music festivals.

Having successfully collaborated on major events, it was clear that SEP is a natural enhancement to Tracsis' existing Traffic & Data Services division and offers strong cross sell and upsell opportunities along with a range of synergies from shared labour, technology and back office resources, providing an opportunity to increase profit margins.

The acquisition consideration comprised an initial cash payment of £1.6m and the issue of ordinary shares with a value of £0.25m. Contingent and deferred and consideration of up to £0.7m is payable over two years based on SEP achieving certain financial targets, giving a total maximum consideration of £2.6m.

In the ten months since acquisition, SEP contributed revenue of £4.1m and an EBITDA of £0.3m which was in line with expectations. The full benefits of this acquisition will be experienced in the year ending 31 July 2017 which would mark the end of a full 12 month period as part of the Tracsis Group and will include the months of August and September which form part of the peak months of the event season.

<u>Ontrac Limited</u>

On 1 December 2015, the Group acquired the entire issued share capital of Ontrac Limited and Ontrac Technology Limited (together being 'Ontrac'). Based in Gateshead and London, Ontrac is an award winning software development and IT solutions company that works with a range of clients in the transport, construction, engineering and local government sectors. Ontrac's products have helped digitise process intensive workflows and aided with collaborative working through access to shared information. Ontrac is highly complementary to Tracsis' existing software development and consulting division and offers good cross sell and upsell opportunities across the Group along with obvious integration synergies and shared resources.

The acquisition consideration comprised an initial cash payment of £6.0m which was funded out of Tracsis cash reserves and the issue of ordinary shares in Tracsis with a value of £0.9m, along with a payment of £4.6m that represented the value of the Company's tangible net assets at completion. Additional contingent consideration of up to £8.0m is payable subject to Ontrac achieving certain stretch financial targets in the two years post acquisition which are based on the profit contribution to the Group. Therefore, Tracsis paid an initial amount of £11.5m (£6.9m goodwill and £4.6m for tangible assets) and on the basis that all stretch financial targets are achieved, the maximum total consideration will be £19.5m.

In the eight months since acquisition, Ontrac contributed revenue of £3.2m and an EBITDA of £1.1m. This was in line with expectations and as noted in the interim results, the Group expected a large contribution in the second half of the financial year, which was delivered. The full benefits of this acquisition will be experienced in the year ending 31 July 2017 which would mark the end of a full 12 months as part of the Tracsis Group.

Investments

The Board made a number of small investments in the period:

Chairman & Chief Executive Officer's Report continued

In July 2016, the Group made an investment in Nutshell Software Limited ('Nutshell'). Nutshell specialises in application software for the rapid creation of mobile business applications across multiple platforms for large enterprise organisations within the transport, utilities, healthcare and energy sectors. The business was formed in 2015, and is currently revenue generating. As well as the complementary addressable markets, the Group believes there are good opportunities for Nutshell to benefit from the Group's links to the UK transport industry along with entering related industries. Under the terms of the investment, Tracsis have agreed to invest up to £0.5m via a combination of equity and convertible debt to acquire up to 37.8% of Nutshell. The funds raised will be used primarily to promote sales and business development activity as the product is taken to market.

On 4 September 2015, the Group made a strategic investment to acquire up to 29.4% of Citi Logik Limited ('Citi Logik') via a combination of equity and convertible debt. Citi Logik is an exciting proposition with a compelling value proposition to utilise consumer mobile phone data to model pedestrian and traffic movements through an environment. So far, Tracsis has invested £0.5m into Citi Logik and holds an interest of 17%. A Tracsis executive holds a position on the Citi Logik board of Directors and the Group continues to work with the executive team to promote the solution to its customer base. Further investment into Citi Logik would only be undertaken in line with Citi Logik progress on their business plan and seeing traction with business development opportunities, although the technology and market opportunity at this stage remains compelling.

Overseas

Overseas growth continues to be a key part of the Group's long term growth strategy and given its success within the UK, overseas markets have remained relatively untapped, however solid progress has been made in the past year. As noted previously, the Group secured a key win with a North American Class 1 operator for its remote condition monitoring technology, which is a significant milestone. The Group continues to appraise multiple overseas opportunities and post year end achieved a software sale in the United Arab Emirates and also the North American RCM sale noted previously. Total overseas revenues (excluding the disposal of Tracsis Traffic Data Pty) were £0.6m in the year, with work being delivered in Ireland, Sweden, New Zealand and the United States.

Impact of the EU Referendum

Following the EU Referendum decision, the Group has not experienced any material change in business activity or demand for its products and services. Whilst it is too early to assess any long term implications of this decision, the Group has not made any changes to financial forecasts in light of this.

Tracsis continues to benefit from operating within specific niche verticals of the traffic data and transport markets where it can provide demonstrable cost and efficiency savings to its customers. The Group believes that its market offering and the sectors in which it operates provides it with good resilience to external influences although, as prudent to do so, it remains vigilant of these influences.

Summary and Outlook

FY 2015/16 was another year of significant progress for Tracsis and the Group has continued to execute on its growth strategy. The Group's technology and service offering has grown organically whilst also being bolstered by the additions of SEP and Ontrac, the full benefit of which will be seen later this year. Furthermore, the Group's strategic investments offer exciting opportunities for the future.

Revenue, adjusted EBITDA and adjusted profit were all well ahead of the same period last year and the Group continues to benefit from a robust balance sheet with strong levels of cash generation and significant cash reserves.

Tracsis' strategy remains unchanged: to deliver shareholder value both organically and through acquisition of complementary businesses, and by developing products and services that solve well recognised, high value problems that are poorly served by existing technology. The Group's business model continues to focus on markets that generally have high barriers to entry, with contracts that are sold on a recurring/repeat basis, and to a retained customer base that is predominantly blue chip in nature. This strategy has worked well in the past to generate good growth and significant returns for shareholders and the Group believes it will continue to work well in the future especially given the pace of change within its target markets.

Tracsis remains well placed to benefit from a growing UK traffic and transportation industry and the Group will continue to develop its overseas activities, which remain a significant opportunity for the future. Alongside this, the Group will continue to identify new opportunities where its technology and solutions can be applied. In the meantime, Tracsis will continue to diversify its technology portfolio through working closely with its customers and through the prudent allocation of capital to make further acquisitions as and when these opportunities present themselves.

Thanks go to customers, shareholders, and most importantly the team here at Tracsis.

Chris Cole, Chairman
John McArthur, Chief Executive Officer

16 November 2016

Strategic Report

Risk Management

Key risks

The board carefully considers the risks facing the Group and endeavour to minimise the impact of those risks and has reviewed this assessment during the year following the acquisitions of Ontrac Limited and SEP Limited and the disposal of the group's Australian business. The key risks are as follows:

Description/Potential impact:	Area of Group impacted:	Mitigation:	Change in the year:
Rail industry structure changes			
The present structure and organisation of the rail industry in the UK may be changed in the future, or by a future government, impacting the Group. The Group derives a significant amount of its results from the UK rail industry.	1. Rail Technology & Services	Several of the Group's products and services will still be in demand regardless of the structure of the industry as some of them have a demonstrable value proposition and return on investment case. The Group expects that demand for certain solutions will remain regardless of ownership structure. However, in certain circumstances, there is very little mitigation against politically driven changes or other structural changes.	In previous years, Network Rail became part of HM Treasury but no further structural changes took place in the year under review. The Group notes the continued press releases from Network Rail, and associated media coverage regarding its operation and performance. The threat of structural changes has existed for some time and is always a risk.
Competition			
The success of the Group may lead to increased competition, especially in Traffic & Data Services where our products and services may be more easily replicated. The Group has a variety of product and service offerings and some are more exposed to more competition than others.	1. Traffic & Data Services 2. Rail Technology & Services	The Group pays close attention to pricing and customer satisfaction for areas most subject to strong competition and endeavours to make sure it is competitively priced where appropriate. Where possible, the Group tries to ensure its products and services have a clear value proposition and return on investment such that the products and services are embedded within its customer base to reduce the exposure to new entrants.	For the year under review, Traffic & Data Services, the area most heavily exposed to competitive pressures, continued to account for around half of the Group's revenues, so this specific risk has remained unchanged, but the generic risks in respect of competition for the whole Group remain the same.
Reduced government spending			
The Group derives revenues directly and indirectly from government commitment to invest and modernise transport infrastructure, and would be significantly impacted if these public funding streams were reduced.	1. Traffic & Data Services 2. Rail Technology & Services	As the Group continues to grow and develop more diverse revenue streams, the exposure to government spending should theoretically reduce but will always be a risk for the Traffic & Data Services part of the Group due to the nature of its customer base. In terms of Rail Technology & Services, the Group attempts to ensure that its offerings have a clear return on investment and value proposition, to ensure demand will remain strong.	The risk and potential impact of 'Brexit' is covered separately within this risk section.

Risk Management continued

Description/Potential impact:	Area of Group impacted:	Mitigation:	Change in the year:
<u>Reliance on certain key customers</u>			
The Group has a large number of customers but derives a significant amount of business from one key customer for its Software & Services and also its Remote Condition Monitoring technology. The latter has no guarantee as to the timing or quantum of any potential future orders. Furthermore, the Group's Traffic & Data Services division operates under a number of Framework Agreements with one large one in particular.	1. Rail Technology & Services 2. Traffic & Data Services	As the Group continues to grow and evolve, the exposure to and reliance on any one customer will reduce. Although the Group will always be exposed to certain key customers, it manages this risk by engaging with the customers proactively to understand their needs and respond to them in terms of changes to products or service offerings to reinforce the relationship to ensure that its products and services are embedded with the customer as best as possible. The Group continues to seek to mitigate its exposure to one customer in Remote Condition Monitoring by targeting overseas markets and alternative uses for this technology.	The Group acquired Ontrac during the year, which works extensively with the Group's major customer already. Total revenues from the Group's largest customer were 14% of Group revenue (2015: 11%). Revenues in respect of the Group's Remote Condition Monitoring were again reduced compared to the previous year, which was anticipated to some extent and revenues from this part of the group accounted for around 7% (2015: 12%) of total Group revenue. The Traffic & Data Services division continued to account for over half of overall Group revenues and derived £2.1m (2015: £1.4m) from one particular customer.
<u>Attraction and retention of key employees</u>			
The Group has a number of key individuals, though their individual importance has arguably reduced as the Group has grown and the reliance on certain people reduces. However, skills and expertise in our markets are specialist and hard to find or develop, and so further growth of the business may be restricted.	All parts of the Group.	The Group believes it offers competitive remuneration packages, and also offers various share schemes to staff in order to attract and retain high calibre employees. Such share schemes are designed such that employees are rewarded in the success of the Group, and are tied in for a period of time. As the Group has grown, a number of staff continue to hold old EMI options from historic times. As the Group grows, the reliance on and exposure to certain individuals in terms of impact on the overall Group, is reduced.	Largely unchanged from previous years. As the economy continues to grow then the risk of not being able to recruit or retain key individuals increases given the competition from other potential employers. In respect of the acquisitions made in the year, the Group negotiated contingent consideration arrangements in both cases and also negotiated terms and conditions for key management of the acquired companies.

Risk Management continued

Description/Potential impact:	Area of Group impacted:	Mitigation:	Change in the year:
<u>Technological changes</u> The Group has a variety of product and service offerings which may be under threat should competitors develop rival technology or should more effective ways of doing things be discovered which make some of the Group's services redundant. This could potentially lead to reduced levels of business.	1. Traffic & Data Services 2. Rail Technology & Services	The Group continues to invest in research and development for its technology products to ensure that they remain up to date and also relevant to the customer base, as it also takes feedback from its clients about what they require from the products. This helps to ensure that they remain relevant. The Group works closely with its customers to deliver the next generation of products. For certain parts of the Group, the business works with technology partners who have specific expertise and can help the Group to maximise its service offerings. Some of the Group's offerings are protected by customer relationships, Framework Agreements, contractual agreements and also significant development costs, which provide protection even if new entrants may come along. The Group made a strategic investment in Citi Logik Limited in September 2015.	This is under constant review as a Technology focussed business and as the group becomes more diverse and larger, each of the Group's product and service offerings are subject to different levels of technology threats at various points in time. The Group made a strategic investment in Citi Logik Limited in September 2015 to attempt to mitigate the risk posted by the use of mobile phone data for transport data collection.
<u>Customer pricing pressure</u> Price pressure from customers may potentially result in margins being eroded in the fullness of time if lower revenues are achieved than those which were achieved historically.	1. Traffic & Data Services 2. Rail Technology & Services	The Group believes it operates a relatively lean business in order to protect against pricing pressure, and is constantly searching for ways to maintain its cost base operating efficiently. When reviewing tenders and enquiries, pricing is submitted accordingly on the most favourable commercial terms. The Group is committed to ensuring customer satisfaction and offering a compelling return on investment for its products with a clear value proposition, with the objective that the customer base will continue to take its products due to their quality and business case, with price being of less concern to them.	Following the acquisition of SEP, Traffic & Data Services continues to make up a large part of the overall Group, and this part of the business is most exposed to pricing pressure and it also operates at lower profit margins than Rail Technology & Services. As the element of revenue derived from Traffic & Data Services has remained at around half of Group revenues, the risk has remained unchanged on a Groupwide basis.

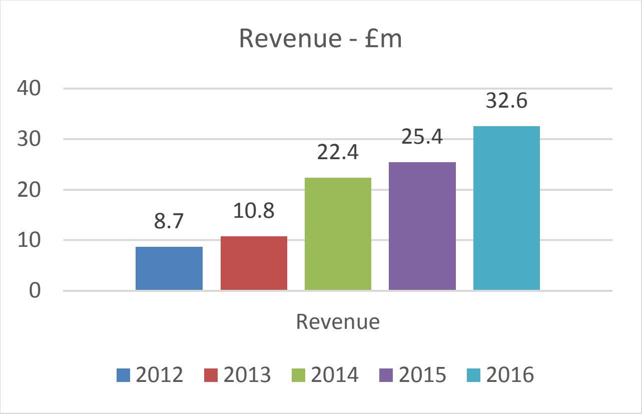
Risk Management continued

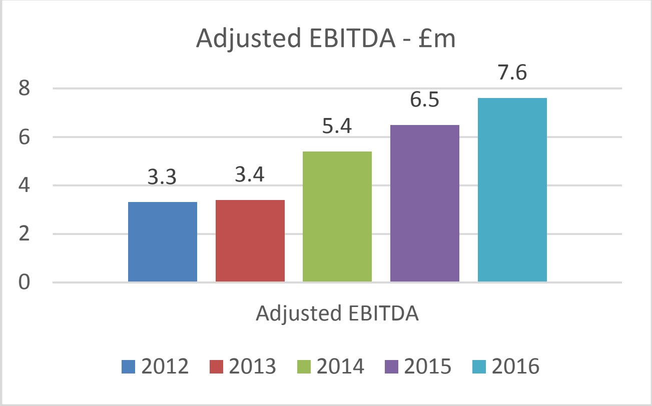
Description/Potential impact:	Area of Group impacted:	Mitigation:	Change in the year:
Health & Safety			
The Group has a large number of employees operating at a variety of sites around the country.	1. Traffic & Data Services 2. Rail Technology & Services	The Group employs a dedicated Health & Safety Manager for its Traffic & Data Services division along with external advisors. The Remote Condition Monitoring division engages the services of a specialist Health & Safety Advisor. Business unit heads report on Health & safety matters to the Board at every board meeting. Across the Group, there are a number of policies, procedures and method statements to provide mitigation against health & safety risk.	Following the acquisition of SEP in the year, the Group uses an increased number of casual employees during the year to perform various services and as a result, the risk of an incident has increased due to the number of events that the Group works at, and also the number of casual staff engaged with.
Brand reputation			
Any adverse publicity concerning the Group, or any of its subsidiary businesses may have an impact on future trading prospects if the Group's brand is adversely affected as a result of this.	All parts of the Group	The Board maintains regular dialogue with Operational staff and Heads of Department and so is made aware of any issues so that corrective action can be taken if necessary.	The Group and its brand is more high profile following the acquisitions of SEP and Ontrac and operates at a number of high profile clients and their events. This is both an opportunity and a threat.
Impact of EU Referendum			
The decision to leave the European Union may have a potential impact on the macroeconomic conditions in the UK, from which the Group derives the majority of its revenue and profit, which may impact on the Group's customers, in particular those revenues derived from the public sector should this lead to any reduction in government spending.	All parts of the Group	Following the EU Referendum decision, the Group has not experienced any material change in business activity or demand for its products and services. Whilst it is too early to assess the long term implications of this decision, the Group has not made any changes to financial forecasts in light of this. Tracsis continues to benefit from operating within specific niche verticals of the traffic data and transport markets where it can provide demonstrable cost and efficiency savings to its customers. The Group believes that its market offering and the sectors in which it operates provides it with good resilience to external influences although, as prudent to do so, remain vigilant of these influences.	Increased risk given that the referendum took place during the year under review.

