Tracsis plc

Annual Report & Accounts 2017

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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.

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 2017:

- Revenues increased 6% to £34.5m (2016: £32.6m)
- Adjusted EBITDA increased 11% to £8.5m (2016: £7.6m)
- Profit Before Tax of £4.6m (2016: £4.0m)
- Cash balances of £15.4m (2016: £11.4m)
- Full year dividend increased 17% to 1.4p per share (2016: 1.2p)

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 2016/7:
1	**Organic** further sales from existing products to UK	• Significant multi million contract win for TRACS Enterprise with a major UK Train Operating Company – to be delivered over four years • Additional DayOne sale generated • Continued high level of Software licence renewals achieved across the whole Group • Good sales made to the Group's key UK customer
2	**Overseas Markets** showing good promise and remain relatively untapped	• Major contract delivered in North America with a Class 1 Railroad for the Group's Remote Condition Monitoring technology • Traffic Data business in Ireland continues to trade well • Additional Software sale won in New Zealand – to be delivered in the year ending 2017-18
3	**Acquisitions**	• Investment made into Vivacity Labs Limited which is an exciting prospect • Additional investment made into Nutshell Software Limited in the year • Despite a number of opportunities being appraised, no further acquisitions completed in the year following a busy year in 2015-16

Strategic Report

Chairman & Chief Executive Officer's Report

A welcome from Chris Cole, Non-Executive Chairman

Tracsis has performed well over the past 12 months and delivered a good financial result set against a backdrop of substantial industry change within the rail sector and renewed impetus into 'intelligent' technology and solutions across the entire traffic and transport sector. The Group continues to evolve, diversify and professionalise its offering and I am pleased with the significant progress that was made over the past year that will form the foundations on which Tracsis will continue to grow. On behalf of the Board, I wish to thank everyone for their hard work and dedication and remain excited about our future prospects.

Introduction

The financial year ended 31 July 2017 was a year of further growth and Group wide consolidation given it included the first full year of trading for Ontrac and SEP (acquired 2015/16), and also excludes Tracsis Traffic Data Pty Australia (disposed of Dec '15). The new businesses have added significant strength and depth to our market offering and have created synergies within the Group. These synergies have been realised primarily in the form of technology, process and people improvements which has put the business on an excellent footing as it enters the new financial year. These changes also contributed to a further period of growth in revenue and profitability and Tracsis remains in excellent financial health.

Business overview

Tracsis specialises in providing software, hosting services, consultancy services and bespoke technology solutions to high value, mission critical challenges within the transport and traffic sector. The Group's market offering can be broadly categorised into two distinct offerings:

- **Rail Technology & Services:** Application software development and licensing, remote condition monitoring technology (RCM), and associated operational and strategic consulting services.

  The Group has a long pedigree in developing industrial strength application software that covers a variety of resource/asset optimisation that removes extraneous cost, increase network uptime and robustness and improves overall service delivery. Our software offering 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 our 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, operators and a range of regulatory bodies..

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

  Over a number of years, the Group has developed what is now the largest traffic and transport data capture and analytics business in the UK, and this was bolstered through the most recent acquisition of SEP Events and the investment made into Vivacity Labs. With the acquisition of SEP this division has expanded its addressable markets from rail, roads and highways to include the pedestrian rich environments of the events industry which is a significant and growing market within the UK.

The Group's mission is to help our clients solve complex, high value, data driven problems for which there is typically very little by way of an alternative offering. Tracsis chooses to operate within the traffic and transport markets due to the abundance of complex problems where our expertise and software have clear and demonstrable benefits. These markets also exhibit several attractive traits for the Group – high barriers to entry due to domain knowledge, large and disparate data sets, and well informed 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.

The Directors believe that the traffic, transport and pedestrian rich environments (such as events and the built space), are particularly well positioned for further, long term, growth and the Group will capitalise on this via an expanding portfolio of products and services that have a common theme of 'smart' planning and 'intelligent' mobility.

Chairman & Chief Executive Officer’s Report continued

Financial summary

The Group delivered revenues of £34.5m which was an increase of 6% on the previous year (2016: £32.6m). This was a good performance given the level of consolidation within the Group, and as it was set against a difficult comparator in 2016 when Tracsis achieved revenue growth of 29%.

Adjusted EBITDA* of £8.5m was an increase of 11% on the previous year (2016: £7.6m), with Adjusted Profit** of £7.7m being 12% higher than the previous year (2016: £6.9m). The impact of acquisitions was a key contributor to the increased profit in the year and through further consolidation and integration of these business in future years Tracsis should be able to continue to leverage enhanced margins. Statutory Profit before Tax was also higher than the previous year at £4.6m (2016: £4.0m), with an increased charge being taken in respect of amortisation of acquired intangible assets and an increased share based payment charge.

At 31 July 2017, the Group’s cash balances had grown to £15.4m (2016: £11.4m), and cash generation continues to be strong. Overall cash balances increased by £4.0m in the financial year, after paying contingent consideration of £1.1m (in respect of Ontrac and SEP year one earn outs) and also making a strategic investment in Vivacity Labs of £0.4m. The business therefore generated net cash of c. £5.5m which demonstrates excellent conversion of profits to cash. The Group continues to be debt free. Contingent consideration in respect of Ontrac and SEP year two earn outs is expected to be finalised and paid in due course, once the Group has clarity on a major sales opportunity that is being negotiated.

* Earnings before finance income, tax, depreciation, amortisation, exceptional items, other operating income, and share-based payment charges and share of result of equity accounted investees – see note 31 for reconciliation
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Trading Progress and Prospects

<u>Rail Technology & Services</u>

Summary segment results:

Revenue	£16.0m	(2016: £14.1m)
EBITDA	£6.5m	(2016: £5.3m)
Profit before Tax	£6.3m	(2016: £5.1m)

Software

Software sales, excluding Ontrac, were £6.4m (2016: £6.6m) with the vast majority of this revenue being made up by software licences, which are typically long term customer relationships and recurring in nature each year. All aspects of the software portfolio continued to perform well, with renewal rates for the TRACS, Compass and Retail & Operations product suites remaining very high. The Group continued its strategy of upselling and cross selling existing and new products to its customer base and was pleased to secure an additional sale of DayOne which should pave the way for broader market uptake of this new product. The lack of franchise bid work in the period under review impacted slightly on anticipated performance although a quiet year within rail franchising is often followed by a busy one.

Most significantly, in July 2017, the Group was delighted to announce a major, multiyear contract with one of the largest Train Operating Companies in the UK for its TRACS Enterprise solution. The value of this contract runs to several million pounds, and will be delivered over the next four years. This win was highly significant for the Group as once successfully implemented, it should lead to follow-on reference sales with other operators. We look forward to delivering this contract on time and to the satisfaction of our client and have already bolstered our software delivery team in Leeds and Manchester to accommodate the work planned in the year ahead. Elsewhere, a good contract win for our Compass product was secured in New Zealand, which builds upon our long standing relationship with this customer.

Remote Condition Monitoring (RCM)

Revenues of £2.6m were higher than the previous year (2016: £2.2m), largely due to successful delivery of a major order from a North American Class 1 railroad operator that was announced previously. This marked the Group's first major contract outside of the UK and the Group continues to target further sales to this operator and the broader class 1 freight operators alongside the Transit/Metro industry within North America. As noted previously, whilst the specific timing of new sales within a new geography will always be hard to predict, management remains confident that the US is the largest potential market for our goods and services and expect to growth our footprint in the near and medium term. To this end, Tracsis now has an agreement in place with a trusted reseller and channel partner who, alongside promoting our RCM offering, is also tasked with marketing our full range of resource planning software to the US rail industry.

Chairman & Chief Executive Officer's Report continued

In the UK, RCM trading remained buoyant, and was comparable with the previous year. The Group was delighted to have completed product development for busbar monitoring technology and delivered the first units as part of a pilot with its major UK customer. If successful, there is significant opportunity for this product, and our customer has indicated the viable addressable market demand would be a requirement is some 20,000 units for the UK network alone.

The Group continues to target alternative applications for its RCM technology and during the year, delivered its first revenue generating projects in respect of distributed power generation monitoring. This market remains viable and Tracsis continue to retain dedicated resources to grow this, and other, applications outside of rail.

Consultancy and Professional Services

Due to changes made by the DfT to the timetable of rail franchise competitions, revenue in the year was lower than originally anticipated. Consultancy and professional services revenue was £1.7m (2016: £2.1m) which was a good result given the circumstances where a high number of planning and performance related projects were successfully won and delivered to replace the revenue that would otherwise have been delivered via bid support to owning Groups. Tracsis acknowledged some time ago that it needed to be more resilient to unforeseen changes to the franchise bid timetable (which are not uncommon). This acknowledgement has created a far more robust business, not only in terms of service offering, but also in relation to staff competency and client reach.

In 2017-18, we anticipate supporting bidders for the Southeastern and West Coast franchise competitions which should lead to a significantly better consultancy performance.

Ontrac

Ontrac, performed well in the period and contributed revenue of £5.3m (2016: £3.2m) in its first full year as part of the Tracsis Group. Revenue was delivered from a combination of software licences, hosting services, and bespoke software development work along with related consultancy services. The business continues to work extensively with Network Rail and 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.

Ontrac continues to work on the next iteration of its 'Rail Hub' product suite and in particular the eTrac product which allows for geospatial visualisation of railway networks and asset mapping. There has been significant interest for this innovation from key customers and the Ontrac team have high confidence that a significant sale of eTrac will be delivered in the coming financial year. Looking ahead, with the contractual earn-out period relating to Ontrac coming to an end in 2017, further consideration will be given to how Ontrac can be integrated more fully into the rest of the Tracsis Group and how skills and resources can be leveraged for mutual benefit.

