Tracsis plc

# Annual Report & Accounts 2019

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Strategic Report

# Our Business at a Glance

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

In the subsequent years Tracsis has grown rapidly, diversified into related transport technologies, and successfully executed a strategy that has seen it make a total of thirteen acquisitions and three investments. Today, the Group specialises in the provision of software and a wide range of services for the rail, traffic data and wider transport industries.

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, a wide range of government agencies & local authorities, a variety of large engineering and infrastructure companies, plus event organisers.

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

- **Rail Technology & Services**
    - Software: Industry strength optimisation, rail management, planning, timetabling safety & risk management software and delay-repay 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;
    - Systems development and data analytics that combine geographical information systems (GIS), location technologies, data analytics and field computing from transportation, asset management, planning, and environmental customers

Tracsis has multiple offices in the UK and Ireland which service our growing client base.

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

**Financial highlights**
for the year ended 31 July 2019:

- Revenues increased 24% to £49.2m (2018: £39.8m)
- Adjusted EBITDA* increased 12% to £10.5m (2018: £9.4m)
- Statutory Profit before Tax after exceptional items of £6.6m (2018: £8.3m)
- Cash balances of £24.1m (2018: £22.3m)
- Full year dividend increased 13% to 1.8p per share (2018: 1.6p)

*Reconciliation provided in note 31.

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 Group 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 2018/9: |
|---|---|---|
| 1 | **Organic**<br>further sales from existing products to UK | • Five-year Framework Agreement secured with a major Train Owning Group for our TRACS Enterprise product - Tracsis' largest software contract to date<br>• Strong trading at our Infrastructure businesses – Remote Condition Monitoring and Ontrac<br>• Tracsis Travel Compensation Services secured new multi-year software deals with UK rail clients<br>• High levels of software renewals and recurring revenue<br>• Total organic revenue growth of 9% |
| 2 | **Overseas Markets**<br>continue to show promise and remain relatively untapped | • Compass Informatics Limited acquisition marks the first overseas acquisition made by Tracsis and increases Irish presence<br>• Sale in Australia secured for the Group’s Remote Condition Monitoring technology, and further sales targeted in North America<br>• Existing overseas sales in Ireland, Sweden and New Zealand all continued |
| 3 | **Acquisitions** | • Completion of three acquisitions in the year: Compass Informatics Limited, Cash & Traffic Management Limited and Bellvedi Limited, with a total revenue contribution of £5.9m<br>• Additional investments made into Vivacity Labs Limited and Citi Logik Limited in the year<br>• Further potential targets evaluated during the year |

Strategic Report

# Chairman & Chief Executive Officer's Report

**A welcome from Chris Cole, Non-Executive Chairman**

This was another good year for Tracsis. The completion of three further acquisitions combined with good levels of organic growth, and increased levels of profitability has culminated in our 2019 results being in line with market expectations. The second half of the year was particularly strong for the Group, reflecting seasonality in the business, strong underlying trading and the timing of acquisitions made all of which is very pleasing.

This year was also important in that we achieved a successful transition of CEO from John McArthur to Chris Barnes which was very smooth and is now complete, and is testament to the efforts of all involved. John continues to work for the Group in an advisory role focused solely on acquisitions. Following his appointment, Chris Barnes, together with the senior management team, has generated a strategic plan for the business to ensure that Tracsis maximises its future organic and acquisitive growth opportunities.

**Introduction**

The year ended 31 July 2019 was another year of growth, with Group revenues of £49.2m, an overall increase of 24%, and Group adjusted EBITDA of £10.5m an overall increase of 12%. This was achieved through a mix of good levels of organic revenue growth, and also a good contribution from three acquisitions completed during the year. The full benefit of the new acquisitions made will be realised in the next financial year. The Group's financial position at year end remained strong, with cash balances in excess of £24m and no debt, even after investing over £9m on acquisitions, investments, and paying £2.1m of contingent consideration.

**Business Overview**

Tracsis specialises in providing a wide range of products and services to clients within the transport and traffic sector. The Group's market offering can be broadly categorised into two distinct offerings:

1. **Rail Technology & Services:**

    - **Operational Software**: A suite of software products covering timetabling, resource and rolling stock planning and optimisation, real time performance and control, service recovery, retail services, delay attribution and delay repay;
    - **Infrastructure Software**: A range of software products that are used to collect, manage, visualise and analyse rail asset information. They deliver improvements in safety, productivity and communication by automating heavily regulated business processes and reducing risk;
    - **Remote Condition Monitoring**: Rail approved data loggers and sensors to monitor asset performance and predict failure modes (level crossings, interlockings, switch machines, bus-bars etc.) supported by our own data acquisition software platform; and
    - **Consultancy**: Rail operations consultancy expertise and training covering operational planning and modelling, franchise and concession support, data capture and evaluation and innovative bespoke software tool development.

2. **Traffic & Data Services**:

    - **Traffic Surveys**: Traditional and advanced transport data collection for all travel modes using ANPR, video and mobile network data, manual survey methods, big data sources and increasingly AI technology;
    - **Transport Insights**: Provision of innovative and effective transport related advice, saving time and cost and generating increased efficiencies through the provision of sustainable transport solutions supported by data hosting and visualisation tools;
    - **Passenger Analytics**: Software-delivered passenger research and statistical analysis for transport operators using our skilled market research staff and digital data collection tools (activities include passenger counting, ticket audits, mystery shopping and market research);
    - **Location Analytics**: Software, mobile app and analytical platform development combining Geographic Information Systems (GIS), location technologies, data analytics and field computing across different industrial sectors (rail, automotive, bus, utilities, environmental etc.); and
    - **Event Transport Management**: covering planning, control, consultancy, signage, CSAS/PATO and car parking. Technologies like Tracsis Live Traffic (TLT) are also offered to improve traffic monitoring and traffic flow in and out of major event venues.

# Chairman & Chief Executive Officer's Report continued

**Financial Summary**

Group revenues of £49.2m (2018: £39.8m) represent a 24% increase on the previous year which came via a combination of organic growth of 9% (£3.5m) and by acquisition of 15% (£5.9m), which is a good mix of revenue growth. The adjustment in respect of IFRS 15 had an impact of around £0.4m to revenues, and this was the first time that this new standard has been adopted.