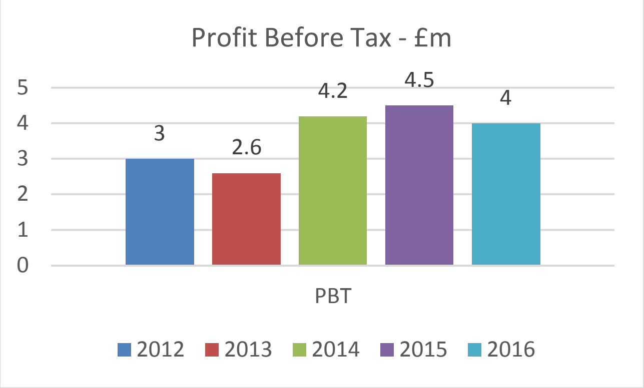
Strategic Report

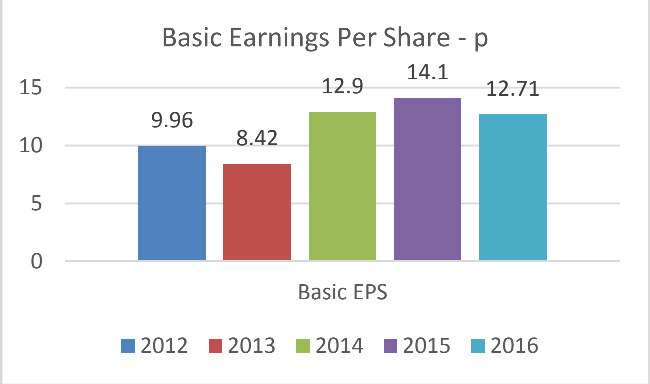
Key Performance Indicators

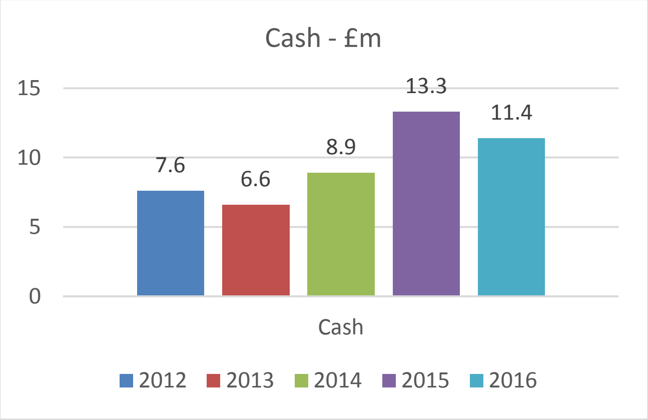
1. The Group's main Key Performance Indicators (KPIs) assessed at Group Level are as follows:
    a. Sales Revenue and various Profit metrics versus budget, forecast and prior year
    b. Sales prospects and forecasts versus budget and prior year
    c. Cash balances, debtors and working capital requirements
2. Additional Key Performance Indicators specific to specific divisions:
    a. Rail Technology & Services
        i. Customer renewal rates for Software and new customer take up / product matrix
        ii. Staff utilisation and chargeability
        iii. Revenue by customer and by product type
        iv. Delivery of major orders versus customer requirements
    b. Traffic & Data Services:
        i. Customer enquiries and conversion rates,
        ii. Working capital tie up in debtors and work in progress and Capital expenditure
        iii. Number of events and event days, plus casual staff costs relative to revenue











Governance

Board of Directors

Executive Directors

John McArthur (41) Chief Executive Officer

John has been the Chief Executive Officer of Tracsis since the formation of the company in January 2004. Prior to this he worked as an investment manager with Techtran Group Limited which specialises in developing the commercial potential of intellectual property developed at the University of Leeds. John also worked for several years with Axiomlab Group plc, a technology venture capital company, having started his career with Arthur Andersen & Co. He holds a first class degree in Management Science from the University of Strathclyde in Glasgow.

Max Cawthra (38) Chief Financial Officer

Max joined Tracsis in September 2010 as Financial Controller and was promoted to the Board in August 2011. Max is a Chartered Accountant, having trained with Ernst & Young in Leeds. Prior to joining Tracsis, Max spent seven years at Persimmon plc in a variety of roles.

Non-Executive Directors

Chris Cole (70) Non-Executive Chairman

Chris is Non-Executive Chairman of WSP Global Inc. (listed on the Toronto Stock Exchange), the successor to WSP Group plc. He is also Non-Executive Chairman of Ashtead Group plc, having previously been a Non-Executive Director, Senior Independent Non-Executive Director of Infinis plc, and Non-Executive Chairman of Redcentric plc.

Charles Winward (46) Non-Executive Director

Charles is currently Investment Director at NVM Private Equity and was previously an Executive Director of IP Group plc until April 2014, where he successfully invested in and served as Non-Executive Director at high potential technology companies, including Retroscreen Virology plc and Xeros Technology plc. Charles is a Chartered Financial Analyst, holds an MBA from the University of California at Berkeley and an undergraduate engineering degree from the University of Bristol.

John Nelson (69) Non-Executive Director

John Nelson has worked at the top of the rail industry for over thirty years and has been in the sector for 47 in total. Before privatisation he was Managing Director of British Rail's biggest business, Network South East, and prior to that was General Manager of the Eastern Region, then a quarter of the rail network in the UK. Since privatisation he has established 7 new businesses including leading strategic management consultancy First Class Partnerships and the country's first Open Access company, Hull Trains. At one time or another he has chaired the Boards of 13 train operating companies and sat on the Boards of 4 others as a Non Executive Director. He continues to promote new rail ventures and was recently granted an award for outstanding personal contribution to the rail industry at the National Rail Awards 2013.

Lisa Charles-Jones (45) Non-Executive Director

Lisa, is a HR professional and worked for LSL Property Services plc for 13 years, which is listed on the Main Market of the London Stock Exchange, firstly as Head of HR and for the last ten years as Group HR Director. She is a member of the Chartered Institute of Personnel and Development and holds an MBA from the University of Durham

Liz Richards (58) Non-Executive Director

Liz was previously Group Finance Director of Callcredit Information Group, from 2000 to 2015. Callcredit is a consumer data business, which grew from a start-up in 2000 to a £150m turnover business with over 1,000 employees. Following its significant growth and success, the business was sold in 2014 for circa £500m. Liz is a Chartered Accountant, having trained with EY, and currently is Non-executive Director and audit committee chair of LINK Scheme Ltd, the UK ATM network operator. Prior to Callcredit, Liz worked in a variety of finance roles.

Governance

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 July 2016.

Tracsis plc ('the Company') is a public limited company incorporated and domiciled in the United Kingdom and under the Companies Act 2006.

The address of the Company's registered office is Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF.

The Company is listed on AIM, part of the London Stock Exchange.

The Group financial statements were authorised for issue by the Board of Directors on 16 November 2016.

Further information on the activities of the business, the Group strategy and an indication of the outlook for the business are presented in the Chairman and Chief Executive Officer's Statement and the Strategy and Business Model sections of the report.

Financial results

Details of the Group's financial results are set out in the Consolidated Statement of Comprehensive Income, other primary statements and in the Notes to the Consolidated Financial Statements on pages 26 to 66

Dividends

The Directors have adopted a progressive dividend policy, subject to growth, profitability and cash position in the future. An interim dividend of 0.50p per share was paid in April 2016. The Directors propose a final dividend of 0.7p per share, subject to shareholder approval at the forthcoming Annual General Meeting. This will give a full year dividend of 1.2p per share (2015: 1.0p).

Directors

The directors who serve on the Board and on Board Committees during the year are set out on page 14. Sean Lippell resigned as a Director on 23 May 2016. Lisa Charles-Jones was appointed as a Director on 25 August 2016. Liz Richards was appointed as a Director on 1 September 2016.

Under the Articles of Association of the Company, one third of the directors are subject to retirement by rotation at the forthcoming Annual General Meeting, notice of which accompanies this Report and Accounts. Accordingly John Nelson and Max Cawthra retire by rotation and, being eligible, offer themselves for re-election. In addition, Lisa Charles-Jones and Liz Richards will seek re-election given they were both appointed since the last Annual General Meeting. In relation to the re-elections of each of the directors, the Board is satisfied that each of these directors continues to be effective and to demonstrate commitment to the Company

Information in respect of directors' remuneration is given in the Directors' Remuneration Report on pages 18 to 21.

Directors' shareholdings

Directors' beneficial interests in the shares of the Company, including family interests, at 31 July 2016 and 2015 were as follows:

	31 July 2016		**31 July 2015**	
	Number of shares	% of issued share capital	Number of shares	% of issued share capital
John McArthur	1,062,783	3.86%	1,117,433	4.21%
Max Cawthra	177,860	0.65%	54,000	0.20%
John Nelson	100,824	0.37%	230,824	0.87%
Charles Winward	99,771	0.36%	86,771	0.33%
Chris Cole	7,000	0.02%	7,000	0.03%
Lisa Charles-Jones	-	-	-	-
Liz Richards	-	-	-	-

Directors' Report continued

None of the Directors had any interests in the share capital of subsidiaries. Further details of share options held by the directors are set out in the Directors' Remuneration Report.

Substantial shareholdings

At 16 November 2016, being the latest practicable date prior to the publication of this document, the Company has been advised of the following shareholdings of 3% or more in the issued share capital of Tracsis plc:

	Number of shares	% of issued shares
Unicorn Asset Management	1,860,532	6.7%
Ennismore Fund Management	1,661,274	6.0%
Schroders	1,473,684	5.3%
BlackRock Inc	1,440,986	5.2%
Liontrust Investment Partners	1,343,778	4.9%
Downing LLP	1,269,248	4.6%
Hargreave Hale Limited	1,262,500	4.6%
Fidelity	1,183,182	4.2%
Investec Asset Management	1,131,648	4.1%
The University of Leeds	1,090,000	4.0%
John McArthur	1,062,783	3.9%

Payment of suppliers

It is the Group's policy to pay suppliers in accordance with the terms and conditions agreed in advance, providing all trading terms and conditions have been met. All payments are made in the ordinary course of business and the Group expects to pay all supplier debts as they become due.

Trade payable days for the Group at 31 July 2016 were 58 days (2015: 55 days).

Research and development

During the year the Group incurred £970,000 (2015: £437,000) of expenditure on research activity, which has been charged to the Income Statement.

Financial instruments

Details of the Group's exposure to financial risks are set out in Note 26 to the financial statements.

Employment policy

It is the policy of the Group to operate a fair employment policy. No employee or job applicant is less favourably treated than another on the grounds of their sex, sexual orientation, age, marital status, religion, race, nationality, ethnic or national origin, colour or disability and all appointments and promotions are determined solely on merit. The Directors encourage employees to be aware of all issues affecting the Group and place considerable emphasis on employees sharing in its success through its employee share option scheme.

Environment

The Group adheres to all environmental regulations and has, where possible, utilised environmental-sustaining policies such as recycling and waste reduction.

Significant Contracts

One of the Group's subsidiaries, MPEC Technology Limited, has a significant Framework Agreement with a major railway infrastructure provider, from which it has historically derived a significant amount of business. Tracsis Traffic Data Limited, another subsidiary company, has a significant Framework Agreement with a major worldwide engineering consultancy company from which it has historically derived a significant amount of business. Ontrac Limited works extensively with a major railway infrastructure provider, from which it has historically derived a significant amount of business. SEP Limited has a number of significant, multi-year contracts with a number of key clients.

Directors’ Report continued

Charitable donations

The Group made charitable donations to various charities amounting to £5,200 during the year (2015: £6,290). No political donations were made.

Auditor

A resolution to appoint KPMG LLP will be proposed at the Annual General Meeting.

Provision of information to auditor

All of the current Directors have taken all steps that they ought to have taken to make themselves aware of any information needed by the Company’s auditor for the purposes of their audit and to establish that the auditor is aware of that information. The Directors are not aware of any relevant audit information of which the auditor is unaware.

By order of the Board

Max Cawthra
Company Secretary

16 November 2016

Leeds Innovation Centre
103 Clarendon Road
Leeds
LS2 9DF

Governance

Directors' Remuneration Report

Unaudited information:

Tracsis plc, as an AIM company, is not required to present a Directors Remuneration Report in accordance with the Combined Code. As part of the Company's commitment to Corporate Governance, we present a voluntary report below.

Remuneration committee

The Remuneration Committee is described in the Report on Corporate Governance. The remuneration for each Executive Director is determined by the Remuneration Committee, which comprises the Non-Executive Directors. None of the committee members has any personal financial interest, other than as shareholders, in the matters to be decided.

Service contracts

It is the Group's policy to enter into service contracts or letters of appointment with all Directors. Specific terms are:

	Date of contract	Commencement date	Unexpired term	Notice period
Executive Directors				
John McArthur	21.11.07	01.01.04	Indefinite	6 months
Max Cawthra	20.09.10	20.09.10	Indefinite	3 months
Non-Executive Directors				
John Nelson	21.11.07	21.11.07	Indefinite	3 months
Charles Winward	21.11.07	21.11.07	Indefinite	3 months
Chris Cole	28.04.14	28.04.14	Indefinite	3 months
Lisa Charles-Jones	25.08.16	25.08.16	Indefinite	3 months
Liz Richards	01.09.16	01.09.16	Indefinite	3 months

None of the service contracts or letters of appointment provide for any termination payments.

Remuneration policy

The remuneration packages for Directors and senior management have been structured so as to fairly compensate them for their contribution to the Group and to encourage them to remain within the Group. The basic components of these packages include:

Basic salary and bonus arrangements

Each Director receives an annual salary or Directors' fee for his/her services. These salaries are reviewed annually by the Remuneration Committee and take into account the financial performance of the Group and market conditions. The Group operates a bonus scheme. The Remuneration Committee is entitled to decide whether any bonuses are payable, and if so, what amounts should be granted to Executive Directors.

External appointments

The committee recognises that its directors may be invited to become executive or non-executive directors of other companies or to become involved in charitable or public service organisations. As the Committee believes that this can broaden the knowledge and experience of the directors to the benefit of the Group, it is the Group's policy to approve such appointments provided that there is no conflict of interest and the commitment is not excessive. The director concerned can retain the fees relating to any such appointment.

Directors' Remuneration Report continued

Pensions and benefits in kind

All staff, Executive Directors and senior management are entitled to participate in the stakeholder pension plan established by the Group. Benefits are provided to certain Executive Directors, including private health cover. The Group does not provide any company cars to any of its Directors. The Group makes employer pension contributions to the pension schemes of J McArthur and M Cawthra at a standard 5% of basic salary, in line with the level of contributions for other members of staff. During a previous financial year, John McArthur elected to take a reduction in basic salary in return for additional employers pension contributions and this was continued in the financial year under review. There was no additional cost to the Group in respect of this arrangement.

Audited information:

Directors' remuneration

Directors' remuneration for the year ended 31 July 2016 is set out below

	Basic salary £000	Pension Conts £'000	Bonus £000	Benefits in kind £000	Total 2016 £000	Total 2015 £000
Executive Directors						
John McArthur	184	40	99	-	**323**	299
Max Cawthra	140	7	67	-	**214**	197
	324	47	166	-	**537**	496
Non-Executive Directors						
John Nelson	23	-	-	-	**23**	23
Charles Winward	25	-	-	-	**25**	25
Chris Cole	50	-	-	-	**50**	50
Sean Lippell (to 23 May 2016)	21	-	-	-	**21**	25
Lisa Charles-Jones (appointed 25 Aug 16)	-	-	-	-	**-**	-
Liz Richards (appointed 1 Sept 16)	-	-	-	-	**-**	-
	119	-	-	-	**119**	123

Directors' interests in shares options in the Executive Share Option Schemes

	At 1 August 2015	Granted*	Lapsed	Exercised	At 31 July 2016	Exercise price pence	Date from Which Exercisable	Expiry date
Executive Directors								
John McArthur	100,000	92,727	-	(100,000)	92,727	0.4p	See note 1	15 Dec 2025
Max Cawthra	160,162	61,819	-	(150,000)	71,981	0.4p	See notes 1 and 2	15 Dec 2025 /1 Aug 2022
Non-Executive Directors								
John Nelson	25,000	-	-	-	25,000	175p	See note 3	26 Mar 2023
Charles Winward	50,000	-	-	(50,000)	-	175p	See note 3	26 Mar 2023
Chris Cole	-	-	-	-	-	-	-	-
Lisa Charles-Jones	-	-	-	-	-	-	-	-
Liz Richards	-	-	-	-	-	-	-	-

In accordance with Corporate Governance best practice, the Group will no longer be granting stock options to Non-Executive Directors in lieu of salary. This will ensure objectivity and independence within the Board's decision making process.

Directors' Remuneration Report continued

Directors' interests in shares options in the Executive Share Option Schemes (continued)

Note 1

Following a meeting of the remuneration committee on 14 December 2015, Tracsis formally granted 92,727 share options on 15 December 2015 to John McArthur, Chief Executive Officer and 61,819 share options to Max Cawthra, Chief Finance Officer, together the Group's Executive Directors.

The remuneration committee believes it is important to retain and motivate Executive Directors whilst at the same time setting challenging performance targets that are aligned with the Group's strategic goals and in shareholders' interests. The remuneration committee had sought to implement a formalised LTIP scheme for the Executive Directors for some time, but had been unable to do so due to close period restrictions imposed by various corporate activities (primarily acquisitions) and statutory reporting close periods.