<u>Traffic & Data Services</u>

Summary segment results:

Revenue	£18.5m	(2016: £18.5m)
EBITDA	£2.0m	(2016: £2.3m)
Profit before Tax	£1.4m	(2016: £1.3m)

Traffic Data and Passenger Counts

Traffic Data and Passenger Counts has historically been the fastest growing division in terms of pure organic growth. Revenues of £12.8m were delivered in the year (2016: £14.4m), reflecting the disposal of the non-core Australian business in 2015, and also taking account of the challenging market conditions that were announced in February 2017 (2016: £13.2m excluding Australia).

In response to the trading environment and challenges posed within this part of the business, the Group undertook and completed significant restructuring from October 2016 through to February 2017, which should result in savings of c.£0.6m on an annualised basis, with the full effects being realised during the current financial year ending 31 July 2018.

The Group continues to have a strong position and enjoys a favourable market share. Tracsis is excited by the opportunity that the Vivacity technology presents in terms of the potential to improve gross margins by reducing analysis costs significantly, and looks forward to adopting this in due course. The strategy for this part of our business remains unchanged – to transition what was historically a 'project led services business' to a 'product led technology business'. In doing so the Group believes it can achieve enhanced operational efficiencies via increased use of technology and process improvements to improve both gross and net margin.

Chairman & Chief Executive Officer's Report continued

SEP

SEP achieved revenues of £5.7m (2016: £4.1m) in its first full year as part of the enlarged Group which was a fantastic achievement and significantly ahead of any previous year as an independent entity. Along with delivering a large number of prominent events to a retained blue chip client base, the team was successful in growing its market share and winning several new customers on a retained basis. SEP continues to target the stadium and fixed venue event market and sees Premier League football clubs as a major opportunity. The Group continues to work closely with one of the largest clubs in the English Premiership and looks forward to replicating our success within this market in the year ahead.

The year also saw the launch of Tracsis Live Traffic (TLT) which provides event operators with a real time insight into traffic and pedestrian dynamics that comprises ANPR technology, together with application software developed internally by the Group's technical development team. Use of this technology means the Group can differentiate itself from the competitors, and also provide incremental, high value services as part and parcel of an engagement. Early signs for the adoption of this system have been positive, with good revenues being achieved in the year. The opportunity continues to exist to roll out to other existing and potential new clients.

Dividends

In February 2012, the Board implemented a progressive dividend policy and the Group intends to maintain this going forwards. An interim dividend of 0.6p per share for FY 2016/17 was paid in April 2017. A final dividend of 0.8p per share in respect of FY 2016/17 is proposed, to take the full year dividend to 1.4p. This represents a 17% increase on the previous year's dividend of 1.2p 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 through further development of new products and services. The Board is committed to maintaining the progressive dividend policy as the business continues to trade profitably and in line with its expectations.

The dividend will be paid on 16 February 2018 to shareholders on the register on 2 February 2018.

Acquisitions

The Group did not make any acquisitions in the year under review, but assessed multiple opportunities in line with our stated strategy. Although no transaction was completed in the period, Tracsis' appetite for continued aggregation in selected traffic and transport markets remains unchanged and so too does the standard by which we critique potential acquisition targets. Looking ahead, the pipeline of opportunities remains strong and Tracsis has never been in a stronger position to make further acquisitions.

Investments

The Group was pleased to announce that it had made a strategic investment of up to £1.3m into Vivacity Labs Limited ("Vivacity"), a provider of smart, hyperlocal data for smart cities and intelligent transport systems, in return for a 28.1% equity stake.

Vivacity has developed novel Machine Learning software and sensor technology which can be applied across a wide range of traffic and transport issues, most specifically for the automatic counting and classification of pedestrian and vehicle flows in a variety of environments. The business has secured a number of client wins and pilot projects with local governments, infrastructure owners and transport providers. In March 2017 the Group was successful in winning a significant Smart Cities grant with a value of £1.7m.

Adoption of the Vivacity technology has the potential for the Group to significantly reduce its existing costs for processing video footage within the Traffic & Data Services Division whilst also leading to improvements in operational performance such as increased accuracy of traffic counts and the reduction of turnaround times for clients.

As part of a broader investment round for Vivacity, the Group agreed to invest up to £1.0m via a tranched equity funding in return for 23.3% of the enlarged share capital of Vivacity. The first investment of £0.4m was made in the year, with the balance of £0.6m expected to be made in the year ending 31 July 2018, subject to performance milestones being fulfilled. In addition, Tracsis holds a warrant to subscribe for a further 4.8% of the enlarged share capital for an additional £0.3m.

Tracsis is entitled to a seat on the Board of Directors of Vivacity (currently filed by John McArthur – Group CEO) to help monitor our investment and promote the Vivacity offering to the Tracsis customer base. The investment round also included Downing Ventures EIS Fund and the London Co-Investment Fund with Tracsis being lead investor.

Chairman & Chief Executive Officer's Report continued

Summary and Outlook

FY 2016-17 was another year of significant progress, consolidation and continued growth for Tracsis following the acquisitions of SEP and Ontrac, which substantially increased the Group's product reach and client base. The Group has demonstrated maturity and resilience to dynamic market conditions and continues to take the initiative to innovate and evolve in new areas that should provide for significant margin improvement and competitive advantages in the years ahead.

Revenue, adjusted EBITDA and adjusted profit were once again all well ahead of the previous year and the Group continues to benefit from a strong balance sheet that benefits from the business' excellent cash generation and sizeable reserves.

The Group believes that the significant Software contract win, investment in Vivacity Labs, restructuring of its Traffic Data business and North American success all provide a good platform for growth in 2017-18.

Tracsis' growth 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.

As always, our thanks go to our numerous customers and partners who support our growth plans, and most importantly our talented and dedicated staff across the whole Group.

Chris Cole, Chairman

John McArthur, Chief Executive Officer

8 November 2017

Strategic Report

Risk Management

Key risks

The board carefully considers the risks facing the Group and endeavour to minimise the impact of those risks. 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 continues to derive a significant amount of its results from the UK rail industry.	1. Rail Technology & Services	Several of the Group's products and services are expected to be still 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.	No change in the year.
Competition			
The success of the Group may lead to increased competition, in particular 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. The Group restructured its Traffic & Data Services Division with significant cost savings now anticipated.	No change in the year to the risk, though the Group has made significant reductions to its headcount within the Traffic & Data Services Division and expects to see the full benefits of this cost saving during the financial year 2017-18. This should make the group operate more efficiently and enable it to adapt to changing market conditions more quickly.
Reduced government spending			
The Group continues to derive 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 diversify its revenue streams, the exposure to government spending should reduce but will always be a risk for the Traffic & Data Services Division due to the nature of its customer base. For the Rail Technology & Services Division, 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:
Reliance on certain key customers			
The Group has a large number of customers but derives a significant amount of business from one key customer for a large part of its rail Technology & Services offering. There can be no guarantee as to the timing or quantum of any potential future orders from this customer. Furthermore, the Group's Traffic & Data Services division operates under a number of Framework Agreements with one large one in particular from whom a significant amount of revenue is obtained.	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 also alternative uses for this technology.	No change in the year. Total revenues from the Group's largest customer were 16% of Group revenue (2016: 14%). Revenues in respect of the Group's Remote Condition Monitoring accounted for around 8% (2016: 7%) of total Group revenue. The Traffic & Data Services Division continued to account for over half of overall Group revenues and derived £2.5m (2016: £2.1m) from one particular customer.
Attraction and retention of key employees			
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 incentive 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.	No change in the year.
Delays to project delivery			
The Group was successful in securing a significant contract with a major UK Train Operating Company in the year which has a number of strict deadlines for implementation, along with certain penalties should the programme not be implemented in accordance with the contractual requirements and timeframes.	1. Rail Technology & Services	The Group has deployed an extensive delivery team, has carried out large scale recruitment, and has worked with the client in question to establish a project plan to ensure that the project has the best chance of successful delivery.	Increased in the year following this key contract being secured.

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 Vivacity Labs Limited during the year	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 Vivacity Labs Limited to seek to mitigate some of the risks posed by technology to the Traffic & Data Services Division.
<u>Customer pricing pressure</u>			
Price pressure from customers may potentially result in margins being eroded over 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.	No change in the year.

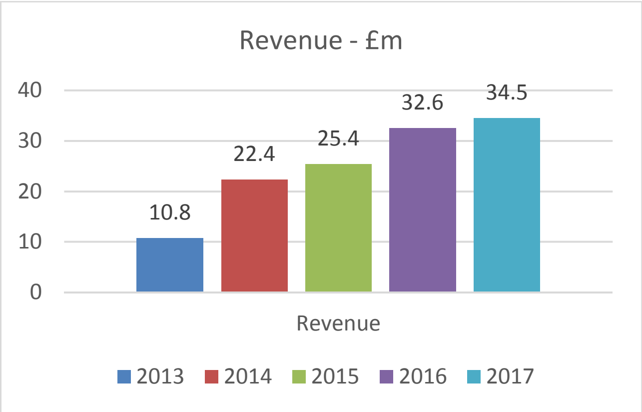
Risk Management continued

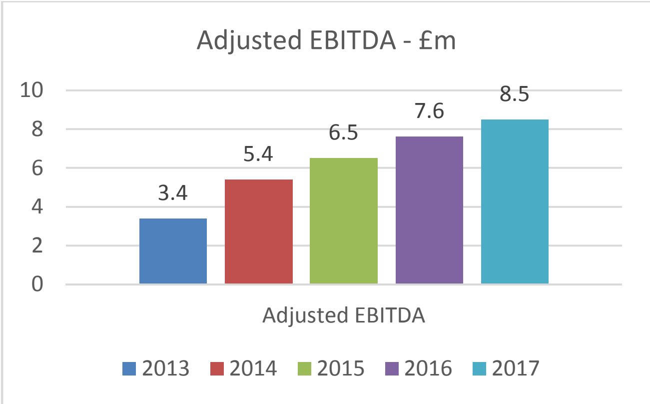
Description/Potential impact:	Area of Group impacted:	Mitigation:	Change in the year:
<u>Health & Safety</u>			
The Group has a large number of employees operating at a variety of sites around the country.	1. Traffic & Data Services 2. Rail Technology & Services	The Group employs a dedicated Health & Safety team for its Traffic & Data Services division. 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.	No change in the year.
<u>Brand reputation</u>			
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.	No change in the year.
<u>Impact of EU Referendum</u>			
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	It remains too early to assess the long term implications of this decision. 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.	No change in the year.