Adjusted EBITDA* of £10.5m was an increase of 12% on the previous year (2018: £9.4m), with Adjusted Profit** of £9.7m being 12% higher than the previous year (2018: £8.7m). Statutory Profit before Tax was £6.6m (2018: £8.3m), although the previous year included an exceptional £2.65m credit relating to contingent consideration in respect of the Ontrac acquisition which arose due to specific target milestones not being met. All of the Group's key financial metrics show good growth on the previous year and reflect a good mix of organic and acquired performance. A net exceptional item of £0.1m was recognised this year in respect of the TCS acquisition made in the previous year, following a detailed review of the contingent consideration, and the carrying value of the goodwill recognised previously in respect of this acquisition.

At 31 July 2019, the Group's cash balances increased to £24.1m (2018: £22.3m), and cash generation continues to be strong. Overall cash balances increased by £1.8m in the financial year, even after paying £9.6m in respect of the three companies that were acquired during the year (£6.8m outflow net of cash acquired), investing £0.4m, and paying contingent consideration of £2.1m in respect of the Ontrac acquisition. After taking account of these investments, the Group therefore generated £11.1m of cash, which again demonstrates strong conversion of profits to cash. The Group continues to be debt free.

* 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**

Rail Technology & Services

Summary segment results:

| | | |
|---|---|---|
| Revenue | £21.9m | (2018: £19.0m) |
| EBITDA * | £6.9m | (2018: £6.8m) |
| Profit before Tax | £6.7m | (2018: £6.6m) |

*Software*

Sales of Operational Software and Infrastructure software, excluding acquisitions, increased by 9% to £14.8m (2018: £14.1m) which represents good growth. This takes account of the various revenue streams from our TRACS, Ontrac, COMPASS, Retail & Operations, and Delay-Repay product suites. All software products continue to benefit from high renewal rates from existing clients.

In January 2019, we were pleased to announce a significant five-year Framework Agreement with a major Train Owning Group (which operates several Train Operating Company (TOC) franchises) for our TRACS Enterprise product, which will increase operational resilience and performance, with the roll out well underway. In the fullness of time, this should lead to further revenue and EBITDA growth for the Group, assuming roll out across the client owning Group's other TOCs continues as planned. As part of this offering, Tracsis also offers business change support and have launched an Alliancing model which aims to deliver a ground breaking performance uplift to the industry.

We were also pleased to secure a significant order for data hosting services and licences with another major rail client. The order was primarily a renewal and extension of existing arrangements over a two year period, with a value in excess of £2m. The Ontrac business was also supported by winning a number of bespoke development projects, plus continued growth of its core RailHub suite of desktop and mobile applications with multiple new subscriptions across the rail infrastructure sector of the industry. Ontrac was also involved in supporting the development and implementation of exciting new platforms with its key client, as well as developing 'virtual reality on demand' which enables users to virtually manage and optimise their rail infrastructure assets.

Our Travel Compensation Services business successfully implemented its Delay Repay application into two new train operators, and also launched its cross-TOC fraud platform Exposure, plus also its 'One Click' application to support political and consumer demands for simplified/claim processing, for which it won an award, which was particularly pleasing.

The Group has invested heavily in its technology base and in March 2019, also relocated its Leeds headquarters to larger more modern offices that are far better suited to accommodate our expanding software team and future growth ambitions.

# Chairman & Chief Executive Officer's Report continued

*Remote Condition Monitoring (RCM)*

Revenues of £4.9m were significantly higher than the previous year (2018: £3.0m), with the growth being driven by high demand from a key UK customer at the end of Control Period Five and this performance represents one of the strongest financial years in this part of the Group's history. Progress continues to be made in the North American market with paid trials with a number of railroad and transit operators, and further sales were secured from other overseas geographies. The United States continues to be a key target market and offers significant opportunities albeit with a longer sales cycle as we develop relationships with new customers who require time to familiarise themselves with and system test the Group's offering.

*Consultancy*

Consultancy and professional services revenue was £1.8m (2018: £1.9m) which was a good performance given the reduction in franchise bid work compared to the previous year which demonstrates the resilience that has been built up in this part of the Group; as we secured work with other government bodies, a variety of other train operating companies (TOCs), and several multi-disciplinary engineering companies.

*Acquisitions: Bellvedi*

In the three months post acquisition, Bellvedi contributed £0.4m of revenue to the overall Group revenues and the full year benefit will be experienced in the next financial year. In recent years, Bellvedi has grown rapidly, and its ATTUne software is a key part of the TRACS Enterprise offering, in addition to having its own client base. The Bellvedi development team has been increased in size to facilitate delivery to an expanding user base plus delivery on other large projects and new products, such as ATTUne4C which brings the Bellvedi systems into the control room environment.

Overall EBITDA growth in the period in the Rail Technology and Services division was impacted by the mix of work delivered during the period with a change in focus to the delivery of previously announced milestone based multi-year large software development contracts for products like TRACS Enterprise at the expense of short-term bespoke development work.

<u>Traffic & Data Services</u>

Summary segment results:

| | | |
|---|---|---|
| Revenue | £27.3m | (2018: £20.8m) |
| EBITDA * | £3.6m | (2018: £2.6m) |
| Profit before Tax | £2.9m | (2018: £2.0m) |

*Traffic Surveys, Transport Insights and Passenger Analytics*

Revenues of £14.7m were delivered in the year (2018: £14.5m), accompanied by an increase in profitability. Notable highlights in the year include delivery of the largest set of National Road Traffic Census survey sites across the UK in a single financial year, the utilisation of innovative Artificial Intelligence software (through the Group's investment in Vivacity Labs) to deliver large scale surveys for a major client, growth of our data analytics capabilities and delivery of innovative product solutions and dashboards to clients.

Our Passenger Analytics team were pleased to have maintained historic levels of traditional manual count business whilst also winning new business including a multi-year ticketless travel survey framework. The business also continues to develop its own software product for automatic train loading data, which is expected to be a key technology platform for future growth.