Following the acquisition of Ontrac Technology Limited and Ontrac Limited (announced 2nd December 2015), the remuneration committee was now able to grant the options and has incorporated two years' worth of grants dating back to 1 August 2014.

The committee took formal advice from KPMG LLP in establishing the LTIP scheme rules and in determining appropriate targets and peer group comparators.

The options awarded have an exercise price of 0.4p and are directly linked to performance targets based on Group profitability and Total Shareholder Return relative to an AIM peer group determined by Tracsis' remuneration committee which can be summarised as follows:

'2014 LTIP'

- John McArthur granted a maximum of 54,545 options, Max Cawthra issued a maximum of 36,364 options
- Full award is only exercisable should statutory diluted Earnings Per Share (EPS) for the year ending 31 July 2017 be 17.37p, and Total Shareholder Return (TSR) versus AIM peer group is in the top quartile
- Where statutory diluted EPS for the year ending 31 July 2017 be less than 14.37p, and TSR versus the peer group is less than the median, no options will be exercisable
- For scenarios between the above range, the options will be exercisable on a sliding scale basis in both instances

'2015 LTIP'

- John McArthur granted maximum of 38,182 options, Max Cawthra granted a maximum of 25,455 options
- Full award is only payable should statutory diluted EPS for the year ending 31 July 2018 be 17.95p, and TSR versus the peer group is in the top quartile
- Should statutory diluted EPS for the year ending 31 July 2018 be less than 14.95p, and TSR versus the peer group is less than the median, no options will be awarded
- For scenarios between the above range, the options will be exercisable on a sliding scale basis in both instances

Note 2

Options granted in 2012/13 relate to the Company's previous LTIP scheme where Max Cawthra exchanged an element of his 2011/12 cash bonus for discounted share options as part of a scheme available to all staff, in return for 10,162 options with an exercise price of 0.4p

Note 3

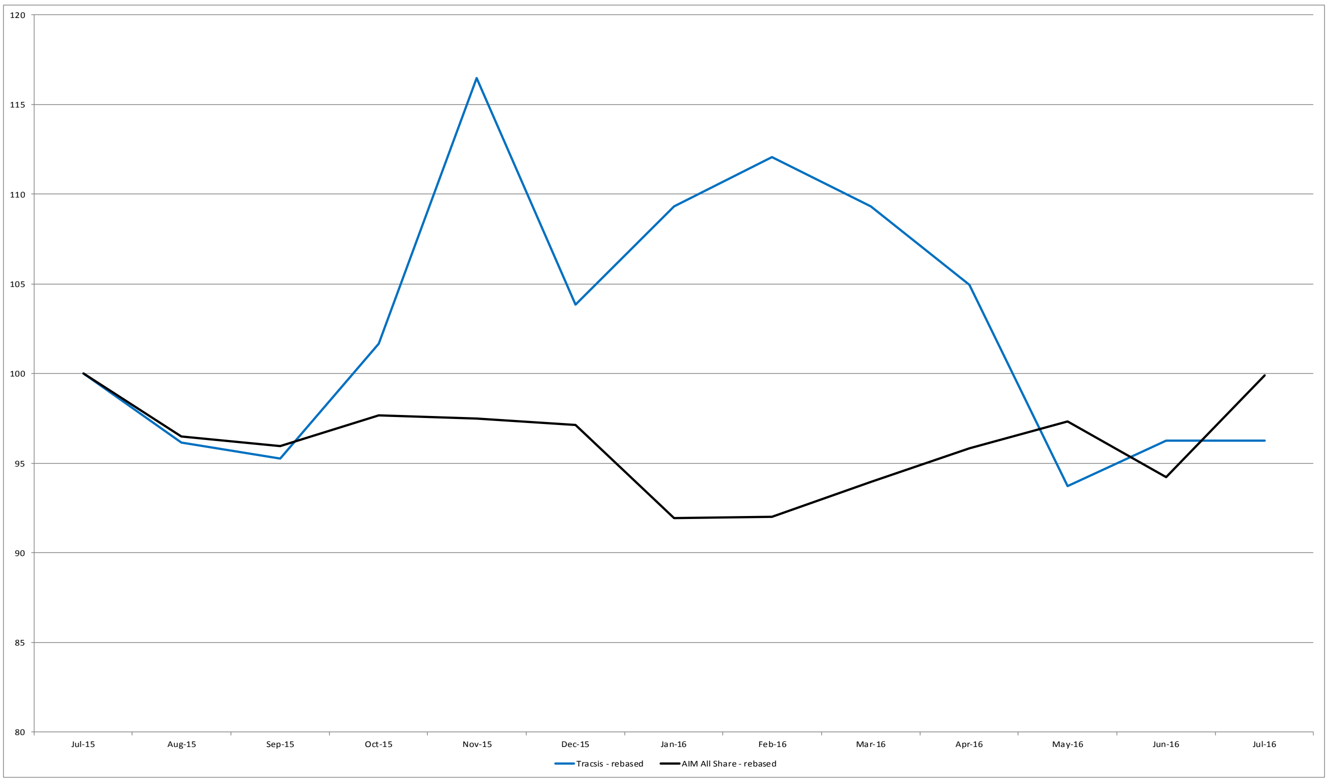
Options granted in 2012/13 are exercisable in batches in 3 monthly intervals commencing 3 months from the date of grant (26 March 2013). All options will be fully exercisable 24 months after the date of grant.

The aggregate amount of pre-tax gains made by directors on the exercise of share options was £355,177 (2015: £nil). No directors received or were due to receive any shares under long term incentive schemes other than under the share options schemes set out above.

Directors' Remuneration Report continued

Performance graph

The following graph shows the Company's share price (rebased) compared with the performance of the FTSE AIM all-share index (rebased) for the period from 1 August 2015 to 31 July 2016.



The committee has selected the above indices because they are most relevant for a company of Tracsis's size and sector.

On behalf of the Board

Lisa Charles-Jones
Chair of the Remuneration Committee
16 November 2016

Governance

Corporate Governance

Tracsis plc was listed on AIM on 27 November 2007. The Group recognises the importance of, and is committed to, high standards of corporate governance. Tracsis plc, as an AIM Company, is not required to comply with the current UK Corporate Governance Code, although it has adopted some of the principles as set out below.

The Board

There are currently 7 Board members, comprising 2 Executive Directors and 5 Non-Executive Directors. The role of the Non-Executive Directors is to bring independent judgement to Board deliberations and decisions. Chris Cole was appointed as a Non-Executive Chairman of the Board in 2014 to oversee Board meetings and field all concerns regarding the executive management of the Group and the performance of the Executive Directors. A biography of each Director appears on page 14. The Directors each have diverse backgrounds and a wide range of experience is available to the Group. The Board meets on a monthly basis to review the Group's performance and to review and determine strategies for future growth. The Board has delegated specific responsibilities to its committees as set out below.

Each of the Directors is subject to either an executive services agreement or a letter of appointment as set out on page 14. Tracsis plc's Articles of Association require directors to retire from office and submit themselves for re-election on a one third rotation at each Annual General Meeting. John Nelson and Max Cawthra will be retiring at the Annual General Meeting and submitting themselves for re-election. In addition, Lisa Charles-Jones and Liz Richards will seek re-election given they were appointed since the last Annual General Meeting.

Board meetings and attendance

Board meetings were held on 10 occasions during the year. The table below shows attendance at the meetings whether in person or by telephone. The Company Secretary records attendance at all board meetings including where attendance is by telephone conference.

	Board Meetings (total/poss)	Nomination Committee Meetings	Remuneration Committee Meetings	Audit Committee Meetings
John McArthur	10/10	-	-	-
Max Cawthra	10/10	-	-	-
John Nelson	9/10	-	2/2	2/2
Charles Winward	10/10	-	2/2	2/2
Chris Cole	10/10	-	2/2	2/2
Sean Lippell	5/8	-	2/2	1/1

Board committees

Nomination Committee

The Nomination Committee comprises Chris Cole as Chairman, and the Non-Executive Directors. The committee's primary responsibilities are to make recommendations to the Directors on all new appointments of Directors and senior management, interviewing nominees, to take up references and to consider related matters.

Remuneration Committee

The Remuneration Committee comprises Lisa Charles-Jones (previously Sean Lippell) as Chairperson and the Non-Executive Directors. The committee's primary responsibilities are to review the performance of the Executive Directors and to determine the terms and conditions of service of senior management and any Executive Director appointed to the Board (including the remuneration of and grant of options to any such person under any share scheme adopted by the Group).

Audit Committee

The Audit Committee similarly comprises Charles Winward as Chairperson, with this position transitioning to Liz Richards, and the Non-Executive Directors. The audit committee's primary responsibilities are to monitor the financial affairs of the Group, to ensure that the financial performance of the Group is properly measured and reported on, and to review reports from the Group's auditor relating to the accounting and internal controls.

Corporate Governance continued

Non audit services

In accordance with its policy on non audit services provided by the Group's auditor, the Audit Committee reviews and approves the award of any such work. The Audit Committee refers to the Board for approval of any work comprising non audit services where the fees for such work represent more than 25% of the annual audit fee.

Auditor independence and conflicts of interest

The Audit Committee continues to evaluate the independence and objectivity of the external auditor and takes into consideration all United Kingdom professional and regulatory requirements. Consideration is given to all relationships between the Group and the audit firm (including in respect of the provision of non audit services). The Audit Committee considers whether, taken as a whole, and having regard to the views, as appropriate, of the external auditor and management, those relationships appear to impair the auditor's judgement or independence. The Audit Committee feels they do not.

Internal audit

The Audit Committee agrees that there should be no internal audit function of the Group at this time considering the size of the Group and the close involvement of senior management over the Group's accounting systems. However, the Committee will keep this matter under review in the event that circumstances warrant an internal function for the Group in the future.

Control procedures

The Board approves the annual budget each year. This process allows the Board to identify key performance targets and risks expected during the upcoming year. The Board also considers the agreed budget when reviewing trading updates and considering expenditures throughout the year. Progress against budget is monitored via monthly reporting of actual financial performance against budget and prior year actual results.

The Group has clear authority limits deriving from the list of matters reserved for decision by the Board including capital expenditure approval procedures.

Relations with shareholders

The Board recognises and understands that it has a fiduciary responsibility to the shareholders. The Chairman's Statement and Chief Executive's Statement include detailed analysis of the Group's performance and future expectations. The Group's website (www.tracsis.com) allows shareholders access to information, including contact details and the current share price. The Chief Executive is responsible for on-going dialogue and relationships with shareholders, alongside the Chief Financial officer and Chairman.

The Annual General Meeting will be a platform for the Board to communicate with shareholders and the Board welcomes the attendance and participation of all shareholders.

Going concern

The Directors have a reasonable expectation that the Group has adequate resources to continue for the foreseeable future in operational existence and have therefore adopted the going concern basis in preparing the accounts.

Independence of Non-Executive Directors

The Directors consider all Non-Executive Directors to be independent.

Board evaluation process

During the previous year, the Board commenced a formal evaluation process. During the year, Sean Lippell stood down as a Director. Post year end, Lisa Charles-Jones and Liz Richards were appointed as Directors.

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.
Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.
The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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Independent Auditor's Report to the Members of Tracsis plc

We have audited the financial statements of Tracsis plc for the year ended 31 July 2016 set out on pages 26 to 76. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at: www.frc.org.uk/auditscopeukprivate..

Opinion on financial statements

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 July 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 22 and 23 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report, the Directors' Report and the Corporate Governance Statement:

- we have not identified material misstatements in the Strategic Report, the Directors' Report, or the specified Corporate Governance information;
- in our opinion, the Strategic Report and the Directors' Report have been prepared in accordance with the Companies Act 2006; and

Matters on which we are required to report by exception

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

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

David Morritt (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

16 November 2016

Financial Statements

Consolidated Statement of Comprehensive Income

for the year ended 31 July 2016

		2016				2015		
		Continuing operations	Acquisitions	Discontinued operations	**Total**	Continuing operations	Discontinued operations	Total
	Notes	£000	£000	£000	**£000**	£000	£000	£000
Revenue	6	24,062	7,341	1,238	**32,641**	23,137	2,245	25,382
Cost of sales		(8,448)	(4,111)	(715)	**(13,274)**	(8,324)	(1,308)	(9,632)
Gross profit		15,614	3,230	523	**19,367**	14,813	937	15,750
Administrative costs		(11,783)	(2,962)	(662)	**(15,407)**	(10,605)	(677)	(11,282)
Adjusted EBITDA*	6	6,021	1,423	201	**7,645**	6,197	332	6,529
Amortisation of intangible assets	15	(714)	(664)	-	**(1,378)**	(714)	-	(714)
Depreciation	14	(621)	(123)	(29)	**(773)**	(652)	(72)	(724)
Exceptional item: Acquisition and disposal costs	5	-	(136)	(39)	**(175)**	-	-	-
Exceptional item: Loss on disposal	5	-	-	(272)	**(272)**	-	-	-
Share-based payment charges	8	(855)	(232)	-	**(1,087)**	(623)	-	(623)
Operating profit / (loss)	9	3,831	268	(139)	**3,960**	4,208	260	4,468
Finance income	10	21	15	-	**36**	31	-	31
Finance expense	11	(27)	(10)	(4)	**(41)**	(20)	(9)	(29)
Profit / (loss) before tax		3,825	273	(143)	**3,955**	4,219	251	4,470
Taxation	12	(372)	-	(50)	**(422)**	(679)	(62)	(741)
Profit / (loss) after tax		3,453	273	(193)	**3,533**	3,540	189	3,729

Other comprehensive income/(expense):								
Items that are or may be reclassified subsequently to profit or loss								
Foreign currency translation differences – foreign operations		-	-	189	**189**	-	(89)	(89)
Total recognised income for the year		3,453	273	(4)	**3,722**	3,540	100	3,640
Earnings per ordinary share								
Basic	13	12.42p	0.98p	(0.69p)	**12.71p**	13.39p	0.71p	14.10p
Diluted	13	11.98p	0.95p	(0.67p)	**12.26p**	12.80p	0.68p	13.48p

* Earnings before finance income, tax, depreciation, amortisation, exceptional items and share-based payment charges.

The accompanying notes form an integral part of these financial statements

Financial Statements

Consolidated Balance Sheet as at 31 July 2016 Company number: 05019106

	Note	2016 £000	2015 £000
Non-current assets			
Property, plant and equipment	14	**2,608**	1,930
Intangible assets	15	**26,132**	10,010
Investments – loan notes receivable	16	**250**	-
Investments – equity	16	**500**	-
Deferred consideration receivable	5	**167**	-
Deferred tax assets	22	**573**	882
		30,230	12,822
Current assets			
Inventories	17	**271**	274
Trade and other receivables	19	**6,166**	4,273
Deferred consideration receivable	5	**133**	-
Cash and cash equivalents		**11,385**	13,341
		17,955	17,888
Total assets		**48,185**	30,710
Non-current liabilities			
Hire-purchase contracts	18	**296**	229
Contingent & Deferred consideration payable	21	**4,485**	-
Deferred tax liabilities	22	**4,284**	1,734
		9,065	1,963
Current liabilities			
Hire-purchase contracts	18	**368**	171
Trade and other payables	20	**8,354**	5,697
Contingent & Deferred consideration payable	21	**1,665**	-
Current tax liabilities		**67**	502
		10,454	6,370
Total liabilities		**19,519**	8,333
Net assets		**28,666**	22,377
Equity attributable to equity holders of the company			
Called up share capital	23	**110**	106
Share premium reserve	24	**5,622**	4,776
Merger reserve	24	**3,010**	1,846
Share based payments reserve	24	**2,408**	1,321
Retained earnings	24	**17,516**	14,517
Translation reserve	24	**-**	(189)
Total equity		**28,666**	22,377

The financial statements on pages 26 to 66 were approved and authorised for issue by the Board of Directors on 16 November 2016 and were signed on its behalf by:

John McArthur – Chief Executive Officer **Max Cawthra** – Chief Financial Officer

The accompanying notes form an integral part of these financial statements

Financial Statements

Consolidated Statement of Changes in Equity

	Share Capital £000	Share Premium Reserve £000	Merger Reserve £000	Share-based Payments Reserve £000	Retained Earnings £000	Translation Reserve £000	Total £000
At 1 August 2014	105	4,591	1,846	698	10,709	(100)	17,849
Profit for the year	-	-	-	-	3,729	-	3,729
Other comprehensive expense	-	-	-	-	-	(89)	(89)
Total comprehensive income	-	-	-	-	3,729	(89)	3,640
Transactions with owners:							
Dividends	-	-	-	-	(225)	-	(225)
Share based payment charges	-	-	-	623	-	-	623
Tax movements in equity	-	-	-	-	304	-	304
Exercise of share options	1	185	-	-	-	-	186
At 31 July 2015	106	4,776	1,846	1,321	14,517	(189)	22,377
At 1 August 2015	106	4,776	1,846	1,321	14,517	(189)	22,377
Profit for the year	-	-	-	-	3,533	-	3,533
Other comprehensive income	-	-	-	-	-	22	22
Reclassification on disposal	-	-	-	-	-	167	167
Total comprehensive income	-	-	-	-	3,533	189	3,722
Transactions with owners:							
Dividends	-	-	-	-	(301)	-	(301)
Share based payment charges	-	-	-	1,087	-	-	1,087
Tax movements in equity	-	-	-	-	(233)	-	(233)
Exercise of share options	3	846	-	-	-	-	849
Shares issued as consideration	1	-	1,164	-	-	-	1,165
At 31 July 2016	**110**	**5,622**	**3,010**	**2,408**	**17,516**	**-**	**28,666**

Details of the nature of each component of equity are set out in Notes 23 and 24.