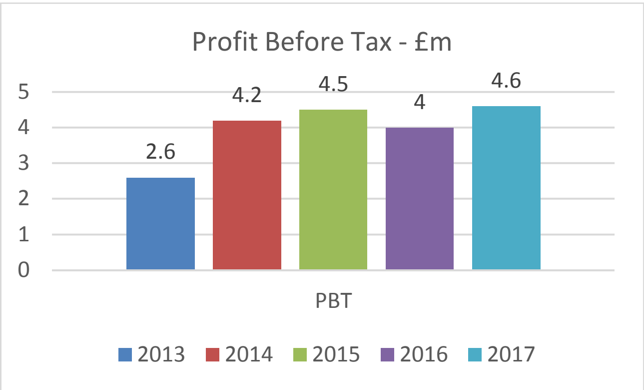
Strategic Report

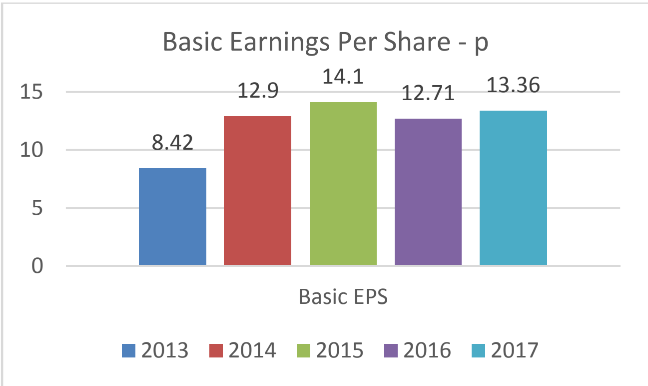
Key Performance Indicators

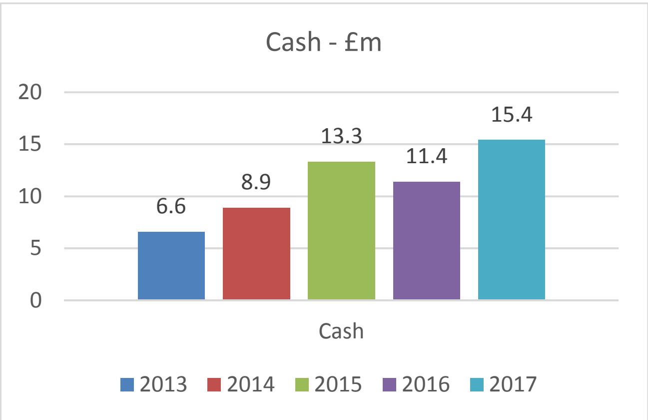
1. The Group's main Key Performance Indicators (KPIs) assessed at Group Level are as follows:
    a. Sales Revenue and various Profit metrics versus budget, forecast and prior year
    b. Sales prospects and forecasts versus budget and prior year
    c. Cash balances, debtors and working capital requirements
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 (42) 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 (39) 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 (71) 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.

John Nelson (70) 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 48 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 (46) 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 (59) 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 2017.

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 8 November 2017.

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 29 to 70

Dividends

The Directors have adopted a progressive dividend policy, subject to growth, profitability and cash position in the future. An interim dividend of 0.6p per share was paid in April 2017. The Directors propose a final dividend of 0.8p per share, subject to shareholder approval at the forthcoming Annual General Meeting. This will give a full year dividend of 1.4p per share (2016: 1.2p).

Directors

The directors who serve on the Board and on Board Committees during the year are set out on page 14. Lisa Charles-Jones was appointed as a Director on 25 August 2016. Liz Richards was appointed as a Director on 1 September 2016. Charles Winward resigned as a Director on 17 November 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 McArthur and Chris Cole retire by rotation and, being eligible, offer themselves for re-election. 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 2017 and 2016 were as follows:

	31 July 2017		**31 July 2016**	
	Number of shares	% of issued share capital	Number of shares	% of issued share capital
John McArthur	1,062,783	3.80%	1,062,783	3.86%
Max Cawthra	188,022	0.67%	177,860	0.65%
John Nelson	100,824	0.36%	100,824	0.37%
Chris Cole	7,000	0.02%	7,000	0.02%
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 7 November 2017, 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
Ennismore Fund Management	1,905,616	6.8%
Unicorn Asset Management	1,860,532	6.7%
Schroders	1,473,684	5.3%
BlackRock Inc	1,440,986	5.2%
Downing LLP	1,432,852	5.1%
Liontrust Investment Partners	1,343,778	4.8%
Hargreave Hale Limited	1,225,265	4.4%
Fidelity	1,183,182	4.2%
Investec Asset Management	1,131,648	4.0%
The University of Leeds	1,090,000	3.9%
John McArthur	1,062,783	3.8%

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 2017 were 54 days (2016: 58 days).

Research and development

During the year the Group incurred £1,214,000 (2016: £970,000) 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 £5,029 during the year (2016: £5,200). 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

8 November 2017

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
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 2017 is set out below

	Basic salary £000	Pension Conts £'000	Bonus £000	Benefits in kind £000	Total 2017 £000	Total 2016 £000
Executive Directors						
John McArthur	191	40	-	-	**231**	323
Max Cawthra	144	7	-	-	**151**	214
	335	47	-	-	**382**	537
Non-Executive Directors						
John Nelson	23	-	-	-	**23**	23
Charles Winward (resigned 17 Nov 16)	8	-	-	-	**8**	25
Chris Cole	50	-	-	-	**50**	50
Lisa Charles-Jones (appointed 25 Aug 16)	25	-	-	-	**25**	-
Liz Richards (appointed 1 Sept 16)	25	-	-	-	**25**	-
	131	-	-	-	**131**	98

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

	At 1 August 2016	Granted (Note 2)	Lapsed (Note 1)	Exercised	At 31 July 2017	Exercise price pence	Date from Which Exercisable	Expiry date
Executive Directors								
John McArthur	92,727	43,045	(54,545)	-	81,227	0.4p	See note 2	15 Dec 2025 / 6 Jan 2027
Max Cawthra	71,981	28,697	(36,364)	(10,162)	54,152	0.4p	See note 2	15 Dec 2025 / 6 Jan 2027
Non-Executive Directors								
John Nelson	25,000	-	-	-	25,000	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
In respect of the '2014 LTIP', none of the performance conditions regarding EPS and TSR for the year ended 31 July 2017 were met and as such the options lapsed.

Note 2
'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

'2016 LTIP'

- John McArthur granted maximum of 43,045 options, Max Cawthra granted a maximum of 28,697 options
- Full award is only payable should statutory diluted EPS for the year ending 31 July 2019 be 17.38p, and TSR versus the peer group is in the top quartile
- Should statutory diluted EPS for the year ending 31 July 2019 be less than 14.38p, 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

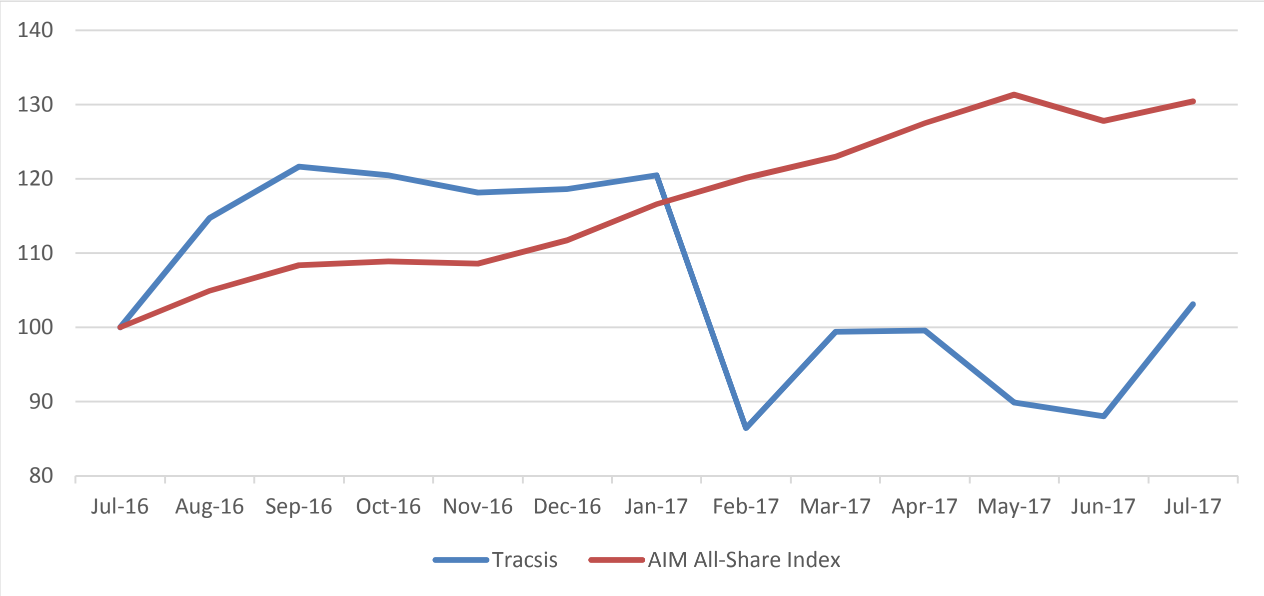
Note 3
Options granted in 2012/13 are exercisable in batches in 3 monthly intervals commencing 3 months from the date of grant (26 March 2013). All options will be fully exercisable 24 months after the date of grant.