*Location Analytics*

The majority of the revenue of £2.4m from Compass Informatics since its acquisition was derived from Ireland, though the business has secured a number of projects/contracts with UK water companies which will continue to be delivered in financial year 2019-20. The strategy remains to grow their business footprint in the UK, by selling its range of leading products and services to the Group's existing UK client base, where there are clear market opportunities. Much of the current revenue is derived from Irish government bodies which provides stability for some of the larger more innovative projects to be undertaken. The Compass business was successful in securing some awards for its work at the National Biodiversity Data Centre and the BIO platform, being delivered to three UK water companies, was a finalist at the Water Industry Awards.

*Event Transport Management*

Our existing SEP business achieved revenues of £7.1m (2018: £6.3m) which again showed further growth. A good contribution of £3.1m from CTM was experienced, which takes total combined revenue from this part of the Group in the year to £10.2m which is a significant offering. Both businesses continue to work with some extremely high-profile events and organisations, which are blue chip by nature, and in many cases secured under multi-year contracts, with one large contract in particular being renewed in the year.

# Chairman & Chief Executive Officer’s Report continued

Integration planning for CTM is well underway, and synergy benefits are expected to be progressively realised once the two businesses are combined into one Combined Events Business. The businesses have already started working together to exploit each other’s strengths and ensuring that internal capabilities are maximised by taking best practice from each business.

The business successfully delivered traffic management and car parking for record numbers of people at key events, plus the planning, delivery, monitoring and control of Transport Management Systems for other key clients, and also successfully delivered Tracsis Live Traffic (TLT) into several major events. The Group also works with one of the largest outdoor music festivals in the world which was again successfully delivered on a huge scale.

In general for the Traffic & Data Services Division it was pleasing to see an improvement in overall profit margins versus the previous year, which has been a key strategic objective for some time now.

**Dividends**

In February 2012, the Board implemented a progressive dividend policy and the Group intends to maintain this going forwards. An interim dividend of 0.8p per share was paid in April 2019. A final dividend of 1.0p per share in respect of 2018/19 is proposed, to take the full year dividend to 1.8p. This represents a 13% increase on the previous year’s dividend of 1.6p per share.

The dividend remains well covered by the Group’s profitability and cash position, which supports its primary objective of growth via acquisition and through further development of new products and services. The Board remains 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 14 February 2020 to shareholders on the register on 31 January 2020.

**Acquisitions**

We were pleased to have completed three acquisitions in the period, all of which will increase and enhance our overall product and service offering. These three acquisitions contributed combined revenues of £5.9m to Group numbers in the year.

*Compass Informatics*

On 15 January 2019 we acquired Compass Informatics, a long-established Dublin based business which we have known for a number of years now and is a natural fit with our Traffic & Data Services division in terms of our strategy of improving our data analytic capabilities. This acquisition, our first overseas transaction, strengthens the product and service offerings to our client base in the UK and also benefits those existing clients retained by Compass Informatics in Ireland, and offers potential benefit and cross-sell potential to Tracsis' existing transport clients. Compass Informatics is a software development and data analytics company that specialises in combining geographical information systems (GIS), location technologies, data analytics and field computing. The business works across a variety of sectors but derives most of its revenue from transport, asset management, planning, and environmental clients.

The acquisition consideration comprised an initial cash payment of €3.15m which was funded out of Tracsis cash reserves and the issue of shares in Tracsis to a value of €350k. An additional payment of €0.5m was made to reflect the net current asset position of the business, and additional contingent consideration of up to €2.0m is payable subject to Compass Informatics achieving certain stretched financial targets in the three years post acquisition.

*CTM*

On 16 January 2019, we acquired CTM, a well-established provider of event traffic planning, admission control, and a range of other event-related services to some of the UK's largest and most prestigious event clients. CTM is highly complementary to the Tracsis Traffic & Data Services division with good cross-sell potential along with clear synergy benefits with Tracsis' existing SEP Events business which was an excellent acquisition for Tracsis, that should lead to margin improvement in the fullness of time.

CTM has an excellent track record of organic growth, client retention and profitability over many years. The acquisition consideration comprised an initial cash payment of £1.3m which was funded out of Tracsis cash reserves and the issue of shares in Tracsis to a value of £0.15m, along with an additional payment of £0.5m to reflect the net current asset position of the business. Additional contingent consideration of up to £0.75m is payable subject to CTM achieving certain stretch financial targets in the two years post acquisition.

*Bellvedi*

On 30 April 2019, we acquired Bellvedi, a software company that operates within the rail industry and specialises in timetabling optimisation software. Bellvedi's key product, ATTUne, is a timetable planning software package and is extensively used by Train Operating Companies, infrastructure providers, franchise bidding teams and rail consultancies for the creation, validation, optioneering and optimisation of timetables in time pressured environments. Tracsis and Bellvedi have partnered on several significant software projects - most notably on Tracsis' recent major contract wins - with the ATTUne software forming a key part of the TRACS Enterprise offering. As such, the acquisition of Bellvedi is strategically important and highly complementary to the Tracsis rail software offering and future product roadmap.

# Chairman & Chief Executive Officer's Report continued

The acquisition consideration comprised an initial cash payment of £3.7m which was funded out of Tracsis cash reserves and the issue of shares in Tracsis to a value of £0.3m. An additional payment of circa £0.9m was made to reflect the net current asset position of the business at completion. Additional contingent consideration of up to £7.9m is payable subject to Bellvedi achieving certain stretched EBITDA financial targets in the four years post acquisition.

Integration of all newly acquired businesses is well underway. Due to the timing of the acquisitions, only a partial contribution from the acquired businesses was made in the period, with the full impact coming in the next financial year.

Furthermore, the Group exercised a £0.3m warrant in Vivacity Labs, and also participated in a fundraising for Citi Logik for £0.1m, which rounded off a busy year of acquisitions and investments. The Group remains debt free and continues to benefit from a strong market reputation with a good pipeline of potential acquisition opportunities.

We continue to have a strong pipeline of acquisition opportunities under consideration.