The accompanying notes form an integral part of these financial statements

Financial Statements

Consolidated Cash Flow Statement

for the year ended 31 July 2016

	Notes	2016 £000	2015 £000
Operating activities			
Profit for the year		**3,533**	3,729
Finance income	10	**(36)**	(31)
Finance expense	11	**41**	29
Depreciation	14	**773**	724
Loss on disposal of plant and equipment		**2**	3
Loss on disposal of business	5	**272**	-
Amortisation of intangible assets	15	**1,378**	714
Income tax charge	12	**422**	741
Share based payment charges	8	**1,087**	623
Operating cash inflow before changes in working capital		**7,472**	6,532
Movement in inventories		**3**	(11)
Movement in trade and other receivables		**(506)**	169
Movement in trade and other payables		**(17)**	(378)
Cash generated from operations		**6,952**	6,312
Finance income	10	**36**	31
Finance expense	11	**(41)**	(29)
Income tax paid		**(1,081)**	(964)
Net cash flow from operating activities		**5,866**	5,350
Investing activities			
Purchase of plant and equipment	14	**(795)**	(697)
Proceeds from disposal of plant and equipment		**83**	59
Acquisition of subsidiaries	5	**(6,761)**	-
Proceeds from disposal of subsidiaries	5	**166**	-
Equity investments and loans to investments	5	**(750)**	-
Receipt of deferred consideration	5	**74**	-
Payment of contingent & deferred consideration	5/21	**(30)**	-
Net cash flow used in investing activities		**(8,013)**	(638)
Financing activities			
Dividends paid	30	**(301)**	(225)
Proceeds from exercise of share options		**849**	186
Hire purchase repayments	18	**(369)**	(186)
Net cash flow from / (used in) financing activities		**179**	(225)
Net (decrease) / increase in cash and cash equivalents		**(1,968)**	4,487
Effect of exchange fluctuations		**12**	(66)
Cash and cash equivalents at the beginning of the year		**13,341**	8,920
Cash and cash equivalents at the end of the year		**11,385**	13,341

The accompanying notes form an integral part of these financial statements

Financial Statements

Notes to the Consolidated Financial Statements

1 Reporting entity

Tracsis plc (the 'Company') is a company incorporated in the United Kingdom. The consolidated financial statements of the Company for the year ended 31 July 2016 comprise the Company and its subsidiaries (together referred to as the 'Group').

2 Basis of preparation

(a) Statement of compliance

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU and applicable law. The Company has elected to prepare its parent company financial statements in accordance with FRS 101. These parent company statements appear after the notes to the consolidated financial statements.

(b) Basis of measurement

The Accounts have been prepared under the historical cost convention.

(c) Functional and presentation currency

These consolidated financial statements are presented in sterling, which is the Group and Company's functional currency. All financial information presented in sterling has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have a significant effect on the Group financial statements and estimates with a significant risk of material adjustment in future years are disclosed in Note 4.

(e) Accounting developments

The Group and Company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The accounting policies have been applied consistently to all periods presented in the consolidated financial statements, unless otherwise stated.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting period beginning on or after 1 August 2015. The following new standards and amendments to standards are mandatory and have been adopted for the first time for the financial year beginning 1 August 2015:

- Annual Improvements to IFRSs 2010 - 2012 Cycle
- Annual Improvements to IFRSs 2011 - 2013 Cycle

These standards have not had a material impact on the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements continued

2 Basis of preparation (continued)

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting period beginning on or after 1 August 2016. The Group has elected not to adopt early these standards which are described below:

- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
- Equity Method in Separate Financial Statements (Amendments to IAS 27)
- Annual Improvements to IFRSs 2012–2014 Cycle – various standards
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
- Disclosure Initiative (Amendments to IAS 1)
- Disclosure Initiative (Amendments to IAS 7)
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
- IFRS 15 Revenue from Contracts with Customers
- IFRS 9 Financial Instruments
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
- IFRS 16 Leases

The above are not expected to have a material impact on the group's reported results.

(f) Going concern

The Group is debt free and has substantial cash resources. The Board has prepared cash flow forecasts for the forthcoming year based upon assumptions for trading and the requirements for cash resources.

Based upon this analysis, the Board has concluded that the Group has adequate working capital resources and that it is appropriate to use the going concern basis for the preparation of the consolidated financial statements.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities, except as stated in note 2(e), which addresses changes in accounting policies.

(a) Basis of consolidation

The Group's accounting policy with respect to business combinations is set out below.

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. The accounting policies of subsidiary companies have been changed where necessary to align them with the policies adopted by the Group.

The Group entities included in these consolidated financial statements are those listed in note 29.

All intra-group balance and transactions, including unrealised profits arising from intra-group transactions, are eliminated fully on consolidation.

(b) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable (excluding value added tax and discounts given) derived from the provision of goods and services to customers during the period. The Group derives revenue from software, post contract customer support, sale of hardware & condition monitoring technology, consultancy and professional services, and data capture/passenger counting services.

Revenue from software is derived from the sale of software both as a perpetual and non-cancellable annual licences, the provision of software as a service and the support and hosting services associated with this.

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies (continued)

Revenue recognition (continued)

The Group recognises the revenue from the sale of perpetual and non-cancellable annual software licences and specified upgrades upon shipment of the software product or upgrade, when there are no significant vendor obligations remaining, when the fee is fixed and determinable and when collectability is considered probable. Where appropriate the Group provides a reserve for estimated returns under the standard acceptance terms at the time the revenue is recognised. Payment terms are agreed separately with each customer.

Revenue from the provision of Software as a Service under contracts with extended terms which combine software and support services elements are recognised evenly over the period to which the services relate. Customers pay an agreed fee covering a range of periods, for a defined contractual term, and the contracts provide the customer with various rights during the term of the contract. This policy reflects the continuous nature of the transfer of value to the customer.

Revenue capable of being allocated to customer support services is recognised on a straight-line basis over the term of the support contract. Revenue not recognised in the income statement under this policy is classified as deferred income in the balance sheet.

Revenue capable of being allocated to hosting services is recognised on a straight line basis over the term of the hosting contract. Revenue not recognised in the income statement under this policy is classified as deferred income in the balance sheet.

In the case where a single contract involves the combination of any or all of sale of software as a perpetual or non-cancellable annual licence, provision of Software as a Service, support services and hosting services, the amount of consideration is derived from an assessment of the fair value of each of the individual constituent elements of the goods and services provided. The revenue allocated to each element is recognised as outlined above.

Revenue from hardware sales and condition monitoring technology is recognised as the products are shipped to customers. Provision is made for any returns to customers, or credit notes to be issued.

Revenue from consultancy and professional services is recognised when the services have been performed, once the work and value has been agreed with the customer.

In respect of data collection and counting services, revenue is recognised on services not yet billed at the fair value of consideration expected to be receivable to the extent that the work has already been carried out at the year end. Where the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on work performed and if its receipt is considered probable. Where the outcome of a contract cannot be estimated reliably, contract revenue is only recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Revenue from event planning and traffic management services is recognised when the services have been performed, once the work and value has been agreed with the customer.

(c) Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs. The corresponding liability is recognised within provisions. Items of property, plant and equipment are carried at depreciated cost.

Depreciation is provided on all items of property, plant and equipment so as to write off the carrying value of items over their expected useful economic lives. It is applied at the following rates:

Freehold buildings (excluding land)	–	4% on cost
Computer equipment	–	33 1/3% on cost
Office fixtures and fittings	–	10% – 20% on cost
Motor vehicles	–	20 – 25% per annum reducing balance basis

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies (continued)

(d) Intangible assets

Goodwill

Goodwill arising on acquisitions comprises the excess of the fair value of the consideration for investments in subsidiary undertakings over the fair value of the net identifiable assets acquired at the date of acquisition. Adjustments are made to fair values to bring the accounting policies of the acquired businesses into alignment with those of the Company. The costs of integrating and reorganising acquired businesses are charged to the post acquisition income statement. Goodwill arising on acquisitions of subsidiaries is included in intangible assets.

Goodwill is not amortised but is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the lowest level within the group at which the associated level of goodwill is monitored for management purposes and are not larger than the operating segments determined in accordance with IFRS 8 “Operating Segments”.

Business Combinations

From 1 August 2009 the Group has applied IFRS 3 *Business Combinations* (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no material impact on earnings per share. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

For acquisitions on or after 1 August 2009, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss. Contingent consideration is treated as part of the costs of acquisition provided it is not contingent on the continuing employment of the vendors.

For acquisitions prior to 1 August 2009, goodwill represents the excess of the cost of the acquisition over the Group’s interest in the recognised amounts (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of acquisition.

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies (continued)

Intangible assets (continued)

Other intangible assets

An intangible asset, which is an identifiable non-monetary asset without physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the group and that its cost can be measured reliably. The asset is deemed to be identifiable when it is separable or when it arises from contractual or other legal rights.

Intangible assets, primarily customer relationships and technology related assets, acquired as part of a business combination are capitalised separately from goodwill and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using a straight line method over the estimated useful life of the assets of 10 to 20 years for customer related assets and 10 years for technology related assets.

(e) Impairment of non-current assets

Where an indication of impairment is identified, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If the recoverable amount (higher of fair value less cost to sell and value in use of an asset) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

(f) Research and Development Costs

Expenditure on internally developed products is capitalised as intangible assets if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs would be amortised over the periods the Group expected to benefit from selling the products developed. At present, the Group has not considered that its development expenditure meets the criteria for capitalisation.

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

(g) Financial instruments

The Group classifies its financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments, net of issue costs.

(i) Cash and cash equivalents

Cash and cash equivalents in the balance sheet are included at cost and comprise cash at bank, cash in hand and short term deposits with an original maturity of three months or less.

(ii) Trade receivables

Trade receivables do not carry interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

(iii) Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

(iv) Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies (continued)

(h) Taxation

The tax on the profit or loss for the year represents current and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted at the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying value in the financial statements.

The principal temporary differences arise from depreciation on plant and equipment and share options granted by the Group to employees and directors.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Where the deferred tax asset recognised in respect of share-based payments would give rise to a credit in excess of the related accounting charge at the prevailing tax rate the excess is recognised directly in equity.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(i) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders, or in the case of interim dividends, when paid.

(j) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(k) Employee benefits

Wages, salaries, social security contributions, paid annual leave, bonuses and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. Where the Group provides long term employee benefits, the cost is accrued to match the rendering of the services by the employees concerned.

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies (continued)

(l) Share based payments

The Group issues equity-settled share based payments to certain employees (including directors). Equity-settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight line basis over the vesting period, together with a corresponding increase in equity, based upon the Group's estimate of the shares that will eventually vest.

Fair value is measured using the Black-Scholes option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Where the terms and conditions of options are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled transaction is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognised for the transaction is recognised immediately. However, if a new transaction is substituted for the cancelled transaction, and designated as a replacement transaction on the date that it was granted, the cancelled and new transactions are treated as if they were a modification of the original transaction as described in the previous paragraph.

(m) Retirement benefits

Contributions to defined contribution pension schemes are charged to the income statement in the year to which they relate.

(n) Exceptional items

Items which are significant by virtue of their size or nature and/or which are considered non-recurring are classified as exceptional operating items. Such items, which include for example costs relating to acquisitions, profit/loss on disposal, amortisation of intangible assets and share based payment charges, are included within the appropriate consolidated income statement category but are highlighted separately. Exceptional operating items are excluded from the profit measures used by the board to monitor underlying performance.

(o) Finance income

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. The Group considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents.

(q) Operating segments

Following the acquisitions of SEP Limited and Ontrac Limited and the disposal of Tracsis Traffic Australia Pty Limited in the period, the Group has reviewed its internal reporting structures and has amended its Operating Segments. The Group has divided its results into two segments being 'Rail Technology and Services' and 'Traffic & Data Services'. 'Rail Technology and Services' includes the Group's Software, Consultancy, and Remote Condition Monitoring Technology and also includes Ontrac which was acquired in the period. Traffic & Data Services includes SEP which was acquired in the period. The level of disclosure of segmental and other information is determined by such assessment. Further details of the considerations made and the resulting disclosures are provided in note 6 to the financial statements.

(r) Inventories

Inventories are measured at the lower of cost and net realisable value. Provision is made for slow moving and obsolete inventories on a line by line basis.

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies (continued)

(s) Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in Pounds Sterling, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences that relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

(t) Translation of financial statements of foreign entities

The assets and liabilities of foreign operations are translated using exchange rates at the balance sheet date. The components of shareholders' equity are stated at historical value. An average exchange rate for the period is used to translate the results and cash flows of foreign operations.

Exchange differences arising on translating the results and net assets of foreign operations are taken to the translation reserve in equity until the disposal of the investment. The gain or loss in the income statement on the disposal of foreign operations includes the release of the translation reserve relating to the operation that is being sold.

During the year, the Group disposed of Tracsis Traffic Data Pty Limited and the translation reserve was eliminated as a result of this disposal.

(t) Investments

Investments are recorded at cost and less provision for any impairment in value.

Where it is deemed that the group has a significant influence over the investment, then the investment will be accounted for as an associated undertaking under the equity method.

Notes to the Consolidated Financial Statements continued

4 Critical Accounting Estimates and Judgements

The Group's accounting policies are set out in Note 3.

The Directors consider that the key judgements and estimates made in the preparation of the consolidated financial statements are:

Intangible fixed assets

On acquisition, the Company calculates the fair value of the net assets acquired. Due to the nature of the companies acquired, this often requires the recognition of additional intangible assets, specifically in relation to technology or customer relationships. The assessment of intangible assets acquired is necessarily judgemental and has been performed using a discounted cash flow model. Significant judgement has been applied in assessing the future revenues to be achieved from that acquisition, the growth rate of that revenue, the associated costs and the discount factor to be applied. In addition, management make estimates as to the useful economic life of the resulting intangible assets, based on their industry expertise. These estimates affect the amount of amortisation recognised in each financial year.

Actual results may vary significantly from expectations in future years. Annual reviews of the Group's intangible fixed assets are carried out, using commercial judgements to determine whether there is any evidence that the useful economic life is no longer appropriate, or whether there are impairment indicators relating to specific intangible assets due to changes in circumstance during the financial year in question.

Revenue recognition

Certain of the Group's contracts for software licences, software provided as a service, maintenance services and other consultancy projects have a term of more than one year. The Directors assess the fair value of the entire contract attributable to each of the different services and the timing of when revenues should be recognised and this assessment can differ from the legally contracted values. A level of judgement and estimate is required in assessing the level of potential customer returns for certain hardware products. Some of the Group's revenue is derived from data capture/counting services, in which projects can last for an extended period of time. As such, an element of judgement is required when assessing the stage of completion at a period end.

Share-based payments

The Group has equity settled share-based remuneration schemes for employees. The fair value of share options is estimated by using the Black-Scholes valuation model, on the date of grant based on certain assumptions. These assumptions include, among others, expected volatility, expected life of the options and number of options expected to vest.

Contingent consideration

Within the share purchase agreements for the acquisitions of SEP Limited and Ontrac Technology Limited, are various provisions relating to contingent consideration. As part of both of these transactions, contingent consideration is payable, which is linked to the financial performance of both companies post acquisition. Included within the balance sheet are amounts of £6.15m in respect of both acquisitions, which are management's best estimates of the fair value of the amounts payable.

Notes to the Consolidated Financial Statements continued

5 Acquisitions, disposals and investments in the current year

a) Acquisition: SEP Limited and SEP Events Limited

On 25 September 2015, the Group acquired 100% of the share capital of SEP Limited and its wholly owned subsidiary SEP Events Limited (SEP).

Based in North Yorkshire, SEP are leading providers of traffic planning and management services for the events industry. Since its formation in 1989, SEP's client list has grown to include many of the UK's largest and most prestigious outdoor entertainment and sporting fixtures, along with major agricultural events, air shows and music festivals.

SEP is highly complementary to Tracsis' existing Traffic & Data Services division and will offer strong cross sell and upsell opportunities in the fullness of time. Both companies have worked together in the past and collaborated on major events such as Royal Ascot, T in the Park, The Grand National and the Wings and Wheels air show.

In the year ended 30 September 2014, SEP generated revenue of £4.0m, an adjusted EBITDA of £0.4m and Profit before Tax of £0.3m. The business is debt free and had cash balances at completion of c. £0.6m, with tangible net assets of c. £0.6m. SEP employs 30 permanent staff, all of whom will remain with the business post transaction. In addition, the business deploys several thousand contract workers at its events throughout the year.