The aggregate amount of pre-tax gains made by directors on the exercise of share options was £nil (2016: £355,177). 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 2016 to 31 July 2017.



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
8 November 2017

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 6 Board members, comprising 2 Executive Directors and 4 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 18. 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 McArthur and Chris Cole will be retiring at the Annual General Meeting and submitting themselves for re-election.

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	9/10	-	-	-
Max Cawthra	10/10	-	-	-
John Nelson	9/10	2/2	2/2	2/2
Chris Cole	10/10	2/2	2/2	2/2
Lisa Charles-Jones	9/10	1/1	2/2	1/2
Liz Richards	10/10	-	1/1	2/2

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 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 Liz Richards as Chairperson, 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

The Board completed a formal evaluation process which resulted in Lisa Charles-Jones and Liz Richards being appointed as Directors, and Sean Lippell and Charles Winward resigning 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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KPMG

Independent auditor's report

to the members of Tracsis plc

1. Our opinion is unmodified

We have audited the financial statements of Tracsis plc ("the Company") for the year ended 31 July 2017 which comprise the Consolidated Statement of Comprehensive Income, Consolidated and Company Balance Sheet, Consolidated and Company Statement of Changes in Equity, Consolidated Cash Flow Statement and the related notes, including the accounting policies in note 3.

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 2017 and of the Group's profit for the year then ended;

— the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;

— the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework;* and

— the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Materiality: group financial statements as a whole	£225k (2016: £235k) 4.9% of Group profit before tax (2016: 5%of Group profit before tax)
Coverage	99% (2016: 99%) of Group profit before tax

Risks of material misstatement	
Recurring risks	Revenue Recognition - Software Contracts

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matter was as follows:

	The risk	Our response
Revenue Recognition – Software Contracts **(Parent and Group)** Software revenue (Group) : £11,711k (2016: £9,817k) Software revenue (Parent Company) : £2,333k (2016: £2,529k) *Refer to page 34 (accounting policy) and page 47 (financial disclosures)*	**Complex Accounting Treatment** Software contracts are a key revenue stream for the Group. These contracts often contain multiple components resulting in complex revenue, and ultimately profit, recognition considerations. Given this complexity there is a risk of error over the amount of revenue recognised or deferred on these contracts at the year end. .	Our procedures included: — **Accounting analysis :** We critically assessed the Group's accounting policies in relation to revenue recognition with reference to the accounting standards. — **Tests of detail:** We tested completeness of the deferred income schedules by reconciliation to the general ledger. We agreed a sample of sales to customer orders and sales invoices to determine whether the contractual terms such as timing and value had been included in the deferred income calculation correctly. — **Expectation vs Outcome:** We performed a recalculation over a sample of deferred income at the year end to determine if the correct revenue amount had been recognised by reference to the contractual terms.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £225k (2016: £235k), determined with reference to a benchmark of Group profit before tax, of which it represents 4.9% (2016: 5%).

Materiality for the parent Company financial statements as a whole was set at £184k (2016: £200k), determined with reference to a benchmark of Company profit before tax, of which it represents 4.7% (2016: 3%).

We reported to the audit committee any corrected or uncorrected identified misstatements exceeding £11,250 (£11,750), in addition to other identified misstatements that warranted reporting on qualitative grounds.

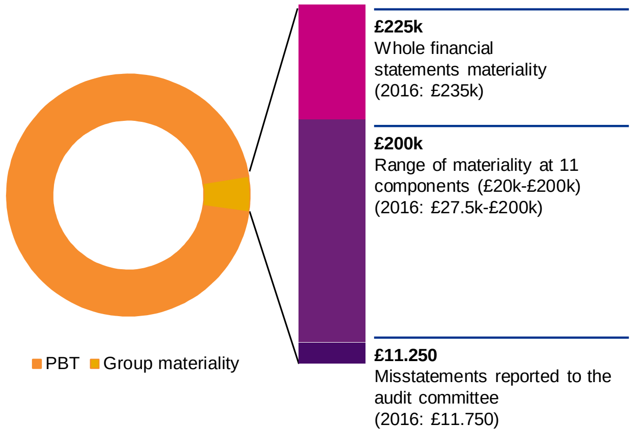
Of the Group's 11 reporting components (2016: 11), we subjected 9 (2016: 9) to full scope audits for Group purposes. For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The work on all 11 (2016: 11) components was performed by the Group team.

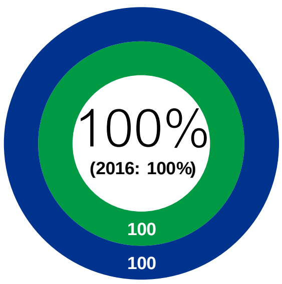
The Group audit team approved the component materialities ranging from £20k - £200k (2016: £27.5k-£200k) having regard to the mix of size and risk profile of the Group across the components.

PBT
£4,616k (2016: £3,955k)

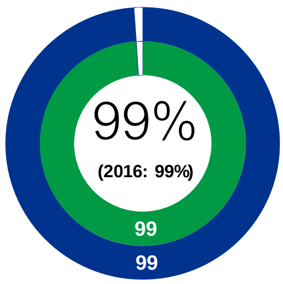
Group Materiality
£225k (2016: £235k)



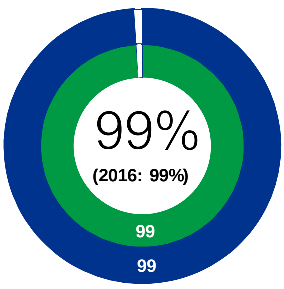
Group revenue



Group profit before tax



Group total assets



Full scope for group audit purposes 2017
Full scope for group audit purposes 2016
Residual components

4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page [A], the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and, parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

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.

David Morritt (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
8 November 2017

KPMG

Financial Statements

Consolidated Statement of Comprehensive Income

for the year ended 31 July 2017

	Notes	**2017**	2016		
		Continuing operations	Continuing operations	Discontinued operations	Total
		£000	£000	£000	£000
Revenue	6	**34,486**	31,403	1,238	32,641
Cost of sales		**(15,279)**	(12,559)	(715)	(13,274)
Gross profit		**19,207**	18,844	523	19,367
Administrative costs		**(14,491)**	(14,745)	(662)	(15,407)
Adjusted EBITDA*	6	**8,494**	7,444	201	7,645
Depreciation	14	**(799)**	(744)	(29)	(773)
Adjusted profit **		**7,695**	6,700	172	6,872
Amortisation of intangible assets	15	**(1,674)**	(1,378)	-	(1,378)
Exceptional items	9.3	**(139)**	(136)	(311)	(447)
Other operating income	9.4	**134**	-	-	-
Share-based payment charges	8	**(1,300)**	(1,087)	-	(1,087)
Operating profit / (loss)	9	**4,716**	4,099	(139)	3,960
Finance income	10	**15**	36	-	36
Finance expense	11	**(38)**	(37)	(4)	(41)
Share of result of equity accounted investees	16	**(77)**	-	-	-
Profit / (loss) before tax		**4,616**	4,098	(143)	3,955
Taxation	12	**(901)**	(372)	(50)	(422)
Profit / (loss) after tax		**3,715**	3,726	(193)	3,533
Other comprehensive income: Items that are or may be reclassified subsequently to profit or loss Foreign currency translation differences – foreign operations		**-**	-	189	189
Total recognised income for the year		**3,715**	3,726	(4)	3,722
Earnings per ordinary share					
Basic	13	**13.36p**	13.40p	(0.69p)	12.71p
Diluted	13	**12.93p**	12.93p	(0.67p)	12.26p

* Earnings before finance income, tax, depreciation, amortisation, exceptional items, other operating income, and share-based payment charges and share of result of equity accounted investees – see note 31.
** Earnings before finance income, tax, amortisation, exceptional items, other operating income, share-based payment charges, and share of result of equity accounted investees – see note 31.

The accompanying notes form an integral part of these financial statements

Financial Statements

Consolidated Balance Sheet as at 31 July 2017 Company number: 05019106

	Note	2017 £000	2016 £000
Non-current assets			
Property, plant and equipment	14	**2,461**	2,608
Intangible assets	15	**24,458**	26,132
Investments – loan notes receivable	16	**-**	125
Investments – equity	16	**675**	375
Loans due from associated undertakings	16	**187**	125
Investments in equity accounted investees	16	**111**	125
Deferred consideration receivable	5	**-**	167
Deferred tax assets	22	**457**	573
		28,349	30,230
Current assets			
Inventories	17	**239**	271
Trade and other receivables	19	**8,480**	6,166
Deferred consideration receivable	5	**-**	133
Cash and cash equivalents		**15,350**	11,385
		24,069	17,955
Total assets		**52,418**	48,185
Non-current liabilities			
Hire-purchase contracts	18	**230**	296
Contingent & Deferred consideration payable	21	**-**	4,485
Deferred tax liabilities	22	**3,718**	4,284
		3,948	9,065
Current liabilities			
Hire-purchase contracts	18	**320**	368
Trade and other payables	20	**8,842**	8,354
Contingent & Deferred consideration payable	21	**5,041**	1,665
Current tax liabilities		**620**	67
		14,823	10,454
Total liabilities		**18,771**	19,519
Net assets		**33,647**	28,666
Equity attributable to equity holders of the company			
Called up share capital	23	**112**	110
Share premium reserve	24	**5,948**	5,622
Merger reserve	24	**3,010**	3,010
Retained earnings	24	**24,577**	19,924
Total equity		**33,647**	28,666

The financial statements on pages 29 to 70 were approved and authorised for issue by the Board of Directors on 8 November 2017 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 £'000	Merger reserve £'000	Retained Earnings £'000	Translation reserve £'000	Total £'000
At 1 August 2015	106	4,776	1,846	15,838	(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	19,924	-	28,666