**The UK's decision to leave the European Union**

There is wider economic uncertainty as a result of the UK's decision to leave the European Union. As at the date of this report the Directors consider that the risks specific to Tracsis are reduced, due to the fact that current sales to European Union customers are c. 5% of overall Group sales, there is no significant reliance on a supply chain involving European Union suppliers or workforce.

**Board Changes and people**

Chris Barnes joined the Group during the year, succeeding John McArthur as Chief Executive Officer on 1 May 2019, and the transition is now complete. John continues to work with Tracsis in a part-time advisory capacity primarily supporting our M&A activities. John Nelson stood down as a Non-Executive Director on 1 November 2018, and was replaced by Mac Andrade. On behalf of everyone at Tracsis, we would like to thank John McArthur for his significant contribution, and achievements since founding Tracsis. We would also like to thank John Nelson for his counsel as a Non-Executive Director over the years and also welcome Mac Andrade to the Board.

We would also like to thank the entire Tracsis team for all of the hard work and dedication that has gone into the successful delivery of new products and projects this year.

**Summary and Outlook**

2018-19 was another good year for Tracsis and an important one in terms of the evolution of the Group, with three acquisitions being made and a change of Chief Executive, all delivered whilst achieving further growth in revenue and profitability and maintaining our excellent health and safety record, which was a great team effort.

Tracsis continues to operate in an area where there are strong drivers for business growth. These include

- Rapid Urbanisation: driven by population growth, finite capacity for the movement of goods and people, transformational technology changes and Mobility as a Service, all underpinned by advanced data analytic methodologies and the growing concept of smart cities and infrastructure;
- Big Data / Connectivity: driven by huge growth in connected devices, intelligent transport solutions, condition monitoring and data visualisation all leading to the opportunity to make more informed decisions and preventative interventions;
- Enhanced Performance: a growing requirement across the transportation industry for greater levels of operational efficiency, performance improvement, asset optimisation and enhanced safety all with lower operational costs and real time control.

Tracsis' range of products and services are well suited to support all of these growth drivers, given the Group offers a wide range of products and services covering data acquisition and smart analytics, virtualisation and digitalisation of assets, remote condition monitoring and predictive maintenance and 'real time' control supported as hosted enterprise solutions.

For this reason, the directors believe that Tracsis is well placed for further growth and have confidence in the core markets that the Group serves and operates in.

Thanks go to our colleagues, clients and other industry partners, and we look forward to continuing to share further success with them in the future.

**Chris Cole, Chairman**

**Chris Barnes, Chief Executive Officer**

November 14, 2019

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: |
|---|---|---|---|
| <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. The Group has customers in Ireland and Sweden, and also acquired Compass Informatics in Ireland during the year. | All parts of the Group | Tracsis continues to operate within specific niche verticals of the traffic data and transport markets. The Group believes that its market offering and the sectors in which it operates provides it with good resilience to external influences although remains vigilant of these influences. | Increased in the year as the date for leaving the European Union gets closer. Increased risk due to the acquisition of Compass Informatics though this may also be an opportunity. |
| <u>Rail industry structure changes</u> | | | |
| The present structure and organisation of the UK rail industry may be changed in the future, or by a future government, which may have an impact on the Group. The Group continues to derive a significant proportion 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 required regardless of any changes to the structure of the industry as they have a clear value proposition (albeit some more than others) and return on investment. The Group expects that industry requirements for certain of its solutions will continue, regardless of the industry structure. However, in certain circumstances, there is very little mitigation against politically driven changes or other structural changes. | Increased due to the Williams review on rail franchising, increased levels of political talk around the rail industry challenges that have been publicised in the press. The Labour party has indicated it would seek to renationalise the rail industry which may lead to risks but also opportunities. |
| <u>Reduced government spending</u> | | | |
| The Group derives revenues directly and indirectly from the UK and Irish governments, and would be significantly impacted if these public funding streams were reduced, for example due to spending reviews, a general election, or a change of government, though this may also lead to additional opportunities. | 1. Traffic & Data Services<br>2. Rail Technology & Services | As the Group grows and diversifies its revenue streams, the exposure to government spending should reduce but will always be a risk for parts of the Traffic & Data Services Division due to the nature of its customer base, which cannot be mitigated against. For the Rail Technology & Services Division, the Group seeks to ensure that its offerings have a clear return on investment and value proposition, to ensure demand remains high. | Increased in the year given the increased political uncertainty and announcement of the December General Election, plus also the uncertainty from the impact of leaving the European Union. |

# Risk Management continued

| Description/Potential impact: | Area of Group impacted: | Mitigation: | Change in the year: |
|---|---|---|---|
| <u>Reliance on certain key customers</u> | | | |
| The Group has a large number of customers but derives a significant amount 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. In addition, the Group's Traffic & Data Services division operates under a number of Framework Agreements with one large customer from whom a significant amount of revenue is obtained. Across the Group, there are a number of key customers which contribute to large amounts of revenue. The Group's remains exposed to the largest customer's funding cycles and procurement processes. | 1. Rail Technology & Services<br>2. Traffic & Data Services | As the Group continues to grow, the exposure to and reliance on any one customer will reduce, relative to total Group revenue. Although there will always be an exposure to certain key customers, it manages this risk by managing customer requirements proactively to understand their needs and respond to them to ensure that its products and services are embedded with the customer as much as possible. | The acquired businesses in the year have their own key customers to add to the exposure.<br><br>Total revenues from the Group's largest customer were 18% of Group revenue (2018: 14%).<br><br>The Traffic & Data Services Division accounted for over half of total Group revenues and derived £3.7m (2018: £3.2m) from one particular customer. |
| <u>Competition</u> | | | |
| The success of the Group could lead to increased competition, in particular in Traffic & Data Services where our products and services can be more easily replicated. The Group has a wide range of product and service offerings and some are more exposed to more competition than others. When tendering for certain major contracts within the Group's Rail Technology & Services Division, competition from European companies seeking to enter the UK market has been experienced. | 1. Traffic & Data Services<br>2. Rail Technology & Services | The Group pays close attention to pricing and customer satisfaction for areas subject to the most competition and seeks to be competitively priced where possible. The Group attempts to ensure its products and services have a clear value proposition and return on investment with the objective of getting its products and services embedded within its customer base to reduce the exposure to potential new entrants. | Unchanged in the year. |
| <u>Attraction and retention of key employees</u> | | | |
| The Group has a number of key individuals, plus a wide and diverse workforce. Skills and expertise in the Group's key markets are specialist and can be difficult to find or develop, and so growth of the business may be impacted should key individuals leave employment, or if the business is unable to attract, recruit and develop staff for its growth plans. | All parts of the Group. | The Group seeks to offer competitive remuneration packages, and also offers various share incentive schemes to staff in order to attract and retain good calibre employees. The Group seeks to offer career development opportunities in order to offer its staff with opportunities to progress within the business. | Increased in the year. |