The acquisition consideration comprised an initial cash payment of £1.625m and the issue of 55,005 ordinary shares of 0.4p each in Tracsis at an issue price of 454.5p (a total value of £0.25m). Deferred consideration of £0.1m is payable over two years with performance consideration of up to £0.6m is payable based on SEP achieving certain financial targets in the two years post acquisition, giving a total consideration of up to £2.6m.

In the period to 31 July 2016 the Company contributed revenue of £4.1m and pre tax profit of £0.15m to the Group's results, excluding amortisation of associated intangible assets, exceptional costs and share based payments. If the acquisition had occurred on 1 August 2015, management estimates that the contribution to Group revenue would have been £5.4m and Group pre tax profit for the period of £0.35m. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 August 2015.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Pre-acquisition carrying amount £000	Fair value adjustments £000	Recognised value on acquisition £000
Intangible assets: Customer relationships	-	1,449	1,449
Tangible fixed assets	333	-	333
Trade and other receivables	811	-	811
Trade and other payables and deferred income	(980)	(100)	(1,080)
Hire Purchase contracts	(133)	-	(133)
Deferred tax liability	-	(261)	(261)
Net identified assets and liabilities	31	1,088	1,119
Goodwill on acquisition			555
			1,674

Consideration paid in cash	1,638
Net cash acquired	(644)
Net cash flow	994
Consideration paid: fair value of shares issued	250
Fair value of deferred and performance consideration payable	430
Total consideration	1,674

Notes to the Consolidated Financial Statements continued

5 Acquisitions, disposals and investments in the current year (continued)

a) Acquisition: SEP Limited and SEP Events Limited (continued)

Pre-acquisition carrying amounts were determined based on applicable IFRSs, immediately prior to the acquisition. The values of assets and liabilities recognised on acquisition are the estimated fair values. The goodwill that arose on acquisition can be attributed to a multitude of assets that cannot readily be separately identified for the purposes of fair value accounting.

The fair value adjustments were provisional and arise in accordance with the requirements of IFRSs to recognise intangible assets acquired. In determining the fair values of intangible assets the Group has used discounted cash flow forecasts. The fair value of shares issued was based on market value at the date of issue.

The Group incurred acquisition related costs of £37k which are included within administrative expenses.

There were no subsequent adjustments to provisional fair values

b) Acquisition: Ontrac Limited and Ontrac Technology Limited

On 1 December 2015, the Group acquired the entire issued share capital of Ontrac Limited and Ontrac Technology Limited (together being "Ontrac").

Based in Gateshead and London, Ontrac is an award winning software development and IT solutions company that work with a range of clients in the transport, construction and local government sectors. Ontrac works extensively within UK rail where their products have helped digitise process intensive workflows and aided with collaborative working through access to shared information. Ontrac is highly complementary to Tracsis' existing software development and consulting division and offers strong cross sell and upsell opportunities across the Group.

In the year ended 31 January 2015, Ontrac generated revenue of £7.1m and adjusted Profit before Tax of £2.4m. The business is debt free and has a history of strong organic growth coupled with excellent cash generation. Ontrac employs around 30 permanent staff, all of whom will remain with the business post transaction.

The acquisition consideration comprises an initial cash payment of £6.0m which was funded out of Tracsis cash reserves and the issue of 197,624 new ordinary shares in Tracsis (issued at a price of 463p which valued the shares at £915k), along with a payment of around £4.6m that represents the value of the Company's tangible net assets at completion.

Additional Deferred Consideration of up to £5.0m along with Performance Consideration of up to £3.0m is payable subject to Ontrac achieving certain financial targets in the two years post acquisition. Therefore, Tracsis paid an initial amount of £11.5m (£6.9m goodwill and £4.6m for tangible assets) and on the basis that all stretch financial targets are achieved, a maximum total consideration of up to £19.5m.

In the period to 31 July 2016 the Company contributed revenue of £3.2m and pre tax profit of £1.1m to the Group's results, excluding amortisation of associated intangible assets, exceptional costs and share based payment charges. If the acquisition had occurred on 1 August 2015, management estimates that the contribution to Group revenue would have been £5.2m and Group pre tax profit for the period of £1.7m. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 August 2015.

Notes to the Consolidated Financial Statements continued

5 Acquisitions, disposals and investments in the current year (continued)

b) Acquisition: Ontrac Limited and Ontrac Technology Limited (continued)

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Pre-acquisition carrying amount £000	Fair value adjustments £000	Recognised value on acquisition £000
Intangible assets: Technology assets	-	1,400	1,400
Intangible assets: Customer relationships	-	13,494	13,494
Tangible fixed assets	121	-	121
Trade and other receivables	1,510	-	1,510
Trade and other payables and deferred income	(1,483)	(468)	(1,951)
Hire purchase contracts	(54)	-	(54)
Income tax payable	(5)	-	(5)
Deferred tax liability	(4)	(2,681)	(2,685)
Net identified assets and liabilities	85	11,745	11,830
Goodwill on acquisition			602
			12,432
Consideration paid in cash			10,741
Net cash acquired			(4,974)
Net cash flow			5,767
Consideration paid: fair value of shares issued			915
Fair value of deferred and performance consideration payable			5,750
Total consideration			12,432

Pre-acquisition carrying amounts were determined based on applicable IFRSs, immediately prior to the acquisition. The values of assets and liabilities recognised on acquisition are the estimated fair values. The goodwill that arose on acquisition can be attributed to a multitude of assets that cannot readily be separately identified for the purposes of fair value accounting.

The fair value adjustments were provisional and arise in accordance with the requirements of IFRSs to recognise intangible assets acquired. In determining the fair values of intangible assets the Group has used discounted cash flow forecasts. The fair value of shares issued was based on market value at the date of issue.

The Group incurred acquisition related costs of £64k which are included within administrative expenses.

c) Investment: Strategic Investment in Citi Logik Limited

On 4 September 2015, the Group made a strategic investment to acquire up to 29.4% of Citi Logik Limited (Citi Logik). Under the terms of the agreement, the Group agreed to invest up to £1.0m via a combination of equity and debt funding in return for up to 29.4% of the issued share capital in Citi Logik.

Investment of £0.5m (£0.375m equity and £0.125m debt) was made immediately with a further £0.5m subject to delivery of agreed business plan milestones. The initial investment represented 17.24% of the issued share capital of Citi Logik.

In February 2016, it became apparent that the business plan milestones were not being achieved and as a result, the Group did not invest the balance of £0.5m.

Notes to the Consolidated Financial Statements continued

5 Acquisitions, disposals and investments in the current year (continued)

c) Investment: Strategic Investment in Citi Logik Limited (continued)

In the Group's interim results to 31 January, Citi Logik was accounted for as an associated undertaking as the Group believed it had significant influence and had the intention to invest the full amount and take a 29.4% stake. However, due to a review in February 2016, it was concluded that this was not appropriate for the year end accounts. As such, the Group's investment in Citi Logik has been treated as an Investment.

The investment is carried at cost.

The Group incurred acquisition related costs of £20k which are included within administrative expenses.

d) Investment: Nutshell Software Limited

On 21 July 2016, the Group entered into an agreement to acquire up to 37.8% of Nutshell Software Limited for total consideration of £0.5m split as £0.25m of equity and £0.25m of debt. The investment will be made in three tranches and the first one made in July 2016 comprised a total of £0.25m which was split £0.125m equity and £0.125m of debt in return for 23.3% of the shares in the company.

Nutshell specialises in application software for the rapid creation of mobile business applications (apps) across multiple platforms for large enterprise organisations within the transport, utilities, healthcare and energy sector. The business was formed in 2015, and is currently revenue generating although has yet to post accounts. Tracsis management believe there are good opportunities for Nutshell to benefit from the Group's links to the UK transport industry along with entering related industries.

The investment is carried at cost.

The Group incurred acquisition related costs of £15k which are included within administrative expenses.

e) Disposal: Tracsis Traffic Data Pty Limited

On 22 December 2015, the Group disposed of Tracsis Traffic Data Pty Limited ("TTD"), its data capture operation in Australia, to Martin Prowse, the Managing Director of that Company as part of a management buy-out (the "Disposal").

The Disposal aligns with the Group's strategy to maintain strength in its core markets and operate in high value, niche markets. The Board is focused on continuing to drive its growth strategy in the UK and overseas but no longer believe TTD's data capture operations in Australia is required to achieve this goal. The Directors believe that disposing TTD, which has limited trading visibility and does not have critical mass, mitigates the Group's execution risk which is inherent in operations of this kind.

In the year ended 31 July 2015, TTD generated revenue of £2.2m, EBITDA of £0.3m, Profit before Tax of £0.25m and had tangible net assets of circa £0.5m.

The Disposal proceeds include an initial payment of AUS $285k and deferred consideration of AUS $799k payable over 3 years to give total consideration of AUS $1,084k.

For the period 1 August 2015 to 22 December 2015, TTD generated revenue of £1.2m and Profit before Tax of £0.2m.

As part of the disposal agreement, the Group has security arrangements over the shares and assets of TTD and connected parties, which will remain in place until the consideration is paid in full.

Notes to the Consolidated Financial Statements continued

5 Acquisitions, disposals and investments in the current year (continued)

d) Disposal: Tracsis Traffic Data Pty Limited (continued)

Further details on this disposal are as follows:

	AUS $'000	GBP £'000
Consideration:		
Initial	285	136
Deferred	799	374
	1,084	510
Overdraft	64	30
	1,148	540
Net assets at disposal excl overdraft		645
Loss on disposal pre foreign exchange		(105)
Elimination of translation reserve		(167)
Loss on disposal		(272)
Initial Consideration received	285	136
Deferred consideration received	145	74
Receivable after more than one year	290	167
Receivable in less than one year	364	133
Total	1,084	510
Overdraft		30
Total consideration		540

The Group incurred disposal related costs of £39,000 which are included within administrative expenses.

The disposal had the following effect on the Group's assets and liabilities on the disposal date:

	Value on disposal £000
Tangible fixed assets	219
Trade and other receivables	934
Trade and other payables	(357)
Income tax payable	(101)
Hire purchase contracts	(50)
Net identified assets and liabilities	645
Elimination of translation reserve	167
Loss on disposal	(272)
	540
Consideration received in cash	136
Deferred consideration receivable	374
Overdraft disposed of	30
Total consideration receivable	540

Notes to the Consolidated Financial Statements continued

6 Segmental analysis

Following the acquisitions of SEP Limited and Ontrac Limited and the disposal of Tracsis Traffic Australia Pty Limited in the period, the Group has reviewed its internal reporting structures and has amended its Operating Segments. The Group has divided its results into two segments being 'Rail Technology and Services' and 'Traffic & Data Services'.

'Rail Technology and Services' includes the Group's Software, Consultancy and Remote Condition Monitoring technology and also includes Ontrac which was acquired in the period. Traffic & Data Services includes SEP which was acquired in the period.

In accordance with IFRS 8 'Operating Segments', the Group has made the following considerations to arrive at the disclosure made in these financial statements.

IFRS 8 requires consideration of the Chief Operating Decision Maker ("CODM") within the Group. In line with the Group's internal reporting framework and management structure, the key strategic and operating decisions are made by the Board of Directors, who review internal monthly management reports, budgets and forecast information as part of this. Accordingly, the Board of Directors are deemed to be the CODM.

Operating segments have then been identified based on the internal reporting information and management structures within the Group. From such information it has been noted that the CODM reviews the business as two segments, receiving internal information on that basis. The management structure and allocation of key resources, such as operational and administrative resources, are arranged on a centralised basis.

In addition to the two segments referred to above, the CODM reviews a split of revenue streams on a monthly basis and as such, this additional information has been provided below.

	2016	2015
Revenue	**£000**	£000
Software	**6,605**	5,593
Consultancy	**2,091**	1,956
Acquisition: Ontrac	**3,213**	-
Remote Condition Monitoring Technology	**2,157**	2,975
Rail Technology & Services	**14,066**	10,524
Traffic & Data Services	**14,447**	14,858
Acquisition: SEP	**4,128**	-
Traffic & Data Services	**18,575**	14,858
Total revenue	**32,641**	25,382

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items
Information regarding the results of the reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance. There are no material inter-segment transactions, however, when they do occur, pricing between segments is determined on an arm's length basis. Revenues disclosed below materially represent revenues to external customers.

Notes to the Consolidated Financial Statements continued

6 Segmental analysis (continued)

2016	**Rail Technology & Services £000**	**Traffic & Data Services £000**	**Unallocated £000**	**Total £000**
Revenues				
Total revenue for reportable segments	**14,066**	**18,575**	**-**	**32,641**
Consolidated revenue	**14,066**	**18,575**	**-**	**32,641**
Profit or loss				
EBITDA for reportable segments	**5,346**	**2,299**	**-**	**7,645**
Amortisation of intangible assets	**-**	**-**	**(1,378)**	**(1,378)**
Depreciation	**(111)**	**(662)**	**-**	**(773)**
Exceptional item: Acquisition & disposal costs	**(79)**	**(96)**	**-**	**(175)**
Exceptional item: Loss on disposal	**-**	**(272)**	**-**	**(272)**
Share-based payment charges	**-**	**-**	**(1,087)**	**(1,087)**
Interest receivable/payable(net)	**-**	**-**	**(5)**	**(5)**
Consolidated profit before tax	**5,156**	**1,269**	**(2,470)**	**3,955**

2015	Rail Technology & Services £000	Traffic & Data Services £000	Unallocated £000	Total £000
Revenues				
Total revenue for reportable segments	10,524	14,858	-	25,382
Consolidated revenue	10,524	14,858	-	25,382
Profit or loss				
EBITDA for reportable segments	4,343	2,186	-	6,529
Amortisation of intangible assets	-	-	(714)	(714)
Depreciation	(73)	(651)	-	(724)
Share-based payment charges	-	-	(623)	(623)
Interest receivable/payable(net)	-	-	2	2
Consolidated profit before tax	4,270	1,535	(1,335)	4,470

Notes to the Consolidated Financial Statements continued

6 Segmental analysis (continued)

	2016			
	Rail Technology & Services £'000	**Traffic & Data Services £000**	**Unallocated £000**	**Total £000**
Assets				
Total assets for reportable segments (exc. cash)	**2,401**	**6,944**	**-**	**9,345**
Intangible assets and investments	**-**	**-**	**26,882**	**26,882**
Deferred tax assets	**-**	**-**	**573**	**573**
Cash and cash equivalents	**4,365**	**1,507**	**5,513**	**11,385**
Consolidated total assets	**6,766**	**8,451**	**32,968**	**48,185**
Liabilities				
Total liabilities for reportable segments	**(5,004)**	**(4,081)**	**-**	**(9,085)**
Deferred tax	**-**	**-**	**(4,284)**	**(4,284)**
Deferred/contingent consideration	**-**	**-**	**(6,150)**	**(6,150)**
Consolidated total liabilities	**(5,004)**	**(4,081)**	**(10,434)**	**(19,519)**

	2015			
	Rail Technology & Services £'000	Traffic & Data Services £000	Unallocated £000	Total £000
Assets				
Total assets for reportable segments (exc. cash)	1,722	4,755	-	6,477
Intangible assets	-	-	10,010	10,010
Deferred tax assets	-	-	882	882
Cash and cash equivalents	3,863	1,277	8,201	13,341
Consolidated total assets	5,585	6,032	19,093	30,710
Liabilities				
Total liabilities for reportable segments	(3,967)	(2,632)	-	(6,599)
Deferred tax	-	-	(1,734)	(1,734)
Consolidated total liabilities	(3,967)	(2,632)	(1,734)	(8,333)

Major customers

Transactions with the Group's largest customer represent 14% of the Group's total revenues (2015: 11%).

Geographic split of revenue

A geographical analysis of revenue is provided below:

	2016 £000	2015 £000
United Kingdom	**30,798**	22,534
Australia	**1,238**	2,245
Rest of the World	**605**	603
Total	**32,641**	25,382

Notes to the Consolidated Financial Statements continued

7 Employees and personnel costs

	2016	2015
	£000	£000
Staff costs:		
Wages and salaries	**15,033**	10,651
Social security contributions	**1,110**	875
Contributions to defined contribution plans	**271**	176
Equity-settled share based payment transactions	**1,087**	623
	17,501	12,325
Average number of employees (including directors) in the year	**644**	401

The directors' remuneration and share options are detailed within the Directors' Remuneration Report on pages 18 to 21.

8 Share based payments

The Group has four share option schemes for all employees (including directors).