At 1 August 2016	110	5,622	3,010	19,924	-	28,666
Profit for the year	-	-	-	3,715	-	3,715
Total comprehensive income	-	-	-	3,715	-	3,715
Transactions with owners:						
Dividends	-	-	-	(362)	-	(362)
Share based payment charges	-	-	-	1,300	-	1,300
Exercise of share options	2	326	-	-	-	328
At 31 July 2017	**112**	**5,948**	**3,010**	**24,577**	**-**	**33,647**

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

Financial Statements

Consolidated Cash Flow Statement for the year ended 31 July 2017

	Notes	2017 £000	2016 £000
Operating activities			
Profit for the year		**3,715**	3,533
Finance income	10	**(15)**	(36)
Finance expense	11	**38**	41
Depreciation	14	**799**	773
Loss on disposal of plant and equipment		**12**	2
Loss on disposal of business	5	**-**	272
Exceptional items	9.3	**139**	-
Other operating income	9.4	**(134)**	-
Amortisation of intangible assets	15	**1,674**	1,378
Share of result of equity accounted investees	16	**77**	-
Income tax charge	12	**901**	422
Share based payment charges	8	**1,300**	1,087
Operating cash inflow before changes in working capital		**8,506**	7,472
Movement in inventories		**32**	3
Movement in trade and other receivables		**(2,314)**	(506)
Movement in trade and other payables		**488**	(17)
Cash generated from operations		**6,712**	6,952
Finance income	10	**15**	36
Finance expense	11	**(38)**	(41)
Income tax paid		**(664)**	(1,081)
Net cash flow from operating activities		**6,025**	5,866
Investing activities			
Purchase of plant and equipment	14	**(558)**	(795)
Proceeds from disposal of plant and equipment		**56**	83
Acquisition of subsidiaries	5	**-**	(6,761)
Proceeds from disposal of subsidiaries	5	**-**	166
Equity investments and loans to investments	5	**(550)**	(750)
Repayment of loans from investments	16	**111**	-
Receipt of deferred consideration	5	**300**	74
Payment of contingent & deferred consideration	5/21	**(1,109)**	(30)
Net cash flow used in investing activities		**(1,750)**	(8,013)
Financing activities			
Dividends paid	30	**(362)**	(301)
Proceeds from exercise of share options		**328**	849
Hire purchase repayments	18	**(276)**	(369)
Net cash flow (used in) / from financing activities		**(310)**	179
Net increase / (decrease) in cash and cash equivalents		**3,965**	(1,968)
Effect of exchange fluctuations		**-**	12
Cash and cash equivalents at the beginning of the year		**11,385**	13,341
Cash and cash equivalents at the end of the year		**15,350**	11,385

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 2017 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 2016. 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 2016:

- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
- 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)
- Disclosure Initiative (Amendments to IAS 1)
- Annual Improvements to IFRSs 2012–2014 Cycle – various standards

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)

The following new or revised standards and interpretations issued by the International Accounting Standards Board (IASB) have not been applied in preparing these accounts as their effective dates fall in periods beginning on or after 1 August 2017.

Effective for the year ending 31 July 2018

- IAS 7 'Statement of cash flows' – amendments relating to the IASB's disclosure initiative intended to provide information to help investors better understand changes in a company's debt
- IAS 12 'Income taxes' – amendments relating to the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

Effective for the year ending 31 July 2019

- IFRS 2 'Share-based payment' – amendments clarifying how to account for certain types of share-based payment transactions
- IFRS 9 'Financial instruments' – introduces new requirements for classification and measurement of financial assets and financial liabilities, impairment methodology and hedge accounting.
- IFRS 15 'Revenue from contracts with customers' – provides a single model for measuring and recognising revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17. It supersedes all existing revenue requirements in IFRS.

Effective for the year ending 31 July 2020

- IFRS 16 'Leases' – provides a single lessee accounting model, specifying how leases are recognised, measured, presented and disclosed

(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 previous 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 previous period. Traffic & Data Services includes SEP which was acquired in the previous 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 previous 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:

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.

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.

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 £5.0m in respect of both acquisitions, which are management's best estimates of the fair value of the amounts payable. Ontrac remain in advanced negotiations regarding a major sales opportunity with the Group's key client and a decision was still awaited at the date of signing the annual report.

Notes to the Consolidated Financial Statements continued

5.1 Acquisitions, disposals and investments in the current year

a) Investment: Vivacity Labs Limited

On 3 April 2017, the Group entered into an agreement to acquire up to 28.1% of Vivacity Labs Limited for total consideration of £1.3m, split between equity investments to be made in three tranches of £1.0m, plus a warrant for a further £0.3m. The first tranche of the investment took place during the year and comprised an investment of £0.425m in return for 11.41%. Tranches two and three are expected to be made during the year ending 31 July 2018, subject to the business achieving certain technical delivery milestones.

Vivacity has developed novel machine learning software and sensor technology which is applied to solve a wide range of traffic and transport issues, most specifically for the automatic counting and classification of pedestrian and vehicle flows in a variety of environments.

The investment is carried at cost.

b) Nutshell Tranche 2

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, and the second one was made in March 2017 and comprised a total of £0.125m which was split as £0.0625m equity and £0.0625m of debt in return for a further 8.0% of the shares in the company to take the total holding to 31.3%.

The investment is accounted for as an Associated undertaking, and further details are provided in note 16.

5.2 Acquisitions, disposals and investments in the previous 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.

Notes to the Consolidated Financial Statements continued

5.2 Acquisitions, disposals and investments in the previous year (continued)

a) Acquisition: SEP Limited and SEP Events 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: 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

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 were 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.

Notes to the Consolidated Financial Statements continued

5.2 Acquisitions, disposals and investments in the previous year (continued)

b) Acquisition: Ontrac Limited and Ontrac Technology Limited

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.

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.

Notes to the Consolidated Financial Statements continued

5.2 Acquisitions, disposals and investments in the previous year (continued)

b) Acquisition: Ontrac Limited and Ontrac Technology Limited

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.

In the Group's interim results to 31 January 2016, 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 Group incurred acquisition related costs of £15k which are included within administrative expenses.

Notes to the Consolidated Financial Statements continued

5.2 Acquisitions, disposals and investments in the previous year (continued)

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.

The deferred consideration was settled during the year ended 31 July 2017, which was ahead of the contractual payment dates.

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

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 previous period. Traffic & Data Services includes SEP which was acquired in the previous 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 a single operating segment, 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.

Sales revenue is summarised below

	2017	2016
	£000	£000
Rail Technology & Services	**15,964**	14,066
Traffic & Data Services – continuing	**18,522**	17,337
Total revenue from continuing operations	**34,486**	31,403
Discontinued operations	**-**	1,238
Total revenue	**34,486**	32,641

Revenue can also be analysed as follows:

	2017	2016
	£000	£000
Software and related services	**11,711**	9,817
Other	**22,775**	22,824
Total	**34,486**	32,641

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)

	2017			
	Rail Technology & Services £000	**Traffic & Data Services £000**	**Unallocated £000**	**Total £000**
Revenues				
Total revenue for reportable segments	**15,964**	**18,522**	**-**	**34,486**
Consolidated revenue	**15,964**	**18,522**	**-**	**34,486**
Profit or loss				
EBITDA for reportable segments	**6,451**	**2,043**	**-**	**8,494**
Amortisation of intangible assets	**-**	**-**	**(1,674)**	**(1,674)**
Depreciation	**(124)**	**(675)**	**-**	**(799)**
Exceptional items	**-**	**-**	**(139)**	**(139)**
Other operating income			**134**	**134**
Share-based payment charges	**-**	**-**	**(1,300)**	**(1,300)**
Interest receivable/payable(net)	**-**	**-**	**(23)**	**(23)**
Share of result of equity accounted investees	**-**	**-**	**(77)**	**(77)**
Consolidated profit before tax	**6,327**	**1,368**	**(3,079)**	**4,616**

	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 items	(79)	(368)	-	(447)
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

Notes to the Consolidated Financial Statements continued

6 Segmental analysis (continued)

2017	Rail Technology & Services £'000	Traffic & Data Services £000	Unallocated £000	Total £000
Assets				
Total assets for reportable segments (exc. cash)	**3,581**	**7,599**	**-**	**11,180**
Intangible assets and investments	**-**	**-**	**25,431**	**25,431**
Deferred tax assets	**-**	**-**	**457**	**457**
Cash and cash equivalents	**3,784**	**1,844**	**9,722**	**15,350**
Consolidated total assets	**7,365**	**9,443**	**35,610**	**52,418**
Liabilities				
Total liabilities for reportable segments	**(6,142)**	**(3,870)**	**-**	**(10,012)**
Deferred tax	**-**	**-**	**(3,718)**	**(3,718)**
Contingent & deferred consideration	**-**	**-**	**(5,041)**	**(5,041)**
Consolidated total liabilities	**(6,142)**	**(3,870)**	**(8,759)**	**(18,771)**

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)
Contingent & deferred consideration	-	-	(6,150)	(6,150)
Consolidated total liabilities	(5,004)	(4,081)	(10,434)	(19,519)

Major customers

Transactions with the Group's largest customer represent 16% of the Group's total revenues (2016: 14%).

Geographic split of revenue

A geographical analysis of revenue is provided below:

	2017 **£000**	2016 £000
United Kingdom	**33,224**	30,798
North America	**437**	32
Australia	**-**	1,238
Rest of the World	**825**	573
Total	**34,486**	32,641

Notes to the Consolidated Financial Statements continued

7 Employees and personnel costs

	2017	2016
	£000	£000
Staff costs:		
Wages and salaries	**15,273**	15,033
Social security contributions	**1,200**	1,110
Contributions to defined contribution plans	**303**	271
Equity-settled share based payment transactions	**1,300**	1,087
	18,076	17,501
Average number of employees (including directors) in the year	**683**	644

The staff number calculation above takes account of the Group's permanent members of staff, and also takes account of a large number of casual employees that are used, and includes a 'full time equivalent' number in respect of them.