# 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 threatened should competitors or other new market entrants develop rival technology develop more effective ways of doing things, which potentially make some of the Group's services redundant and could potentially lead to reduced levels of business. | 1. Traffic & Data Services<br>2. Rail Technology & Services | The Group continues to invest in its development team for its technology products to ensure that they remain up to date and also relevant to the customer base. It also receives feedback from its clients about their requirements require from the products which helps to ensure that they remain relevant. Some of the Group's offerings are protected by customer relationships, Framework Agreements, contractual terms and also a barrier to entry is the significant development costs required to enter the market, which provides protection. | No change in the year. |
| <u>Customer pricing pressure</u> | | | |
| Price pressure from customers may potentially result in margins being reduced over time if lower revenues are achieved than those which were achieved historically. | 1. Traffic & Data Services<br>2. Rail Technology & Services | The Group seeks to operates a lean organisation structure in order to mitigate pricing pressure, and constantly searches for ways to ensure that its cost base operates efficiently and effectively. Pricing for tenders and enquiries 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, so that the customer base will continue to adopt its products due to their quality and business case, with price being of lower concern. | No change in the year. |
| <u>Project delivery</u> | | | |
| The Group has a significant contract with a major UK Train Operating Company which contains a number of deadlines for implementation, in accordance with the contractual requirements and timeframes. In addition, during the current year, the Group secured a multi-year Framework Agreement with a major Owning Group, and delivery of software under this contract has commenced in the year, which also carries deliverable deadlines. Certain events withinin the Traffic & Data Services Division are significant and require large staff deployments and delivery. | 1. Rail Technology & Services<br>2. Traffic & Data Services | The Group continues to deploy an extensive delivery team, following a major recruitment exercise, and has worked with the client to establish a programme and project plan to ensure that the deliverables can be achieved. Event related work is subject to significant advance planning. | Increased in the year due to the additional contract secured, and also additional event related work within the Traffic & Data Services Division following the CTM acquisition |

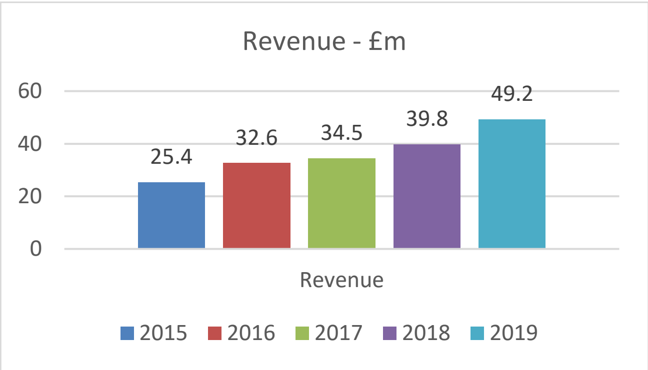
# Risk Management continued

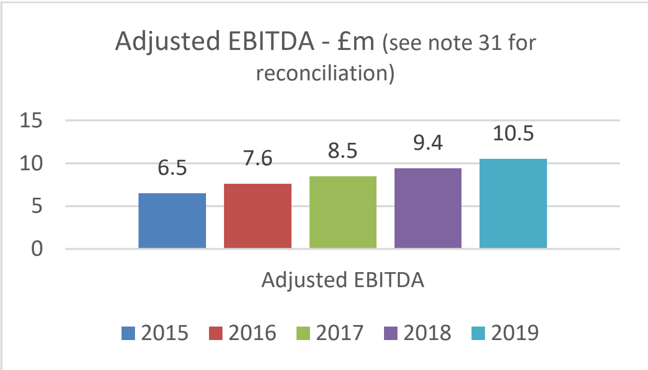
| Description/Potential impact: | Area of Group impacted: | Mitigation: | Change in the year: |
|---|---|---|---|
| Health & Safety | | | |
| The Group has a large number of employees operating at a variety of locations across the country. | 1. Traffic & Data Services<br>2. Rail Technology & Services | The Group has a dedicated Health & Safety team for its Traffic & Data Services Division, and where necessary elsewhere engages the services of a specialist Health & Safety Advisor. Business unit heads also report on Health & safety matters to the Board at every board meeting. The Group has a number of policies, procedures and method statements to provide mitigation against health & safety related risk. | Increased in the year given the CTM acquisition and the proportion of overall group revenue that is now derived from the its combined events businesses. |
| Brand reputation | | | |
| Any adverse publicity concerning the Group, or any of its subsidiary businesses may have an impact on future trading prospects if the Group's brand is adversely affected as a result of this. | All parts of the Group | The Board maintains regular dialogue with Operational staff and Heads of Department and so is made aware of any issues so that corrective action can be taken if necessary. | No change in the year. |
| Integration risk | | | |
| The Group has made three acquisitions in the year and plans to integrate each acquired business to various extents. In particular, the Group plans to combine SEP and CTM into one Combined Events Business in the fullness of time. | 1. Traffic & Data Services<br>2. Rail Technology & Services | Divisional management have a plan for the integration of each of the acquired businesses. | Increased in the year given the acquisitions that took place. |