EMI Share options

Options are exercisable at a price agreed at the date of grant. The vesting period is usually between one and five years. The exercise of options is dependent upon eligible employees meeting performance criteria. The options may not be exercised before the occurrence of a takeover, sale or admission. The options are settled in equity once exercised. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Discounted EMI Share options

In August 2012, the Group implemented a new EMI share option scheme, resulting in discounted EMI share options being issued to staff instead of cash bonuses, provided certain predetermined performance criteria were met for both the overall group, and the part of the business the employee directly works in. This scheme was made available to all staff. Staff are also able to exchange an element of annual salary in return for share options too. The vesting period is three years. The exercise of options is dependent upon eligible employees meeting performance criteria. The options may not be exercised before the occurrence of a takeover, sale or admission. The options are settled in equity once exercised. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Unapproved Share options

In August 2015, the Group implemented a revised share option scheme, resulting in discounted unapproved share options being issued to staff instead of cash bonuses, provided certain predetermined performance criteria were met for both the overall group, and the part of the business the employee directly works in. This scheme was made available to all staff except for Directors. Staff are also able to exchange an element of annual salary in return for share options too. The vesting period is three and a half years. The exercise of options is dependent upon eligible employees meeting performance criteria. The options may not be exercised before the occurrence of a takeover, sale or admission. The options are settled in equity once exercised. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Directors' scheme

Directors were not entitled to take part in the 2015 staff scheme and a revised scheme was implemented by the Remuneration Committee. Details of this scheme are provided in the Directors Remuneration Report.

Notes to the Consolidated Financial Statements continued

8 Share based payments (continued)

Details of the schemes are given below:

Grant date	Employees entitled	Number of options	Performance conditions	Exercise price (p)	Earliest exercise date	Expiry date
28/01/2009	2	42,000	Time served	52.0	28/07/2009*	28/01/2019
20/05/2010	3	30,000	Time served	51.5	20/01/2011*	20/05/2020
12/01/2011	1	12,500	Time served	49.5	12/07/2011*	12/01/2021
22/09/2011	3	49,351	Time served	63.5	22/03/2012*	22/09/2021
21/11/2011	1	25,000	Time served	57.5	21/05/2012*	21/11/2021
02/08/2012	11	31,958	Time served	0.40	02/08/2013**	02/08/2022
02/08/2012	8	64,183	Time served	123.0	02/02/2013*	02/08/2022
08/01/2013	5	42,500	Time served	159.0	08/07/2013*	08/01/2023
28/01/2013	1	70,000	Time served	155.5	28/07/2013*	28/01/2023
26/03/2013	1	25,000	Time served	175.0	26/06/2013***	26/03/2023
26/03/2013	1	14,286	Time served	0.40	26/03/2014**	26/03/2023
01/08/2013	11	248,751	Time served	162.5	01/02/2014*	01/08/2023
01/08/2013	31	59,959	Time served	0.40	01/08/2014**	01/08/2023
01/01/2014	2	61,250	Time served	199.5	01/07/2014*	01/01/2024
01/01/2014	2	24,686	Time served	0.40	01/01/2015**	01/01/2024
01/08/2014	63	198,912	Time served	0.40	01/08/2015**	01/08/2024
02/01/2015	1	856	Time served	0.40	02/01/2016**	02/01/2025
01/08/2015	106	262,349	Time served	0.40	01/08/2016****	01/08/2025
25/09/2015	29	82,873	Time served	0.40	25/09/2016****	25/09/2025
01/12/2015	5	55,134	Time served	0.40	01/12/2016****	01/12/2025
15/12/2015	2	154,546	EPS and TSR	0.40	15/12/2017	15/12/2025
Outstanding		**1,556,094**				

* Vesting dates for these options are: 10% vest six months after grant date, 15% vest 12 months after grant date, 15% vest 18 months after grant date, 15% vest 24 months after grant date, 20% vest 30 months after grant date, 25% vest 36 months after grant date.

** Vesting dates for these options are linked to time served, and were awarded based on certain performance conditions being met, and in exchange for an annual cash bonus. The full vesting is achieved over a 3 year period, with various forfeit/reductions if exercise takes place sooner

*** Vesting dates for these options are in equal three month instalments over a 24 month period

**** Vesting dates for these options are linked to time served, and were awarded based on certain performance conditions being met, and in exchange for an annual cash bonus. The full vesting is achieved over a 3.5 year period, with various forfeit/reductions if exercise takes place sooner

Notes to the Consolidated Financial Statements continued

8 Share based payments (continued)

The number and weighted average exercise price of share options are as follows:

	2016 Number	**2016 Weighted Average Exercise Price**	2015 Number	2015 Weighted Average Exercise Price
Outstanding at 1 August	**1,733,207**	**101.8p**	1,838,560	106.0p
Granted	**554,902**	**0.4p**	206,763	0.4p
Forfeited	**(2,713)**	**0.4p**	(5,902)	0.4p
Exercised	**(729,302)**	**116.5p**	(306,214)	60.9p
Outstanding at 31 July	**1,556,094**	**59.0p**	1,733,207	101.8p
Exercisable at 31 July	**798,418**	**98.1p**	1,159,321	110.1p

The share options outstanding at the end of the year have a weighted average remaining contractual life of 7 years (2015: 7 years).

Fair value assumptions of share based payment charges

The estimate of the fair value of share based awards is calculated using the Black-Scholes option pricing model. The following assumptions were used:

Options granted in previous years:

Options granted on	01/06/ 2011	12/01/ 2011	01/08/ 2010	20/05/ 2010	17/03/ 2010	28/01/ 2009	26/11/ 2007
Share price at date of grant	50.0p	49.5p	50.5p	51.5p	50.5p	52p	40p
Exercise price	50.0p	49.5p	50.5p	51.5p	50.5p	52p	40p
Vesting period (years)	3	3	3	3	3	3	1
Expected volatility	15%	15%	15%	15%	15%	15%	40%
Option life (years)	10	10	10	10	10	10	10
Expected life (years)	10	10	10	10	10	10	10
Risk-free rate	3.5%	0.5%	0.5%	0.5%	0.5%	0.5%	4.75%
Expected dividends expressed as a dividend yield	-	-	-	-	-	-	-

Options granted in previous years (continued):

Options granted on	22/09/ 2011	21/11/ 2011	01/02/ 2012	20/06/ 2012
Share price at date of grant	63.5p	57.5p	62.0p	89.0p
Exercise price	63.5p	57.5p	62.0p	89.0p
Vesting period (years)	3	3	3	3
Expected volatility	50%	50%	50%	50%
Option life (years)	10	10	10	10
Expected life (years)	10	10	10	10
Risk-free rate	3.5%	3.5%	3.5%	3.5%
Expected dividends expressed as a dividend yield	-	-	-	-

Notes to the Consolidated Financial Statements continued

8 Share based payments (continued)

Options granted in previous years (continued):

Options granted on	02/08/2012	02/08/2012	01/11/2012	08/01/2013	28/01/2013	28/01/2013	26/03/2013	26/03/2013
Share price at date of grant	123.0p	123.0p	133.5p	159.0p	155.5p	155.0p	175.0p	175.0p
Exercise price	0.4p	123.0p	133.5p	159.0p	0.4p	155.0p	175.0p	0.4p
Vesting period (years)	3	3	3	3	3	3	2	3
Expected volatility	20%	20%	20%	20%	20%	20%	20%	20%
Option life (years)	10	10	10	10	10	10	10	10
Expected life (years)	10	10	10	10	10	10	10	10
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Expected dividends expressed as a dividend yield	-	-	-	-	-	-	-	-

Options granted in previous years (continued):

Options granted on	01/08/2013	01/08/2013	01/11/2013	01/01/2014	01/01/2014	01/08/2014	02/01/2015
Share price at date of grant	162.5p	162.5p	185.0p	199.5p	199.5p	330.0p	411.5p
Exercise price	162.5p	0.4p	185.0p	199.5p	0.4p	0.4p	0.4p
Vesting period (years)	3	3	3	3	3	3	3
Expected volatility	30%	30%	30%	30%	30%	30%	30%
Option life (years)	10	10	10	10	10	10	10
Expected life (years)	10	10	10	10	10	10	10
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Expected dividends expressed as a dividend yield	-	-	-	-	-	-	-

Options granted in the current year:

Options granted on	01/08/2015	25/09/2015	01/12/2015	15/12/2015	15/12/2015
Share price at date of grant	420.0p	452.5p	462.5p	550.0p	550.0p
Exercise price	0.4p	0.4p	0.4p	0.4p	0.4p
Vesting period (years)	3.5	3.5	3.5	2	3
Expected volatility	30%	30%	30%	30%	30%
Option life (years)	10	10	10	10	10
Expected life (years)	10	10	10	10	10
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%
Expected dividends expressed as a dividend yield	-	-	-	-	-

The expected volatility is based on the historic volatility of the Company's share price.

Charge to the income statement

	2016	2015
	£000	£000
Share based payment charges	**1,087**	623

Notes to the Consolidated Financial Statements continued

9 Operating profit

Operating profit is stated after charging:	2016 £000	2015 £000
Depreciation of property, plant and equipment - owned	**562**	640
Depreciation of property, plant and equipment - leased	**211**	84
Total depreciation	**773**	724
Loss on disposal of plant and equipment	**2**	3
Operating lease rentals: Land and buildings	**375**	237
Operating lease rentals: Plant & machinery	**45**	68
Total operating lease rentals	**420**	305
Research and development expenditure expensed as incurred	**970**	437

	2016 £000	2015 £000
Auditor's remuneration:		
Audit of these financial statements	**16**	16
Amounts receivable by auditors and their associates in respect of:		
- Audit of financial statements of subsidiaries pursuant to legislation	**42**	38
- Other services relating to taxation	**6**	3
- Other services	**15**	32

10 Finance income

	2016 £000	2015 £000
Interest received on bank deposits	**36**	31

11 Finance expense

	2016 £000	2015 £000
Interest on finance lease obligations	**41**	29

12 Taxation

12.1 Recognised in the income statement

	2016 £000	2015 £000
Current tax expense		
Current year	**756**	959
Adjustment in respect of prior periods	**(14)**	14
Total current year	**742**	973
Deferred tax		
Current year	**(320)**	(232)
Adjustment in respect of prior periods	**-**	-
Total deferred tax	**(320)**	(232)
Total tax in income statement	**422**	741

Notes to the Consolidated Financial Statements continued

12 Taxation (continued)

Reconciliation of the effective tax rate

	2016 £000	2016 %	2015 £000	2015 %
Profit before tax for the period	**3,955**	**100.0**	4,470	100.0
Expected tax charge based on the standard rate of corporation tax in the UK of 20% (2015: 20.66%)	**791**	**20.0**	924	20.7
Expenses not deductible for tax purposes	**4**	**0.1**	22	0.5
Research and development enhancement	**(252)**	**(6.4)**	(115)	(2.6)
Adjustment in respect of prior periods	**(14)**	**(0.3)**	14	0.3
Effect of rate changes	**(158)**	**(4.0)**	-	-
Losses brought forward	**(26)**	**(0.6)**	-	-
Other movements	**77**	**1.9**	(104)	(2.3)
Total tax expense	**422**	**10.7**	741	16.6

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. The deferred tax asset and liability at 31 July 2016 has been calculated based on these rates. An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the company's future current tax charge accordingly and reduce the deferred tax asset and liability further.

12.2 Recognised in reserves – direct to equity

	2016 £000	2015 £000
Deferred Tax		
Deferred tax (charge) / credit relating to share based payments	**(233)**	304

13 Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 July 2016 was based on the profit attributable to ordinary shareholders of £3,533,000 (2015: £3,729,000) and a weighted average number of ordinary shares in issue of 27,807,000 (2015: 26,443,000), calculated as follows:

The earnings figure of £3,533,000 is split as £3,453,000 from continuing operations (2015: £3,540,000), £273,000 from acquisitions and (£193,000) from discontinued operations (2015: £189,000).

Weighted average number of ordinary shares
In thousands of shares

	2016	2015
Issued ordinary shares at 1 August	**26,564**	26,258
Effect of shares issued related to business combinations	**360**	-
Effect of shares issued for cash	**883**	185
Weighted average number of shares at 31 July	**27,807**	26,443

Diluted earnings per share

The calculation of diluted earnings per share at 31 July 2016 was based on profit attributable to ordinary shareholders of £3,533,000 (2015: £3,729,000) and a weighted average number of ordinary shares in issue after adjustment for the effects of all dilutive potential ordinary shares of 28,811,000 (2015: 27,656,000):

Notes to the Consolidated Financial Statements continued

13 Earnings per share (continued)

Adjusted EPS

In addition, Adjusted Profit EPS is shown below on the grounds that it is a common metric used by the market in monitoring similar businesses. A reconciliation of this figure is provided below:

	2016	2015
	£'000	£'000
Profit attributable to ordinary shareholders	**3,533**	3,729
Amortisation of intangible assets	**1,378**	714
Share-based payment charges	**1,087**	623
Exceptional item: Acquisition and disposal costs	**175**	-
Exceptional item: Loss on disposal	**272**	-
Adjusted profit for EPS purposes	**6,445**	5,066

Weighted average number of ordinary shares
In thousands of shares

For the purposes of calculating Basic earnings per share	**27,807**	26,443
Adjustment for the effects of all dilutive potential ordinary shares	**28,811**	27,656

Basic adjusted earnings per share	**23.18p**	19.16p
Diluted adjusted earnings per share	**22.37p**	18.32p

Notes to the Consolidated Financial Statements continued

14 Property, plant and equipment

	Freehold Land & Buildings £000	Motor Vehicles £000	Computer equipment £000	Plant, machinery, fixtures & fittings £000	**Total £000**
Cost					
At 1 August 2014	400	771	1,172	1,487	3,830
Additions	-	367	292	391	1,050
Disposals	-	(156)	(13)	(70)	(239)
Exchange rate variances	-	(37)	(67)	(17)	(121)
At 31 July 2015	400	945	1,384	1,791	4,520
Additions	-	529	154	608	1,291
Disposals	-	(254)	(10)	(3)	(267)
Arising on acquisition	-	251	55	148	454
On disposal of business	-	(174)	(64)	(500)	(738)
Exchange rate variances	-	9	4	26	39
At 31 July 2016	400	1,306	1,523	2,070	5,299
Depreciation					
At 1 August 2014	42	480	879	740	2,141
Charge for the year	12	104	211	397	724
Disposals	-	(106)	(6)	(65)	(177)
Exchange rate variances	-	(29)	(54)	(15)	(98)
At 31 July 2015	54	449	1,030	1,057	2,590
Charge for the year	12	247	199	315	773
Disposals	-	(175)	(5)	(2)	(182)
On disposal of business	-	(104)	(37)	(378)	(519)
Exchange rate variances	-	6	2	21	29
At 31 July 2016	66	423	1,189	1,013	2,691
Net book value					
At 1 August 2014	358	291	293	747	1,689
At 31 July 2015	346	496	354	734	1,930
At 31 July 2016	**334**	**883**	**334**	**1,057**	**2,608**

The net book value of assets held under finance lease obligations is £791,000 (2015: £426,000).

Notes to the Consolidated Financial Statements continued

15 Intangible assets

	Goodwill	Customer related intangibles	Technology related intangibles	Total
	£000	£000	£000	£000
Cost				
At 1 August 2014	1,868	7,430	2,574	11,872
Arising on acquisition	-	-	-	-
At 31 July 2015	1,868	7,430	2,574	11,872
Arising on acquisition	1,157	14,943	1,400	17,500
At 31 July 2016	3,025	22,373	3,974	29,372
Amortisation and impairment				
At 1 August 2014	-	789	359	1,148
Charge for the year	-	456	258	714
At 31 July 2015	-	1,245	617	1,862
Charge for the year	-	1,027	351	1,378
At 31 July 2016	-	2,272	968	3,240
Carrying amounts				
At 1 August 2014	1,868	6,641	2,215	10,724
At 31 July 2015	1,868	6,185	1,957	10,010
At 31 July 2016	**3,025**	**20,101**	**3,006**	**26,132**

The following carrying values of intangible assets arising from the acquisitions that the Group has completed in the current and previous years are analysed as follows:

	Goodwill		**Customer related intangibles**		**Technology related intangibles**	
	2016	2015	**2016**	2015	**2016**	2015
	£000	£000	**£000**	£000	**£000**	£000
Tracsis Rail Consultancy Limited (previously) RWA Rail Limited	**671**	671	**460**	496	**-**	-
Tracsis Passenger Counts Limited (previously Peeping Limited)	**43**	43	**240**	258	**-**	-
Safety Information Systems Limited	**136**	136	**181**	195	**77**	100
MPEC Technology Limited	**269**	269	**947**	1,011	**330**	398
Tracsis Traffic Data Limited (previously Sky High Technology Limited and Sky High plc)	**390**	390	**1,143**	1,314	**-**	-
Datasys Integration Limited	**359**	359	**2,756**	2,911	**1,293**	1,459
SEP Limited	**555**	-	**1,328**	-	**-**	-
Ontrac Technology Limited	**602**	-	**13,046**	-	**1,306**	-
	3,025	1,868	**20,101**	6,185	**3,006**	1,957

The amortisation charge is recognised in the following line items in the income statement:

	2016	2015
	£000	£000
Administrative expenses	**1,378**	714

Notes to the Consolidated Financial Statements continued

15 Intangible assets (continued)

Customer related intangibles and technology related intangibles are amortised over their useful life, which is the period during which they are expected to generate revenue.

Goodwill acquired in a business combination is allocated to cash generating units (CGUs) and is tested for impairment on an annual basis, or more frequently if there are indications that the carrying value might be impaired, by comparing the carrying amount against the discounted cash flow projections of the CGU. CGUs are not larger than the operating segments of the Group.