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 or 2016 staff schemes 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
Staff schemes						
28/01/2009	1	21,000	Time served	52.0	28/07/2009*	28/01/2019
20/05/2010	1	30,000	Time served	51.5	20/01/2011*	20/05/2020
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	8	16,536	Time served	0.40	02/08/2013**	02/08/2022
02/08/2012	4	28,683	Time served	123.0	02/02/2013*	02/08/2022
08/01/2013	2	14,000	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
01/08/2013	6	121,001	Time served	162.5	01/02/2014*	01/08/2023
01/08/2013	12	24,679	Time served	0.40	01/08/2014**	01/08/2023
01/01/2014	2	55,250	Time served	199.5	01/07/2014*	01/01/2024
01/01/2014	1	21,178	Time served	0.40	01/01/2015**	01/01/2024
01/08/2014	57	159,159	Time served	0.40	01/08/2015**	01/08/2024
01/08/2015	97	180,138	Time served	0.40	01/08/2016****	01/08/2025
25/09/2015	22	74,007	Time served	0.40	25/09/2016****	25/09/2025
01/12/2015	6	55,134	Time served	0.40	01/12/2016****	01/12/2025
01/08/2016	100	237,235	Time served	0.40	01/08/2017****	01/08/2026
Directors' schemes						
26/03/2013	1	25,000	Time served	175.0	26/06/2013***	26/03/2023
15/12/2015	2	63,637	EPS and TSR	0.40	15/12/2018	15/12/2025
06/01/2017	2	71,742	EPS and TSR	0.40	07/01/2020	06/01/2027
Outstanding		**1,342,730**				

* 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:

	2017 Number	**2017 Weighted Average Exercise Price**	2016 Number	2016 Weighted Average Exercise Price
Outstanding at 1 August	**1,556,094**	**59.0p**	1,733,207	101.8p
Granted	**324,002**	**0.4p**	554,902	0.4p
Forfeited / lapsed	**(119,841)**	**0.4p**	(2,713)	0.4p
Exercised	**(417,525)**	**78.4p**	(729,302)	116.5p
Outstanding at 31 July	**1,342,730**	**44.0p**	1,556,094	59.0p
Exercisable at 31 July	**736,801**	**80.0**	798,418	98.1p

The share options outstanding at the end of the year have a weighted average remaining contractual life of 7 years (2016: 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 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 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	-	-	-	-	-

Options granted in the current year:

Options granted on	01/08/2016	06/01/2017
Share price at date of grant	438.0p	502.5p
Exercise price	0.4p	0.4p
Vesting period (years)	3.5	3.5
Expected volatility	30%	30%
Option life (years)	10	10
Expected life (years)	10	10
Risk-free rate	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.

Notes to the Consolidated Financial Statements continued

8 Share based payments (continued)

Charge to the income statement

	2017 £000	2016 £000
Share based payment charges	**1,300**	1,087

9 Operating profit

9.1 Operating profit is stated after charging:

	2017 £000	2016 £000
Depreciation of property, plant and equipment - owned	**595**	562
Depreciation of property, plant and equipment - leased	**204**	211
Total depreciation	**799**	773
Loss on disposal of plant and equipment	**12**	2
Operating lease rentals: Land and buildings	**418**	375
Operating lease rentals: Plant & machinery	**29**	45
Total operating lease rentals	**447**	420
Research and development expenditure expensed as incurred	**1,214**	970

9.2 Auditor's remuneration:

	2017 £000	2016 £000
Audit of these financial statements	**18**	16
Amounts receivable by auditors and their associates in respect of:		
- Audit of financial statements of subsidiaries pursuant to legislation	**45**	48
- Other services	**-**	15

9.3 Exceptional items:

The Group incurred a number of exceptional items in 2017 and 2016 which are analysed as follows:

	2017 £000	2016 £000
Provision against investment	**139**	-
Loss on disposal of business	**-**	272
Legal and professional fees in respect of acquisitions	**-**	136
Legal and professional fees in respect of disposals	**-**	39
Total exceptional items	**139**	447

2017
The provision against the investment relates to the Group's interests in Citi Logik Limited. Following a review of the carrying value in the year, the Directors concluded that the value of the investment should be partly provided against and as such, an impairment was recognised for the carrying value.

2016
The loss on disposal of the business relates to the disposal of Tracsis Traffic Data Pty Limited in December 2015, being the Group's non core business in Australia, plus associated costs.

The Group made a number of acquisitions in 2015-16 and incurred some exceptional deal related costs as a result.

Notes to the Consolidated Financial Statements continued

9.4 Other operating income:

The Group no longer qualifies as a SME for R&D purposes and as such is governed by the large company 'above the line' credit in respect of research and development costs for Corporation Tax purposes. This amounted to £134,000 in 2017 (2016: £nil)

10 Finance income

	2017	2016
	£000	£000
Interest received on bank deposits	**15**	36

11 Finance expense

	2017	2016
	£000	£000
Interest on finance lease obligations	**38**	41

12 Taxation

12.1 Recognised in the income statement

	2017	2016
	£000	£000
Current tax expense		
Current year	**1,351**	756
Adjustment in respect of prior periods	**-**	(14)
Total current year	**1,351**	742
Deferred tax		
Current year	**(450)**	(320)
Total deferred tax	**(450)**	(320)
Total tax in income statement	**901**	422

Reconciliation of the effective tax rate

	2017	**2017**	2016	2016
	£000	**%**	£000	%
Profit before tax for the period	**4,616**	**100.0**	3,955	100.0
Expected tax charge based on the standard rate of corporation tax in the UK of 19.67% (2016: 20.00%)	**908**	**19.7**	791	20.0
Expenses not deductible for tax purposes	**127**	**2.7**	4	0.1
Research and development enhancement	**-**	**-**	(252)	(6.4)
Adjustment in respect of prior periods	**-**	**-**	(14)	(0.3)
Effect of rate changes	**(189)**	**(4.1)**	(158)	(4.0)
Losses brought forward	**-**	**-**	(26)	(0.6)
Other movements	**55**	**1.2**	77	1.9
Total tax expense	**901**	**19.5**	422	10.7

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, and an additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. The deferred tax asset and liability at 31 July 2017 has been calculated based on these rates. This will reduce the company's future current tax charge accordingly and reduce the deferred tax asset and liability further.

Notes to the Consolidated Financial Statements continued

12 Taxation (continued)

12.2 Recognised in reserves – direct to equity

	2017 £000	2016 £000
Deferred Tax		
Deferred tax charge relating to share based payments	-	(233)

13 Earnings per share

Basic earnings per share
The calculation of basic earnings per share at 31 July 2017 was based on the profit attributable to ordinary shareholders of £3,715,000 (2016: £3,533,000) and a weighted average number of ordinary shares in issue of 27,804,000 (2016: 27,807,000), calculated as follows:

Weighted average number of ordinary shares
In thousands of shares

	2017	2016
Issued ordinary shares at 1 August	**27,546**	26,564
Effect of shares issued related to business combinations	-	360
Effect of shares issued for cash	**258**	883
Weighted average number of shares at 31 July	**27,804**	27,807

Diluted earnings per share
The calculation of diluted earnings per share at 31 July 2017 was based on profit attributable to ordinary shareholders of £3,715,000 (2016: £3,533,000) and a weighted average number of ordinary shares in issue after adjustment for the effects of all dilutive potential ordinary shares of 28,738,000 (2016: 28,811,000):

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:

	2017 £'000	2016 £'000
Profit attributable to ordinary shareholders	**3,715**	3,533
Amortisation of intangible assets	**1,674**	1,378
Share-based payment charges	**1,300**	1,087
Exceptional items	**139**	447
Other operating income	**(134)**	-
Adjusted profit for EPS purposes	**6,694**	6,445

Weighted average number of ordinary shares
In thousands of shares

	2017	2016
For the purposes of calculating Basic earnings per share	**27,804**	27,807
Adjustment for the effects of all dilutive potential ordinary shares	**28,738**	28,811

	2017	2016
Basic adjusted earnings per share	**24.08p**	23.18p
Diluted adjusted earnings per share	**23.29p**	22.37p

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 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
Additions	-	322	98	300	720
Disposals	-	(252)	(2)	(171)	(425)
At 31 July 2017	400	1,376	1,619	2,199	5,594
Depreciation					
At 1 August 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
Charge for the year	12	255	196	336	799
Disposals	-	(194)	(1)	(162)	(357)
At 31 July 2017	78	484	1,384	1,187	3,133
Net book value					
At 1 August 2015	346	496	354	734	1,930
At 31 July 2016	334	883	334	1,057	2,608
At 31 July 2017	**322**	**892**	**235**	**1,012**	**2,461**

The net book value of assets held under finance lease obligations is £709,000 (2016: £791,000).

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 2015	1,868	7,430	2,574	11,872
Arising on acquisition	1,157	14,943	1,400	17,500
At 31 July 2016 and 31 July 2017	3,025	22,373	3,974	29,372
Amortisation and impairment				
At 1 August 2015	-	1,245	617	1,862
Charge for the year	-	1,027	351	1,378
At 31 July 2016	-	2,272	968	3,240
Charge for the year	-	1,276	398	1,674
At 31 July 2017	-	3,548	1,366	4,914
Carrying amounts				
At 1 August 2015	1,868	6,185	1,957	10,010
At 31 July 2016	3,025	20,101	3,006	26,132
At 31 July 2017	**3,025**	**18,825**	**2,608**	**24,458**

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**	
	2017	2016	**2017**	2016	**2017**	2016
	£000	£000	**£000**	£000	**£000**	£000
Tracsis Rail Consultancy Limited	**671**	671	**425**	460	**-**	-
Tracsis Passenger Counts Limited	**43**	43	**221**	240	**-**	-
Safety Information Systems Limited	**136**	136	**168**	181	**53**	77
MPEC Technology Limited	**269**	269	**883**	947	**262**	330
Tracsis Traffic Data Limited	**390**	390	**973**	1,143	**-**	-
Datasys Integration Limited	**359**	359	**2,601**	2,756	**1,127**	1,293
SEP Limited	**555**	555	**1,184**	1,328	**-**	-
Ontrac Technology Limited	**602**	602	**12,370**	13,046	**1,166**	1,306
	3,025	3,025	**18,825**	20,101	**2,608**	3,006

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

	2017	2016
	£000	£000
Administrative expenses	**1,674**	1,378

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.