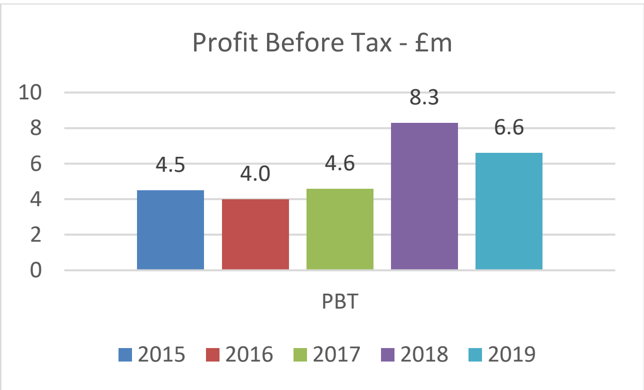
Strategic Report

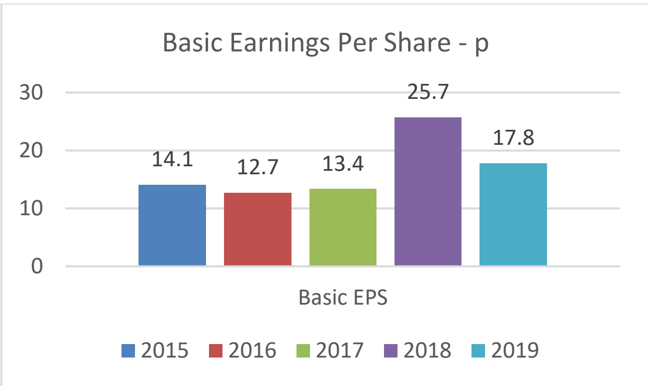
# Key Performance Indicators

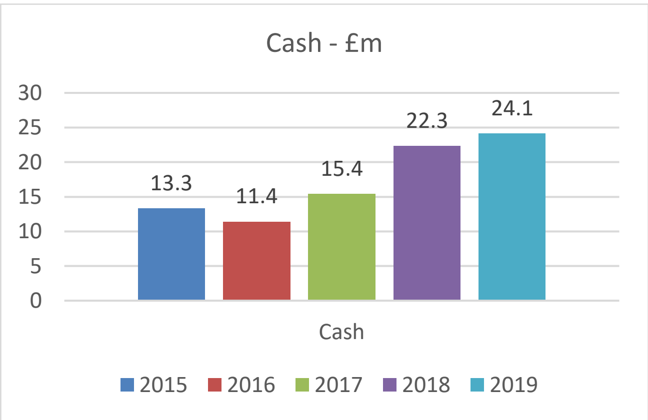
1. The Group's main Key Performance Indicators (KPIs) assessed at Group Level are as follows:
    a. Sales Revenue and various Profit metrics versus budget, forecast and prior year
    b. Sales prospects and forecasts versus budget and prior year
    c. Cash balances, debtors and working capital requirements
2. Additional Key Performance Indicators specific to specific divisions:
    a. Rail Technology & Services
        i. Sales to key UK clients, and contracted revenue for various Software products
        ii. Sales to overseas customers in target markets
        iii. Staff utilisation and chargeability
        iv. Delivery of major projects against customer deliverables and deadlines
    b. Traffic & Data Services:
        i. Customer enquiries and conversion rates,
        ii. Number of events and event days, plus casual staff costs relative to revenue
        iii. Cross selling of products and services to the existing customer base
        iv. Synergy savings achieved from consolidating business units




The strategic report has been approved by the Board of Directors and signed on their behalf.

Max Cawthra,
Director Tracsis plc
Nexus
Discovery Way
Leeds,
United Kingdom
LS2 3AA

Governance

# Board of Directors

## Executive Directors

**Chris Barnes** (44) Chief Executive Officer (appointed 1 May 2019)

Chris joined Tracsis in February 2019 as CEO designate, and became Chief Executive Officer on 1 May 2019. Prior to joining Tracsis, Chris was Managing Director of Ricardo UK Limited's automotive consulting division, and had previously held a number of senior roles within Ricardo plc. Chris has a Master's degree in Engineering, Economics and Management from the University of Oxford and is an alumnus of Harvard Business School.

**Max Cawthra** (41) 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** (73) Independent Non-Executive Chairman

Chris is Non-Executive Chairman of WSP Global Inc. (listed on the Toronto Stock Exchange), the successor to WSP Group plc. Chris brings significant general business and public market experience to the Board from his current and previous roles.

Member of Audit Committee, Remuneration Committee and Nominations Committee.

**Lisa Charles-Jones** (48) Independent 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. Lisa is also a Non-executive Director of Countrywide plc and holds Directorships at a registered charity The Percy Hedley Foundation, and at the Housing Association Bernicia Housing. Lisa brings a wide range of HR experience to the Board.

Member of Audit Committee, Remuneration Committee and Nominations Committee.

**Liz Richards** (61) Independent 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, and also a Board Governor at Leeds Trinity University. Prior to Callcredit, Liz worked in a variety of finance roles. Liz brings extensive Finance experience to the Board.

Member of Audit Committee, Remuneration Committee and Nominations Committee.

**Mac Andrade** (43) Independent Non-Executive Director (appointed 1 November 2018)

Mac was appointed to the Board on 1 November 2018. Mac has held various senior roles at FirstGroup Plc, Network Rail, Scottish & Southern Energy and National Grid. Mac brings extensive rail industry expertise and knowledge to the Board.

Member of Audit Committee, Remuneration Committee and Nominations Committee.

Governance

# Board of Directors

Other Directors serving in the year:

## Executive Directors

**John McArthur** (44) Chief Executive Officer

John was the Chief Executive Officer of Tracsis since the formation of the company in January 2004 up until his resignation on 1 May 2019. 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.

John resigned as Chief Executive Officer on 1 May 2019 but remains working with the Group on a part time basis assisting with the Group's acquisitions.

## Non-Executive Directors

**John Nelson** (71) Independent Non-Executive Director

John served as a Non-Executive Director during the year and until his resignation on 1 November 2018, and brought extensive rail industry experience to the Board having been involved in the industry for 50 years. John served as a member of Audit Committee, Remuneration Committee and Nominations Committee during the year.

John resigned as a Non-Executive Director on 1 November 2018.

Governance

# Directors' Report

The directors present their report and the audited financial statements for the year ended 31 July 2019.

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 Nexus, Discovery Way, Leeds, United Kingdom, LS2 3AA.

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 14 November 2019.

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 31 to 80.