The carrying value of the goodwill has been determined based on value in use calculations, covering detailed budgets and three year forecasts, followed by an extrapolation of expected cash flows at growth rates given below. The growth rates reflect prudent long term growth rates for the services provided by the CGU. Gross and operating margins have been assumed to remain constant based on budget and past experience.

	2016	2015
Long term growth rate	**1.0%**	1.0%
Discount rate	**10-12%**	10-12%

The directors' key assumptions relate to revenue growth and the discount rate, however, carrying value is not significantly sensitive to reasonably foreseeable changes in either assumption. No impairment charges in respect of goodwill arose during the year.

16 Investments

During the year, the Group made investments in Citi Logik Limited and Nutshell Software Limited. Further details regarding these transactions are shown in note 5 'Acquisitions, disposals and investments in the current year'.

The total investments made were as follows (a combination of debt and equity)

	% held At 31 July	**2016 £000**	2015 £000
Citi Logik Limited	17.2%	**500**	-
Nutshell Software Limited	23.3%	**250**	-
		750	-

These are represented as follows:

Equity investments:

	2016 £000	2015 £000
Citi Logik Limited	**375**	-
Nutshell Software Limited	**125**	-
	500	-

Convertible Loan notes receivable from investments:

	2016 £000	2015 £000
Citi Logik Limited	**125**	-
Nutshell Software Limited	**125**	-
	250	-

Notes to the Consolidated Financial Statements continued

17 Inventories

	2016 £000	2015 £000
Raw materials & work in progress	**121**	100
Finished goods	**150**	174
	271	274

The value of inventories expensed in the period in cost of sales was £470,000 (2015: £759,000). Provision is made for slow moving and obsolete stock on a line by line basis. The value of any write downs/reversals in the current and previous period was not material.

18 Hire purchase contracts

	2016 £000	2015 £000
Due within one year	**368**	171
Due after more than one year:		
Between one and two years	**238**	135
Between two and three years	**58**	72
Between three and four years	**-**	7
Between four and five years	**-**	15
Total due after more than one year	**296**	229
Total hire purchase contract obligation	**664**	400

A reconciliation of the obligation is stated below.

	2016 £000	2015 £000
At start of the year	**400**	233
New hire purchase contracts	**496**	353
Arising on acquisition	**187**	-
On disposal of business	**(50)**	-
Repayments	**(369)**	(186)
At end of the year	**664**	400

	Carrying amount £000	Contractual cash flows £000	Less than one year £000	One to Two years £000	Two to Five years £000
Hire Purchase Obligations					
2016	**664**	**717**	**401**	**253**	**63**
2015	400	433	191	145	97

Notes to the Consolidated Financial Statements continued

19 Trade and other receivables

	2016	2015
	£000	£000
Trade receivables	**5,041**	2,864
Other receivables and prepayments	**407**	305
Amounts recoverable on contracts	**718**	1,104
	6,166	4,273

A breakdown of trade receivables between the United Kingdom and Australia operations is as follows:

	2016	2015
	£000	£000
United Kingdom	**5,041**	2,466
Australia	**-**	398
	5,041	2,864

Although the Group has a large number of customers, there is a concentration of risk in that the Group derives a large amount of revenue from one major customer, though the credit worthiness of this customer is unquestionably strong. In other cases, where one customer represents a significant proportion of overall revenue, the relationship consists of a large number of small contracts which are not considered to be interdependent. The directors do not consider that any of the amounts from the sale of goods to be irrecoverable, hence no provision has been made for bad or doubtful debts in either the current or preceding year.

The fair values of trade and other receivables are the same as their book values.

Amounts recoverable on contracts relate to part completed projects related to the Group's transportation data collection operations within the Traffic & Data Services part of the group.

Trade receivables that are past due are considered individually for impairment. The Group uses a monthly ageing profile as an indicator when considering impairment. The summarised ageing analysis of trade receivables past due but considered to be not impaired is as follows:

	2016	2015
	£000	£000
Under 30 days overdue	**1,536**	585
Between 30 and 60 days overdue	**170**	268
Over 60 days overdue	**29**	58
	1,735	911

The other classes within trade and other receivables do not contain impaired assets. The Group did not incur any material impairment losses on trade receivables in the period. The ageing profile above takes account of the enlarged Group, and the fact that the payment terms/collection period for an enlarged Group with a wide variety of customers has evolved.

Notes to the Consolidated Financial Statements continued

20 Trade and other payables

	2016	2015
	£000	£000
Trade payables	**883**	646
Other tax and social security	**1,799**	1,000
Deferred income	**3,435**	1,930
Accruals and other payables	**2,237**	2,121
	8,354	5,697

The Directors consider that the carrying amounts of trade payables approximates to their fair value.

Deferred income relates to sales invoiced in advance of the completion of post contract customer support and hosting obligations, instances where the Group has raised sales invoices in advance of installation and acceptance of certain software sales, and also for software licences covering several accounting periods. Support, and revenue from Software as a Service will be recognised in the income statement over the remaining period of the contract, with other deferred income being recognised when the successful installation takes place, or over the period of time for which multiyear deals relate to.

21 Contingent and deferred consideration

During the year, the Group acquired SEP Limited and Ontrac Limited. Under the share purchase agreements in respect of both acquisitions, contingent consideration is payable which is linked to the profitability of the acquired businesses for a two year period post acquisition.

Under the terms of the share purchase agreements, the maximum amounts payable are as follows:

	2016	2015
	£000	£000
SEP Limited	**680**	-
Ontrac Limited	**8,000**	-
	8,680	-

During the year, deferred consideration of £30k was paid in respect of the SEP acquisition.

At the balance sheet date, the Directors assessed the fair value of the remaining amounts payable which were deemed to be as follows:

	2016	2015
	£000	£000
SEP Limited	**400**	-
Ontrac Limited	**5,750**	-
	6,150	-

These total amounts payable are split between amounts due within one year and more than one year as follows:

	2016	2015
	£000	£000
Due within one year	**1,665**	-
Due after more than one year	**4,485**	-
	6,150	-

Notes to the Consolidated Financial Statements continued

22 Deferred tax

Non-current liability/(asset)	Intangible assets £000	Accelerated capital allowances £000	Share options £000	Other £000	Total £000
At 31 July 2014	1,771	101	(560)	76	1,388
(Credit)/charge to income statement	(142)	4	(18)	(76)	(232)
Recognised in equity	-	-	(304)	-	(304)
At 31 July 2015	1,629	105	(882)	-	852
Arising on acquisition	2,942	4	-	-	2,946
(Credit)/charge to income statement	(412)	16	76	-	(320)
Recognised in equity	-	-	233	-	233
At 31 July 2016	**4,159**	**125**	**(573)**	**-**	**3,711**

The closing deferred tax asset and liability has been calculated at 18% as at 31 July 2016 (2015: 20%).

This is presented on the Balance Sheet as follows within non-current assets and liabilities.

	2016 £000	2015 £000
Deferred tax assets	**(573)**	(882)
Deferred tax liabilities	**4,284**	1,734
Net liability per table above	**3,711**	852

23 Share capital

	2016 Number	**2016 £**	2015 Number	2015 £
Allotted, called up and fully paid:				
Ordinary shares of 0.4p each	**27,546,259**	**110,185**	26,564,328	106,257

The following share transactions have taken place during the year ended 31 July 2016:

	2016 Number	2015 Number
At start of the year	**26,564,328**	26,258,114
Issued as consideration for business combinations	**252,629**	-
Exercise of share options	**729,302**	306,214
At end of the year	**27,546,259**	26,564,328

Notes to the Consolidated Financial Statements continued

24 Capital and reserves

The following describes the nature and purpose of each reserve:

Reserve	Description and purpose
Share capital	Amount subscribed for share capital at nominal value
Share premium	Amount subscribed for share capital in excess of nominal value
Merger reserve	Amounts arising from the premium of the fair value of shares issued over their nominal value, in respect of certain business combinations
Share based payments reserve	Amounts arising from the requirement to expense the fair value of share options in accordance with IFRS2 Share-based Payments
Retained earnings	Cumulative net profits recognised in the income statement
Translation reserve	Translation differences on retranslation of Australian subsidiary (until disposal in Dec 2015)

25 Operating leases

Leases as lessee

Total outstanding commitments for future minimum lease payments under non-cancellable operating leases are set out below:

Land and buildings

The Group leases several office facilities under operating leases. During the year £420,000 was recognised as an expense in the income statement in respect of operating leases (2015: £305,000).

Minimum lease payments are payable as follows:

	2016	2015
	£'000	£'000
Within one year	**266**	12
In the second to fifth years	**563**	367
	829	379

Plant and machinery

	2016	2015
	£'000	£'000
Within one year	**11**	21
In the second to fifth years	**80**	130
	91	151

Notes to the Consolidated Financial Statements continued

26 Financial risk management

The principal financial instruments comprise cash and short term deposits. The main purpose of these financial instruments is to provide finance for the Group's operations. The Group has various other financial instruments, such as trade receivables and payables that arise directly from its operations. The Group has taken advantage of the exemption to exclude short term debtors and creditors from the disclosures given below. The fair values of the financial instruments are equal to their year end carrying values and represent the maximum exposure.

	2016			2015		
Financial assets	**Fixed Rate**	**Floating Rate**	**Total**	Fixed Rate	Floating Rate	Total
	£000	**£000**	**£000**	£000	£000	£000
Cash and short term deposits	**-**	**11,385**	**11,385**	1,000	12,341	13,341

The Group had no financial liabilities or derivative contracts in either the current or previous year. It is policy that no trading in financial instruments should be undertaken. The surplus cash balances have been invested in deposit accounts.

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

- trade receivables;
- cash at bank;
- trade and other payables.

The main risks arising from the financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Fair value or cash flow interest rate risk
Currently the Group has surplus cash balances so does not have a borrowing requirement. Surplus cash is put on short term deposit with high credit worthy banking institutions where appropriate at either fixed or floating rates. The Board monitors the financial markets and the Group's future cash requirements to ensure that this policy is exercised in the Group's best interests.

At 31 July 2016, the Group did not have any fixed-rate deposits in place.

Credit risk
The Group monitors credit risk closely and considers that its current policies of credit checks meet its objectives of managing exposure to risk. The Group has no significant concentration of credit risk. Amounts shown in the balance sheet best represent the maximum credit risk exposure in the event that other parties fail to perform their obligations under financial instruments.

Liquidity risk
Liquidity risk is managed on a day to day basis. Facilities are agreed at appropriate levels having regard to the Group's forecast operating cash flows and future capital expenditures.

Capital disclosures
The Group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and;
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The capital structure of the Group consists of cash and cash equivalents, and equity attributable to shareholders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity and Notes 13, 23 and 24. The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Sensitivity analysis
In managing interest rates the Group aims to reduce the impact of short term fluctuations on the Group's earnings. Over the long term, permanent changes in interest rates would have an impact on consolidated earnings. The Directors consider that a change of 100 basis points in interest rates at any period end would not have a material impact on cash flows.

Notes to the Consolidated Financial Statements continued

26 Financial risk management (continued)

Market risks
The Directors consider that the Group has no significant exposure to market risks with respect to its financial instruments.

Foreign currency risk
The Group had an Australian subsidiary which was disposed of during the year. Balances and transactions in Australian dollars were converted into Sterling and hence the Group was exposed to an element of currency risk/fluctuation until its disposal.

27 Related Party Transactions

The following transactions took place during the year with other related parties:

	Purchase of goods and services		Amounts owed to related parties	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Leeds Innovation Centre Limited	**74**	75	**7**	7
Ashtead Plant Hire Co Limited	**25**	-	**13**	-

Leeds Innovation Centre Limited is a company which is connected to The University of Leeds. Tracsis plc rents its office accommodation, along with related office services, from this company.

Ashtead Plant Hire Co Limited is a subsidiary of Ashtead Group plc (Ashtead) of which Chris Cole is Chairman. SEP Limited, one of the Group's subsidiaries purchased goods and services from Ashtead during the year. All transactions with Ashtead took place at arm's length commercial rates and were not connected to Mr Cole's position at Ashtead. SEP Limited traded with Ashtead prior to its acquisition by Tracsis plc.

	Sale of goods and services		Amounts owed by related parties	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
WSP I Parsons Brinckerhoff	**2,136**	1,487	**679**	519

WSP I Parsons Brinckerhoff (WSP) is a company which is connected to Chris Cole who serves as non-executive Chairman of Tracsis plc and also of WSP. Sales to WSP took place at arm's length commercial rates and were not connected to Mr Cole's position at WSP as the Group traded with WSP prior to his appointment at Tracsis in April 2014. On 31 October 2014, WSP completed the acquisition of Parsons Brinckerhoff (PB) which made PB a related party of the Group from this date. One of the Group's subsidiary companies, (Tracsis Traffic Data Limited, previously Sky High Technology Limited), traded extensively with PB prior to its acquisition by WSP as it carried out an agreement for a significant piece of data collection work for a UK transport agency which was entered into in May 2014. All transactions with PB took place at arm's length commercial rates and were not connected to Mr Cole's position at WSP.

Nutshell Software Limited
On 21 July 2016, the Group entered into an agreement to make an investment in Nutshell Software Limited, a company connected to Martyn Cuthbert who is a Director of Ontrac Limited and Ontrac Technology Limited, subsidiary companies of the Group following their acquisition in December 2015. Further details regarding this investment are provided in note 5.

Terms and conditions of transactions with related parties
The purchases from related parties are made at normal market prices. Outstanding balances that relate to trading balances are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

Compensation of key management personnel of the Group
The Group considers the directors to be its key management personnel. Full details of their compensation are set out in the Directors' Remuneration Report.

Notes to the Consolidated Financial Statements continued

28 Employee benefits

The Group makes contributions to defined contribution pension schemes for its employees. The pension cost charge for the year comprises contributions payable by the Group to the schemes and other personal pension plans and amounted to £271,000 (2015: £176,000). There were outstanding contributions at 31 July 2016 of £35,000 (2015: £19,000).

29 Group entities

Below are the subsidiary undertakings which contribute to the Group results:

Held by Tracsis plc	Principal activity	Country of incorporation	% ordinary share capital owned
Tracsis Rail Consultancy Limited (previously RWA Rail Limited)	Rail industry consultancy	England and Wales	100%
Tracsis Passenger Counts Limited (previously Peeping Limited)	Rail industry consultancy	England and Wales	100%
Safety Information Systems Limited	Software and consultancy	England and Wales	100%
MPEC Technology Limited	Rail industry hardware & Datalogging	England and Wales	100%
Tracsis Traffic Data Limited (previously Sky High Technology Limited and Sky High plc)	Transportation data collection	England and Wales	100%
Datasys Integration Limited	Holding Company	England and Wales	100%
Datasys Limited	Rail industry software	England and Wales	100%
SEP Limited	Event planning & traffic management	England and Wales	100%
SEP Events Limited	Dormant	England and Wales	100%
Ontrac Technology Limited	Holding company	England and Wales	100%
Ontrac Limited	Rail industry software	England and Wales	100%
S-H TrafficData Solutions Private Limited	Data processing	India	100%
Sky High Data Capture Limited	Dormant	England and Wales	100%
Sky High Traffic Data Limited	Dormant	England and Wales	100%
The Web Factory Birmingham Limited	Dormant	England and Wales	100%
Forsyth Whitehead & Associates Limited	Dormant	England and Wales	100%
Sky High Technology (Scotland) Limited	Dormant	England and Wales	100%
Count on Us Traffic Limited	Dormant	England and Wales	100%
Burra Burra Distribution Limited	Dormant	England and Wales	100%
Sky High NCS Limited	Dormant	England and Wales	100%
Halifax Computer Services Limited	Dormant	England and Wales	100%
Skyhightraffic Limited	Dormant	England and Wales	100%
The Traffic Survey Company Limited	Dormant	England and Wales	100%
The People Counting Company Limited	Dormant	England and Wales	100%
Myratech.net Limited	Dormant	England and Wales	100%
Footfall Verification Limited	Dormant	England and Wales	100%
Disposed in the year:			
Tracsis Traffic Data Australia Pty Limited (previously Sky High Traffic Data Australia Pty Limited)	Transportation data collection	Australia	100%
Minority investments:			
Citi Logik Limited	Mobile Network Data Analysis	England and Wales	17.2%
Nutshell Software Limited	Mobile application development	England and Wales	23.3%

Notes to the Consolidated Financial Statements continued

30 Dividends

The Group introduced a progressive dividend policy during previous years. The cash cost of the dividend payments is shown below:

	2016	2015
	£000	£000
Final dividend for 2013/14 of 0.45p per share paid	**-**	119
Interim dividend for 2014/15 of 0.40p per share paid	**-**	106
Final dividend for 2014/15 of 0.60p per share paid	**164**	-
Interim dividend for 2015/16 of 0.50p per share paid	**137**	-
Total dividends paid	**301**	225

The dividends paid or proposed in respect of each financial year is as follows:

	2016	2015	2014	2013	2012
	£000	£000	£000	£000	£000
Interim dividend for 2011/12 of 0.20p per share paid	**-**	-	-	-	48
Final dividend for 2011/12 of 0.35p per share paid	**-**	-	-	-	87
Interim dividend for 2012/13 of 0.30p per share paid	**-**	-	-	75	-
Final dividend for 2012/13 of 0.40p per share paid	**-**	-	-	102	-
Interim dividend for 2013/14 of 0.35p per share paid	**-**	-	89	-	-
Final dividend for 2013/14 of 0.45p per share paid	**-**	-	119	-	-
Interim dividend for 2014/15 of 0.40p per share paid	**-**	106	-	-	-
Final dividend for 2014/15 of 0.60p per share paid	**-**	164	-	-	-
Interim dividend for 2015/16 of 0.50p per share paid	**137**	-	-	-	-
Final dividend for 2015/16 of 0.70p per share proposed	**194**	-	-	-	-

The total dividends paid or proposed in respect of each financial year ended 31 July is as follows:

	2016	2015	2014	2013	2012
Total dividends paid per share	1.2p	1.0p	0.8p	0.7p	0.55p

The dividend will be payable on 10 February 2017 to shareholders on the Register at 27 January 2017.