	2017	2016
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 current year and previous year, the Group made investments in Vivacity Labs Limited, 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 gross investments made were as follows (a combination of debt and equity)

	% held At 31 July	**2017 £000**	2016 £000
Citi Logik Limited	17.2%	**500**	500
Nutshell Software Limited	31.3%	**375**	250
Vivacity Labs Limited	11.4%	**425**	-
		1,300	750

These are split as follows:

Equity investments:

	2017 £000	2016 £000
Citi Logik Limited	**375**	375
Nutshell Software Limited	**188**	125
Vivacity Labs Limited	**425**	-
	988	500

Notes to the Consolidated Financial Statements continued

16 Investments (continued)

Convertible Loan notes receivable from investments:

	2017	2016
	£000	£000
Citi Logik Limited	125	125
Nutshell Software Limited	187	125
	312	250

During the year, Citi Logik Limited repaid loan notes amounting to £111,000.

A provision of £139,000 was made against the carrying value of the investment in Citi Logik Limited comprising amounts against the equity value of £125,000 and the remaining debt of £14,000, following a conversion of the remaining debt that took place.

Nutshell Software Limited was accounted for as an associated undertaking, with a share of results of £77,000 being recognised based on the Group's holding of 21.3% for a period of time and 31.3% for part of the financial year.

Following this accounting treatment, investment, repayment and provision, the carrying value of the investments as follows:

Investments – loan notes receivable

	2017	2016
	£000	£000
Citi Logik Limited	-	125
	-	125

Investments – equity

	2017	2016
	£000	£000
Citi Logik Limited	250	375
Vivacity Labs Limited	425	-
	675	375

Convertible Loan notes receivable from associated undertakings:

	2017	2016
	£000	£000
Nutshell Software Limited	187	125
	187	125

Investments in equity accounted investees:

	2017	2016
	£000	£000
Nutshell Software Limited	111	125
	111	125

	2017	2016
	£000	£000
At start of the year	125	-
Investment made	63	125
Share of results of equity accounted investee	(77)	-
At end of the year	111	125

Notes to the Consolidated Financial Statements continued

17 Inventories

	2017 £000	2016 £000
Raw materials & work in progress	**159**	121
Finished goods	**80**	150
	239	271

The value of inventories expensed in the period in cost of sales was £600,000 (2016: £470,000). 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

	2017 £000	2016 £000
Due within one year	**320**	368
Due after more than one year:		
Between one and two years	**145**	238
Between two and three years	**85**	58
Between three and four years	**-**	-
Between four and five years	**-**	-
Total due after more than one year	**230**	296
Total hire purchase contract obligation	**550**	664

A reconciliation of the obligation is stated below.

	2017 £000	2016 £000
At start of the year	**664**	400
New hire purchase contracts	**162**	496
Arising on acquisition	**-**	187
On disposal of business	**-**	(50)
Repayments	**(276)**	(369)
At end of the year	**550**	664

	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					
2017	**550**	**620**	**375**	**155**	**90**
2016	664	717	401	253	63

Notes to the Consolidated Financial Statements continued

19 Trade and other receivables

	2017	2016
	£000	£000
Trade receivables	**7,223**	5,041
Other receivables and prepayments	**409**	407
Amounts recoverable on contracts	**848**	718
	8,480	6,166

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 division.

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:

	2017	2016
	£000	£000
Under 30 days overdue	**1,070**	1,536
Between 30 and 60 days overdue	**295**	170
Over 60 days overdue	**172**	29
	1,537	1,735

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

	2017 £000	2016 £000
Trade payables	**1,178**	883
Other tax and social security	**1,761**	1,799
Deferred income	**4,086**	3,435
Accruals and other payables	**1,817**	2,237
	8,842	8,354

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:

	2017 £000	2016 £000
SEP Limited	**680**	680
Ontrac Limited	**8,000**	8,000
	8,680	8,680

During the year, deferred and contingent consideration of £145,000 was paid in respect of the SEP acquisition, and £964,000 was paid in respect of the Ontrac acquisition.

At the balance sheet date, the Directors assessed the fair value of the remaining amounts payable which were deemed to be as follows. Ontrac was in advanced negotiations regarding a major sales opportunity with the Group's key client and a decision was still awaited at the date of signing the annual report.

	2017 £000	2016 £000
SEP Limited	**330**	400
Ontrac Limited	**4,711**	5,750
	5,041	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	Total £000
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
(Credit)/charge to income statement (note 12.1)	(515)	(51)	116	(450)
At 31 July 2017	**3,644**	**74**	**(457)**	**3,261**

The closing deferred tax asset and liability has been calculated at 17% as at 31 July 2017 (2016: 18%).

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

	2017 £000	2016 £000
Deferred tax assets	**(457)**	(573)
Deferred tax liabilities	**3,718**	4,284
Net liability per table above	**3,261**	3,711

23 Share capital

	2017 Number	**2017 £**	2016 Number	2016 £
Allotted, called up and fully paid:				
Ordinary shares of 0.4p each	**27,963,784**	**111,855**	27,546,259	110,185

The following share transactions have taken place during the year ended 31 July 2017:

	2017 Number	2016 Number
At start of the year	**27,546,259**	26,564,328
Issued as consideration for business combinations	**-**	252,629
Exercise of share options (Note 8)	**417,525**	729,302
At end of the year	**27,963,784**	27,546,259

During the year, a number of options were exercised from the schemes with exercise price varying from 0.4p to 199.5p.

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
Retained earnings	Cumulative net profits recognised in the income statement. The share based payment reserve which was previously shown separately has been incorporated into retained earnings.

25 Operating leases

The Group leases several office facilities under operating leases plus various other assets. During the year £447,000 was recognised as an expense in the income statement in respect of operating leases (2016: £420,000).

Leases as lessee

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

Land and buildings

Minimum lease payments are payable as follows:

	2017	2016
	£'000	£'000
Within one year	**410**	266
In the second to fifth years	**659**	563
	1,069	829

Plant and machinery

	2017	2016
	£'000	£'000
Within one year	**20**	11
In the second to fifth years	**37**	80
	57	91

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.

	2017			2016		
Financial assets	**Fixed Rate**	**Floating Rate**	**Total**	Fixed Rate	Floating Rate	Total
	£000	**£000**	**£000**	£000	£000	£000
Cash and short term deposits	**-**	**15,350**	**15,350**	-	11,385	11,385

Notes to the Consolidated Financial Statements continued

26 Financial risk management (continued)

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 2017, 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.

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 makes some overseas sales and some overseas purchases, some of which are invoiced in Sterling and others in the local currency, so there continues to be a small exposure to foreign currency, in particular to the American dollar.

Notes to the Consolidated Financial Statements continued

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	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Leeds Innovation Centre Limited	**79**	74	**8**	7
Ashtead Plant Hire Co Limited	**13**	25	**2**	13
Citi Logik Limited	**126**	-	**-**	-
Nutshell Software Limited	**6**	-	**7**	-
Vivacity Labs Limited	**7**	-	**-**	-

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.

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.

Vivacity Labs Limited and Citi Logik Limited are related parties by virtue of the Group's shareholding in these entities.

	Sale of goods and services		Amounts owed by related parties	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
WSP UK Limited	**2,489**	2,136	**708**	679

WSP UK Limited (WSP) is a company which is connected to Chris Cole who serves as non-executive Chairman of Tracsis plc and also of WSP Global Inc, WSP's parent company. Sales to WSP took place at arm's length commercial rates and were not connected to Mr Cole's position at WSP.

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 £303,000 (2016: £271,000). There were outstanding contributions at 31 July 2017 of £36,000 (2016: £35,000).