**Dividends**

The Directors have adopted a progressive dividend policy, subject to growth, profitability and cash position in the future. An interim dividend of 0.8p per share was paid in May 2019. The Directors propose a final dividend of 1.0p per share, subject to shareholder approval at the forthcoming Annual General Meeting. This will give a full year dividend of 1.8p per share (2018: 1.6p).

**Directors**

The directors who serve on the Board and on Board Committees during the year are set out on pages 14 to 15. John McArthur resigned as Chief Executive Officer on 1 May 2019. Chris Barnes was appointed as Chief Executive Officer on 1 May 2019. John Nelson resigned as a Director on 1 November 2018 and Mac Andrade was appointed as a Director on 1 November 2018.

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, Max Cawthra 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 19 to 22.

**Directors' shareholdings**

Directors' beneficial interests in the shares of the Company, including family interests, at 31 July 2019 and 2018 were as follows:

| | **31 July 2019** | | **31 July 2018** | |
|---|---|---|---|---|
| | Number of shares | % of issued share capital | Number of shares | % of issued share capital |
| Chris Barnes | - | - | - | - |
| Max Cawthra | 168,022 | 0.58% | 168,022 | 0.59% |
| Chris Cole | 7,000 | 0.02% | 7,000 | 0.02% |
| Lisa Charles-Jones | - | - | - | - |
| Liz Richards | - | - | - | - |
| Mac Andrade | - | - | - | - |

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.

# Directors' Report continued

**Directors' shareholdings (continued)**

John McArthur, who resigned as a director on 1 May 2019, held 957,783 shares as at 31 July 2018, representing 3.38% of the issued share capital.

John Nelson, who resigned as a director on 1 November 2018, held 125,824 shares as at 31 July 2018, representing 0.44% of the issued share capital.

**Substantial shareholdings**

At 13 November 2019, being the latest practicable date prior to the publication of this document, the Company has been advised of the following shareholdings of 3% or more in the issued share capital of Tracsis plc:

| | Number of shares | % of issued shares |
|---|---|---|
| Unicorn Asset Management | 2,289,000 | 7.9% |
| Ennismore Fund Management | 1,905,616 | 6.6% |
| Schroder Investment Management | 1,873,077 | 6.5% |
| AXA Framlington Investment Manager | 1,614,601 | 5.6% |
| Tellworth Investments | 1,458,381 | 5.1% |
| Liontrust Asset Management | 1,281,492 | 4.4% |
| Downing | 1,252,553 | 4.3% |
| NFU Mutual | 945,700 | 3.3% |
| Franklin Templeton Fund Management | 920,074 | 3.2% |

**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 2019 were 59 days (2018: 46 days).

**Research and development**

During the year the Group incurred £2,166,000 (2018: £1,942,000) of expenditure on research activity, which has been charged to the Income Statement in accordance with the group's accounting policy.

**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 schemes.

**Environment**

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

# Directors' Report continued

**Significant Contracts**

There are a number of significant contracts in operation across the Group.

- Tracsis plc has some large contracts with Train Operating Companies from which it derives significant amounts of revenue;
- MPEC Technology Limited, a subsidiary company, 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 contract 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, and Cash & Traffic Management Limited both have a number of significant, multi-year contracts with a number of key clients; and
- Compass Informatics Limited has a range of contracts with government bodies and private sector organisations.

**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.

**Third party indemnity provisions**

All directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

By order of the Board

**Max Cawthra**
**Company Secretary**

14 November 2019

Nexus
Discovery Way
Leeds
United Kingdom
LS2 3AA

Governance

# Directors' Remuneration Report

## Unaudited information:

Tracsis plc, presents its remuneration 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** | | | | |
| Chris Barnes | 04.02.19 | 04.02.19 | Indefinite | 6 months |
| Max Cawthra | 20.09.10 | 20.09.10 | Indefinite | 3 months |
| **Non-Executive Directors** | | | | |
| 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 |
| Mac Andrade | 01.11.18 | 01.11.18 | 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, plus motivating them to deliver the Group's strategy. 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, which is based on profit related targets and also personal objectives. 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 at a rate of 10% of basic salary for Chris Barnes and 5% of basic salary for Max Cawthra. Chris Barnes elected to exchange employer pension contributions for additional salary. There was no additional cost to the Group in respect of this arrangement.

### Directors' remuneration

Directors' remuneration for the year ended 31 July 2019 is set out below

| | Basic salary £000 | Pension Conts £'000 | Bonus £000 | Benefits in kind £000 | Total 2019 £000 | Total 2018 £000 |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| Chris Barnes (from 1 May 2019) | 69 | - | 81 | - | **150** | - |
| John McArthur (to 1 May 2019) | 152 | 30 | 130 | - | **312** | 376 |
| Max Cawthra | 152 | 7 | 70* | - | **229** | 245 |
| | 373 | 37 | 281 | - | **691** | 621 |
| **Non-Executive Directors** | | | | | | |
| John Nelson (to 1 Nov 18) | 6 | - | - | - | **6** | 23 |
| Chris Cole | 50 | - | - | - | **50** | 50 |
| Lisa Charles-Jones | 28 | - | - | - | **28** | 28 |
| Liz Richards | 28 | - | - | - | **28** | 28 |
| Mac Andrade (from 1 Nov 18) | 19 | - | - | - | **19** | - |
| | 131 | - | - | - | **131** | 129 |

* Max Cawthra waived his entitlement to a portion of his annual bonus, and reallocated it to other members of the finance team to reward them for their performance in the year. Had he not done so, his bonus would have been £84,000.