31 Events after the Balance Sheet date

In August 2016, one of the Group's subsidiaries, MPEC Technology Limited, signed a significant order with a North American Class 1 railroad operator for its Remote Condition Monitoring technology. Under the terms of the agreement, the initial order comprises the outright purchase of hardware units, a software licence for the Group's data aggregation and analysis tool Centrix, and various ancillary products. The Directors continue to view the US rail industry as being the largest and most accessible growth market for the Group's RCM technology although the specific timing of further sales in new territories remains difficult to predict.

32 Contingent liabilities

As detailed in note 21, the maximum remaining amounts payable under the share purchase agreements in respect of the Ontrac and SEP acquisitions is £8.65m. Management have assessed the likely amounts payable as £6.15m and have included a contingent consideration creditor in respect of this amount. It is therefore possible that additional amounts may be payable, but in order for this to happen, the performance of both acquisitions will have to be stronger than anticipated which will lead to revenue and profit in excess of expectations.

Financial Statements

Company Balance Sheet (prepared under FRS 101)

as at 31 July 2016

Company number: 05019106

	Note	2016 £000	2015 (Note 42) £000
Non-current assets			
Property, plant and equipment	34	**339**	349
Investments	35	**34,567**	14,093
Deferred tax assets	39	**634**	882
		35,540	15,324
Current assets			
Cash and cash equivalents		**5,750**	9,182
Trade and other receivables	36	**1,561**	867
		7,311	10,049
Total assets		**42,851**	25,373
Non-current liabilities			
Deferred tax liabilities	39	**198**	-
Contingent & deferred consideration	38	**4,485**	-
		4,683	-
Current liabilities			
Trade and other payables	37	**10,417**	8,446
Contingent & deferred consideration	38	**1,665**	-
		12,082	8,446
Total liabilities		**16,765**	8,446
Net assets		**26,086**	16,927
Capital and reserves			
Called up share capital	40	**110**	106
Share premium reserve		**5,622**	4,776
Merger reserve		**3,010**	1,846
Share based payments reserve		**2,408**	1,321
Retained earnings		**14,936**	8,878
Total equity		**26,086**	16,927

The financial statements were approved and authorised for issue by the Board of Directors on 16 November 2016 and were signed on its behalf by:

John McArthur – Chief Executive Officer **Max Cawthra** – Chief Financial Officer

The accompanying notes form an integral part of these financial statements

Financial Statements

Company Statement of Changes in Equity

	Share capital £000	Share premium £000	Merger reserve £000	Share based payments reserve £000	Retained earnings £000	Total equity £000
At 1 August 2015 (note 42)	106	4,776	1,846	1,321	8,878	16,927
Profit and total comprehensive income	-	-	-	-	6,592	6,592
Dividends	-	-	-	-	(301)	(301)
Share based payment charges	-	-	-	1,087	-	1,087
Tax movements in equity	-	-	-	-	(233)	(233)
Exercise of share options	3	846	-	-	-	849
Shares issued as consideration for business combinations	1	-	1,164	-	-	1,165
At 31 July 2016	**110**	**5,622**	**3,010**	**2,408**	**14,936**	**26,086**

	Share capital £000	Share premium £000	Merger reserve £000	Share based payments reserve £000	Retained earnings £000	Total equity £000
At 1 August 2014 (note 42)	105	4,591	1,846	698	7,098	14,338
Profit and total comprehensive income	-	-	-	-	1,701	1,701
Dividends	-	-	-	-	(225)	(225)
Share based payment charges	-	-	-	623	-	623
Tax movements in equity	-	-	-	-	304	304
Exercise of share options	1	185	-	-	-	186
At 31 July 2015 (note 42)	106	4,776	1,846	1,321	8,878	16,927

The following describes the nature and purpose of each reserve:

Reserve	**Description and purpose**
Share capital	Amount subscribed for share capital at nominal value
Share premium	Amount subscribed for share capital in excess of nominal value
Merger reserve	Amounts arising from the premium of the fair value of shares issued over their nominal value, in respect of certain business combinations
Share based payments reserve	Amounts arising from the requirement to expense the fair value of share options in accordance with IFRS2 Share-based Payments
Retained earnings	Cumulative net profits recognised in the income statement

Financial Statements

Notes to the Company Balance Sheet

33 Company accounting policies

Tracsis plc ("the Company") was incorporated and is domiciled in the United Kingdom. Its registered office is Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF, registered number 05019106. The principal activity of Tracsis plc is that of a holding company and also software development and consultancy for the rail industry.

The company's accounting reference date is 31 July.

a) Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101") which has been applied.

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

The financial statements have been prepared on a historical cost basis. The presentation currency used is sterling and amounts have been presented in round thousands ("£000s").

Disclosure exemptions adopted:

In preparing these financial statements the company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

- certain comparative information as otherwise required by EU endorsed IFRS;
- certain disclosures regarding the company's capital;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- these financial statements do not include certain disclosures in respect of share based payments.
- the disclosure of the remuneration of key management personnel; and
- disclosure of related party transactions with other wholly owned members of the Tracsis plc group of companies.

In addition, and in accordance with FRS 101 further disclosure exemptions have been adopted because equivalent disclosures are included in the Company's financial statements.

b) Accounting policies

First time application of FRS 101
In the current year the company has adopted FRS 101. In previous years the financial statements were prepared in accordance with applicable UK accounting standards.

This change in the basis of preparation has not materially altered the recognition and measurement requirements previously applied in accordance with applicable UK accounting standards. Consequently the principal accounting policies are unchanged from the prior year. The change in basis of preparation has enabled the Company to take advantage of all of the available disclosure exemptions permitted by FRS 101 in the financial statements. There have been no other material amendments to the disclosure requirements previously applied in accordance with applicable UK accounting standards.

A reconciliation of the position pre and post transition to FRS 101 is provided in note 42.

Notes to the Company Balance Sheet continued

33 Company accounting policies (continued)

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable (excluding value added tax and discounts given) derived from the provision of goods and services to customers during the period. The Company derives revenue from software licences, post contract customer support and consultancy services.

The Company recognises the revenue from the sale of software licences and specified upgrades upon shipment of the software product or upgrade, when there are no significant vendor obligations remaining, when the fee is fixed and determinable and when collectability is considered probable. Where appropriate the Company provides a reserve for estimated returns under the standard acceptance terms at the time the revenue is recognised. Payment terms are agreed separately with each customer.

Revenue from post contract customer support and consultancy services is recognised on a straight-line basis over the term of the contract. Revenue received and not recognised in the profit and loss account under this policy is classified as deferred income in the balance sheet.

Revenue from other products and services is recognised as the products are shipped or services provided.

Revenue from consultancy and professional services is recognised when the services have been performed, once the work and value has been agreed with the customer.

Property, plant and equipment
Property, plant and equipment is initially recognised at cost. As well as the purchase price, cost includes directly attributable costs.

Depreciation is provided on all items so as to write off the carrying value of items over their expected useful economic lives. It is applied at the following rates:

Freehold buildings (excluding land)	–	4% on cost
Computer equipment	–	33 1/3% on cost

Investments
Fixed asset investments are stated at cost less provision for impairment where appropriate. The directors consider annually whether a provision against the value of investments on an individual basis is required. Such provisions are charged in the income statement in the year.

Taxation
The tax on the profit or loss for the year represents current and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted at the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying value in the financial statements. The principal temporary differences arise from depreciation on plant and equipment and share options granted by the Group to employees and directors.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Where the deferred tax asset recognised in respect of share-based payments would give rise to a credit in excess of the related accounting charge at the prevailing tax rate the excess is recognised directly in equity.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Notes to the Company Balance Sheet continued

33 Company accounting policies (continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Share based payments

The Company's accounting policies followed are in all material regards the same as the Group's policy as shown on page 37. Where there are charges relating to subsidiary undertakings, these are borne by the relevant subsidiary undertakings via a recharge.

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006. The Company's profit after taxation for the year amounted to £6,592,000 after receiving dividends from subsidiary undertakings of £6,250,000 (2015: profit of £1,701,000 after receiving dividends of £1,600,000).

34 Property, plant and equipment

	Freehold Land & Buildings £000	Computer equipment £000	**Total £000**
Cost			
At 1 August 2015	400	26	426
Additions	-	4	4
At 31 July 2016	400	30	430
Depreciation			
At 1 August 2015	54	23	77
Charge for the year	12	2	14
At 31 July 2016	66	25	91
Net book value			
At 31 July 2015	346	3	349
At 31 July 2016	**334**	**5**	**339**

35 Investments

	Shares in, and loans to subsidiary undertakings £000
Cost	
At 1 August 2015	14,093
Additions	20,474
At 31 July 2016	**34,567**

Notes to the Company Balance Sheet continued

35 Investments (continued)

The companies in which Tracsis plc's interest is more than 10% at the year end are as follows:

Name	Country of incorporation	Principal activity	Class and percentage of shares held	Holding
Subsidiary undertakings:				
Tracsis Rail Consultancy Limited (previously) R.W.A. Rail Limited	England and Wales	Rail industry consultancy	Ordinary 100%	Direct
Tracsis Passenger Counts Limited (previously) Peeping Limited	England and Wales	Rail industry ancillary services	Ordinary 100%	Direct
Safety Information Systems Limited	England and Wales	Software and consultancy	Ordinary 100%	Direct
MPEC Technology Limited	England and Wales	Rail industry hardware & datalogging	Ordinary 100%	Direct
Tracsis Traffic Data Limited (previously Sky High Technology Limited and Sky High plc)	England and Wales	Transportation data collection	Ordinary 100%	Direct
Datasys Integration Limited	England and Wales	Holding Company	Ordinary 100%	Direct
Datasys Limited	England and Wales	Rail industry software	Ordinary 100%	Indirect
SEP Limited	England and Wales	Event planning & traffic management	Ordinary 100%	Direct
SEP Events Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Ontrac Technology Limited	England and Wales	Holding Company	Ordinary 100%	Direct
Ontrac Limited	England and Wales	Rail industry software	Ordinary 100%	Indirect
S-H TrafficData Solutions Private Limited	India	Data processing	Ordinary 100%	Indirect
Sky High Data Capture Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Sky High Traffic Data Limited	England and Wales	Dormant	Ordinary 100%	Indirect
The Web Factory Birmingham Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Forsyth Whitehead & Associates Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Sky High Technology (Scotland) Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Count on Us Traffic Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Burra Burra Distribution Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Sky High NCS Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Halifax Computer Services Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Skyhightraffic Limited	England and Wales	Dormant	Ordinary 100%	Indirect
The Traffic Survey Company Limited	England and Wales	Dormant	Ordinary 100%	Indirect
The People Counting Company Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Myratech.net Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Footfall Verification Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Minority investments				
Citi Logik Limited	England and Wales	Mobile network data analysis	Ordinary 17.2%	Direct
Nutshell Software Limited	England and Wales	Mobile application development	Ordinary 23.3%	Indirect

Tracsis Traffic Data Pty, an Australian company that was held indirectly via Tracsis Traffic Data Limited, was disposed of during the year.

Notes to the Company Balance Sheet continued

36 Trade and other receivables

	2016 £000	2015 £000
Trade receivables	**197**	179
Amounts owed by group undertakings	**538**	245
Other debtors	**175**	12
Corporation Tax	**630**	416
Prepayments	**21**	15
	1,561	867

The carrying value of trade receivables approximates to the fair value.

Corporation tax is recoverable from other Group companies as Tracsis plc acts as the lead company for the Group's Payment on Account regime.

37 Trade and other payables

	2016 £000	2015 £000
Trade payables	**11**	32
Other tax and social security	**45**	86
Amounts owed to subsidiary undertakings	**9,778**	7,767
Accruals and deferred income	**583**	561
	10,417	8,446

The carrying value of trade receivables approximates to the fair value.

38 Contingent and Deferred consideration

During the year, the Company acquired SEP Limited and Ontrac Limited. Under the share purchase agreements in respect of both acquisitions, contingent consideration is payable which is linked to the profitability of the acquired businesses for a two year period post acquisition.

Under the terms of the share purchase agreements, the maximum amounts payable are as follows:

	2016 £000	2015 £000
SEP Limited	**680**	-
Ontrac Limited	**8,000**	-
	8,680	-

During the year, deferred consideration of £30k was paid in respect of the SEP acquisition.

At the balance sheet date, the Directors assessed the fair value of the remaining amounts payable which were deemed to be as follows:

	2016 £000	2015 £000
SEP Limited	**400**	-
Ontrac Limited	**5,750**	-
	6,150	-

Notes to the Company Balance Sheet continued

38 Contingent and Deferred consideration (continued)

These total amounts payable are split between amounts due within one year and more than one year as follows:

	2016 £000	2015 £000
Due within one year	**1,665**	-
Due after more than one year	**4,485**	-
	6,150	-

39 Deferred tax (asset) / liability

	2016 £000	2015 (Note 42) £000
At start of the year – restated	**(882)**	(557)
(Credit) / charge to income statement during the year	**213**	(21)
Charge / (Credit) to equity during the year	**233**	(304)
At end of the year	**(436)**	(882)

40 Share capital

	2016 Number	2016 £	2015 Number	2015 £
Allotted, called up and fully paid:				
Ordinary shares of 0.4p each	**27,546,259**	**110,185**	26,564,328	106,257

The following share transactions have taken place during the year ended 31 July 2016:

	2016 Number	2015 Number
At start of the year	**26,564,328**	26,258,114
Issued as consideration for business combinations	**252,629**	-
Exercise of share options	**729,302**	306,214
At end of the year	**27,546,259**	26,564,328

41 Operating leases

Operating lease commitments

Minimum lease payments are payable as follows:

Land and buildings:	2016 £'000	2015 £'000
Within one year	**10**	-
Between one and two years	**-**	60

Notes to the Company Balance Sheet continued

42 Explanation of transition to FRS 101

Under UK GAAP, the company did not recognise a deferred tax asset on gains made by employees on share options. Upon transition to FRS 101, the company has recognised a deferred tax asset where appropriate.

A reconciliation is set out below showing the impact of this restatement.

The total impact of this was to recognise a deferred tax asset in respect of share options amounting to £867k. As detailed below, and in the Statement of Changes in Equity, this was split as an asset of £563k as at 31 July 2014, with £304k relating to the year ended 31 July 2015 to give a total adjustment required of £867k.

No other adjustments were required.

Date of transition – 1 August 2014

	UK GAAP	Effect of transition to FRS 101	FRS 101
	£000	£000	£000
Non-current assets			
Property, plant and equipment	359	-	359
Investments	14,093	-	14,093
Deferred tax assets	-	563	563
	14,452	563	15,015
Current assets			
Cash and cash equivalents	5,294	-	5,294
Trade and other receivables	1,261	-	1,261
	6,555	-	6,555
Total assets	21,007	563	21,570
Current liabilities			
Trade and other payables	7,226	-	7,226
		-	
Non Current liabilities			
Deferred Tax	6	-	6
	6	-	6
Total liabilities	7,232	-	7,232
Net assets	13,775	563	14,338
Capital and reserves			
Called up share capital	105	-	105
Share premium reserve	4,591	-	4,591
Merger reserve	1,846	-	1,846
Share based payments reserve	698	-	698
Retained earnings	6,535	563	7,098
Total equity	13,775	563	14,338

Notes to the Company Balance Sheet continued

42 Explanation of transition to FRS 101 (continued)

31 July 2015 comparatives

	UK GAAP £000	Effect of transition to FRS 101 £000	FRS 101 £000
Non-current assets			
Property, plant and equipment	349	-	349
Investments	14,093	-	14,093
Deferred tax assets	15	867	882
	14,457	867	15,324
Current assets			
Cash and cash equivalents	9,182	-	9,182
Trade and other receivables	867	-	867
	10,049	-	10,049
Total assets	24,506	867	25,373
Current liabilities			
Trade and other payables	8,446	-	8,446
	8,446	-	8,446
Total liabilities	8,446	-	8,446
Net assets	16,060	867	16,927
Capital and reserves			
Called up share capital	106	-	106
Share premium reserve	4,776	-	4,776
Merger reserve	1,846	-	1,846
Share based payments reserve	1,321	-	1,321
Retained earnings	8,011	867	8,878
Total equity	16,060	867	16,927

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