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 (1)	Rail industry consultancy	England and Wales	100%
Tracsis Passenger Counts Limited (1)	Rail industry consultancy	England and Wales	100%
Safety Information Systems Limited (1)	Software and consultancy	England and Wales	100%
MPEC Technology Limited (1)	Rail industry hardware & Datalogging	England and Wales	100%
Tracsis Traffic Data Limited (2)	Transportation data collection	England and Wales	100%
Datasys Integration Limited (1)	Holding Company	England and Wales	100%
Tracsis Retail & Operations Limited (1)	Rail industry software	England and Wales	100%
SEP Limited (1)	Event planning & traffic management	England and Wales	100%
SEP Events Limited (1)	Dormant	England and Wales	100%
Ontrac Technology Limited (1)	Holding company	England and Wales	100%
Ontrac Limited (1)	Rail industry software	England and Wales	100%
S-H TrafficData Solutions Private Limited (6)	Data processing	India	100%
Sky High Data Capture Limited (2)	Dormant	England and Wales	100%
Sky High Traffic Data Limited (2)	Dormant	England and Wales	100%
The Web Factory Birmingham Limited (2)	Dormant	England and Wales	100%
Forsyth Whitehead & Associates Limited (2)	Dormant	England and Wales	100%
Sky High Technology (Scotland) Limited (2)	Dormant	England and Wales	100%
Count on Us Traffic Limited (2)	Dormant	England and Wales	100%
Burra Burra Distribution Limited (2)	Dormant	England and Wales	100%
Sky High NCS Limited (2)	Dormant	England and Wales	100%
Halifax Computer Services Limited (2)	Dormant	England and Wales	100%
Skyhightraffic Limited (2)	Dormant	England and Wales	100%
The Traffic Survey Company Limited (2)	Dormant	England and Wales	100%
The People Counting Company Limited (2)	Dormant	England and Wales	100%
Myratech.net Limited (2)	Dormant	England and Wales	100%
Footfall Verification Limited (2)	Dormant	England and Wales	100%
<u>Minority investments:</u>			
Citi Logik Limited (3)	Mobile Network Data Analysis	England and Wales	17.2%
Nutshell Software Limited (4)	Mobile application development	England and Wales	31.3%
Vivacity Labs Limited (5)	Machine Learning technology	England and Wales	11.4%

Notes to the Consolidated Financial Statements continued

29 Group entities (continued)

The registered offices of the subsidiaries are as follows:

(1) Leeds Innovation Centre, 103 Clarendon Road, Leeds, England, LS2 9DF
(2) Templar House, 1 Sandbeck Court, Sandbeck Way, Wetherby, England LS22 7BA
(3) Albury Mill Mill Lane, Chilworth, Guildford, England, GU4 8RU
(4) Floor 1, Baltimore House, Baltic Business Quarter, Gateshead, Tyne And Wear, England, NE8 3DF
(5) International House 24 Holborn Viaduct, City Of London, London, England, EC1A 2BN
(6) No.61, 2nd Main, 1st Block, Koramangala, Bangalore – 560034, India

30 Dividends

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

	2017	2016
	£000	£000
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 paid	**195**	-
Interim dividend for 2016/17 of 0.60p per share paid	**167**	-
Total dividends paid	**362**	301

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

	2017	2016	2015	2014	2013	2012
	£'000	£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 paid	**-**	195	-	-	-	-
Interim dividend for 2016/17 of 0.60p per share paid	**167**	-	-	-	-	-
Final dividend for 2016/17 of 0.80p per share proposed	**222**	-	-	-	-	-

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

	2017	2016	2015	2014	2013	2012
Total dividends paid per share	**1.4p**	1.2p	1.0p	0.8p	0.7p	0.55p

The dividend will be payable on 16 February 2018 to shareholders on the Register at 2 February 2018.

Notes to the Consolidated Financial Statements continued

31 Reconciliation of adjusted profit metrics

In addition to the statutory profit measures of Operating profit and profit before tax, the Group quotes Adjusted EBITDA and Adjusted profit.

Adjusted EBITDA is defined as Earnings before finance income, tax, depreciation, amortisation, exceptional items, other operating income, and share-based payment charges and share of result of equity accounted investees.

Adjusted EBITDA can be reconciled to statutory profit before tax as set out below:

	2017	2016
	£000	£000
Profit before tax	**4,616**	3,955
Finance income / expense – net	**23**	5
Share-based payment charges	**1,300**	1,087
Exceptional items	**139**	447
Other operating income	**(134)**	-
Amortisation of intangible assets	**1,674**	1,378
Depreciation	**799**	773
Share of result of equity accounted investees	**77**	-
Adjusted EBITDA	**8,494**	7,645

Adjusted profit is defined as Earnings before finance income, tax, amortisation, exceptional items, other operating income, share-based payment charges, and share of result of equity accounted investees.

Adjusted profit can be reconciled to statutory profit before tax as set out below:

	2017	2016
	£000	£000
Profit before tax	**4,616**	3,955
Finance income / expense – net	**23**	5
Share-based payment charges	**1,300**	1,087
Exceptional items	**139**	447
Other operating income	**(134)**	-
Amortisation of intangible assets	**1,674**	1,378
Share of result of equity accounted investees	**77**	-
Adjusted profit	**7,695**	6,872

Adjusted EBITDA reconciles to adjusted profit as set out below:

	2017	2016
	£000	£000
Adjusted EBITDA	**8,494**	7,645
Depreciation	**(799)**	(773)
Adjusted profit	**7,695**	6,872

32 Contingent liabilities

After making payments in the current and previous year the maximum remaining amounts payable under the share purchase agreements in respect of the Ontrac and SEP acquisitions is £7.5m. Management have assessed the likely amounts payable as £5.0m 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 2017

Company number: 05019106

	Note	2017 £000	2016 £000
Non-current assets			
Property, plant and equipment	34	**328**	339
Investments	35	**34,867**	34,567
Deferred tax assets	39	**369**	634
		35,564	35,540
Current assets			
Cash and cash equivalents		**7,648**	5,750
Trade and other receivables	36	**2,866**	1,561
		10,514	7,311
Total assets		**46,078**	42,851
Non-current liabilities			
Deferred tax liabilities	39	**-**	198
Contingent & deferred consideration	38	**-**	4,485
		-	4,683
Current liabilities			
Trade and other payables	37	**9,830**	10,417
Contingent & deferred consideration	38	**5,041**	1,665
		14,871	12,082
Total liabilities		**14,871**	16,765
Net assets		**31,207**	26,086
Capital and reserves			
Called up share capital	40	**112**	110
Share premium reserve		**5,948**	5,622
Merger reserve		**3,010**	3,010
Retained earnings		**22,137**	17,344
Total equity		**31,207**	26,086

The Company's profit for the year, after dividends received was £3,855,000 (2016: £6,592,000)

The financial statements were approved and authorised for issue by the Board of Directors on 8 November 2017 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	Retained earnings £000	Total equity £000
At 1 August 2016	110	5,622	3,010	17,344	26,086
Profit and total comprehensive income	-	-	-	3,855	3,855
Dividends	-	-	-	(362)	(362)
Share based payment charges	-	-	-	1,300	1,300
Exercise of share options	2	326	-	-	328
At 31 July 2017	**112**	**5,948**	**3,010**	**22,137**	**31,207**

	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Total equity £000
At 1 August 2015	106	4,776	1,846	10,199	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**	**17,344**	**26,086**

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
Retained earnings	Cumulative net profits recognised in the income statement. The share based payment reserve which was previously shown separately has been incorporated into retained earnings.

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.

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.

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 39. 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 £3,855,000 after receiving dividends from subsidiary undertakings of £3,550,000 (2016: profit of £6,592,000 after receiving dividends of £6,250,000).

34 Property, plant and equipment

	Freehold Land & Buildings £000	Computer equipment £000	**Total £000**
Cost			
At 1 August 2016	400	30	430
Additions	-	4	4
At 31 July 2017	400	34	434
Depreciation			
At 1 August 2016	66	25	91
Charge for the year	12	3	15
At 31 July 2017	78	28	106
Net book value			
At 31 July 2016	334	5	339
At 31 July 2017	**322**	**6**	**328**

35 Investments

	Shares in, and loans to subsidiary undertakings £000
At 1 August 2016	34,567
Additions	550
Loans repaid	(111)
Provision against investments	(139)
At 31 July 2017	**34,867**

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
Tracsis Retail & Operations 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 31.3%	Direct
Vivacity Labs Limited	England and Wales	Machine learning technology	Ordinary 11.4%	Direct

Notes to the Company Balance Sheet continued

36 Trade and other receivables

	2017 £000	2016 £000
Trade receivables	**356**	197
Amounts owed by group undertakings	**1,573**	538
Other debtors	**348**	175
Corporation Tax	**577**	630
Prepayments	**12**	21
	2,866	1,561

The carrying value of trade receivables approximates to the fair value. Amounts owed by group undertakings are interest free and repayable on demand.

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

	2017 £000	2016 £000
Trade payables	**27**	11
Other tax and social security	**45**	45
Amounts owed to subsidiary undertakings	**9,229**	9,778
Accruals and deferred income	**529**	583
	9,830	10,417

The carrying value of trade receivables approximates to the fair value. Amounts owed to group undertakings are interest free and repayable on demand.

38 Contingent and Deferred consideration

During the previous 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:

	2017 £000	2016 £000
SEP Limited	**680**	680
Ontrac Limited	**8,000**	8,000
	8,680	8,680

During the year, deferred consideration of £145,000 was paid in respect of the SEP acquisition, and £964,000 in respect of the Ontrac acquisition.

At the balance sheet date, the Directors assessed the fair value of the remaining amounts payable which were deemed to be as follows. Ontrac was in advanced negotiations regarding a major sales opportunity with the Group's key client and a decision was still awaited at the date of signing the annual report.

	2017 £000	2016 £000
SEP Limited	**330**	400
Ontrac Limited	**4,711**	5,750
	5,041	6,150

Notes to the Company Balance Sheet continued

39 Deferred tax (asset) / liability

	2017 £000	2016 £000
At start of the year	**(436)**	(882)
Charge to income statement during the year	**67**	213
Charge to equity during the year	**-**	233
At end of the year	**(369)**	(436)

The deferred tax asset can be split as follows:

	2017 £000	2016 £000
Accelerated Capital Allowances	**(3)**	(1)
Share options	**(366)**	(435)
At end of the year	**(369)**	(436)

40 Share capital

	2017 Number	2017 £	2016 Number	2016 £
Allotted, called up and fully paid:				
Ordinary shares of 0.4p each	**27,963,784**	**111,855**	27,546,259	110,185

The following share transactions have taken place during the year ended 31 July 2017:

	2017 Number	2016 Number
At start of the year	**27,546,259**	26,564,328
Issued as consideration for business combinations	**-**	252,629
Exercise of share options	**417,525**	729,302
At end of the year	**27,963,784**	27,546,259

41 Operating leases

Operating lease commitments

Minimum lease payments are payable as follows:

Land and buildings:	2017 £'000	2016 £'000
Within one year	**61**	10
Between one and two years	**25**	-

Notes to the Company Balance Sheet continued

42 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	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Leeds Innovation Centre Limited	**79**	74	**8**	7

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.

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

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