### Directors' interests in share options in the Executive Share Option Schemes

| | At 1 August 2018 | Granted (Note b) | Lapsed (Note a) | Exercised | At 31 July 2019 | Exercise price pence | Date from Which Exercisable | Expiry date |
|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | |
| Chris Barnes | - | 21,417 | - | - | 21,417 | 0.4p | 01/05/2022 | 01/05/2029 |
| Max Cawthra | 47,067 | - | (6,532) | - | 40,535 | 0.4p | See note a/b | 15 Dec 2025 / 6 Jan 2027 |
| **Non-Executive Directors** | | | | | | | | |
| Chris Cole | - | - | - | - | - | - | - | - |
| Lisa Charles-Jones | - | - | - | - | - | - | - | - |
| Liz Richards | - | - | - | - | - | - | - | - |
| Mac Andrade | - | - | - | - | - | - | - | - |

In accordance with Corporate Governance best practice, the Group no longer grants stock options to Non-Executive Directors. This ensures 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 a

Original conditions:

'2016 LTIP'

- 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
- Any options vesting will be able to be exercised from 6 January 2020 onwards, being three years from the grant date

For the year ended 31 July 2019, EPS was 16.92p (excluding the exceptional credit and charge in respect of the TCS acquisition), which meant that part of the performance criteria that were linked to EPS were partially met, and TSR was between the median and upper quartile meaning that a part of the performance criteria that were linked to TSR were partially met. These items combined led to options vesting for Max Cawthra of 22,165 options, with 6,532 lapsing. The options that have vested can be exercised from 6 January 2020 onwards, being three years from the grant date.

Note b

In connection with Chris Barnes' appointment as a Director of the Group, the Remuneration Committee agreed a share option award to compensate Chris for unvested incentives forfeited from his previous employer on joining Tracsis. As such, Chris was awarded 21,417 share options in Tracsis plc with an exercise price of 0.4p, that can be exercised on or after 4 February 2022 being three years since Chris joined the Group.

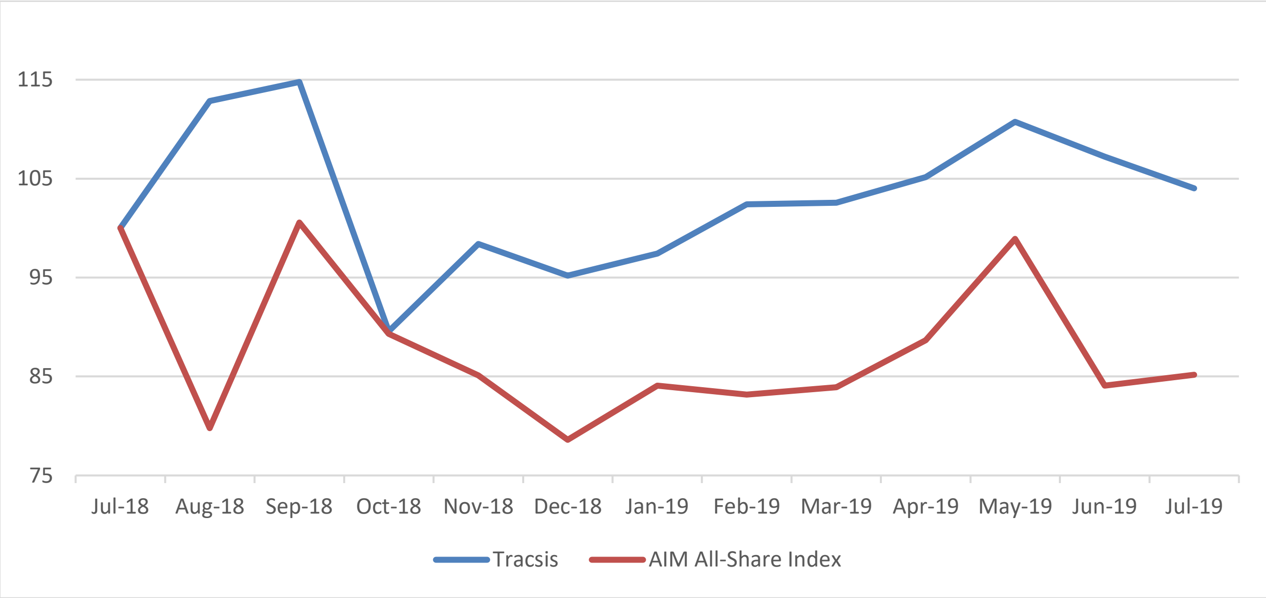
John McArthur, who resigned as a director during the year, had an interest in 114,942 share options as at 31 July 2018. Since resigning as a Director, John exercised 27,555 options, and it was agreed with the Remuneration Committee that John would be able to retain his options whilst he continued to be an employee. In respect of the '2016 LTIP', and the 43,045 options that were granted under this scheme, 33,247 vested as the performance criteria were met, and 9,798 lapsed. John retains an interest in the '2017' LTIP of 44,342 options which remain subject to performance conditions for the year ended 31 July 2020, and as such retains a total interest in 77,589 options.

The aggregate amount of pre-tax gains made by directors on the exercise of share options was £nil (2018: £100,000). 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 2018 to 31 July 2019.




The committee has selected the above index because it is most relevant for a company of Tracsis's size and sector.

On behalf of the Board

**Lisa Charles-Jones**
Chair of the Remuneration Committee
14 November 2019

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, adopts the Quoted Company Alliance's Corporate Governance Code for Small and Mid-Size Quoted Companies 2013 (updated April 2018) (the "QCA Code") which supports the Group's long term success and strategy for growth. Further details of the group's compliance with the QCA code can be found on the group's website https://www.tracsis.com/investors/corporate-governance.

**The Board**

There are currently six Board members, comprising two Executive Directors and four 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 pages 14 to 15. 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 19. 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. Max Cawthra 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 | 6/7 | - | - | - |
| Chris Barnes | 3/3 | - | - | - |
| Max Cawthra | 10/10 | - | - | - |
| John Nelson | 2/2 | - | 1/1 | 1/1 |
| Chris Cole | 10/10 | 1/1 | 2/2 | 2/2 |
| Lisa Charles-Jones | 10/10 | 1/1 | 2/2 | 2/2 |
| Liz Richards | 10/10 | 1/1 | 2/2 | 2/2 |
| Mac Andrade | 8/8 | 1/1 | 1/1 | 1/1 |

**Board committees**

***Nomination Committee***

The Nomination Committee comprises Chris Cole as Chairman, Lisa Charles-Jones, Liz Richards, and Mac Andrade. 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, Liz Richards, Mac Andrade and Chris Cole as attendee. 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).

# Corporate Governance continued

***Audit Committee***

The Audit Committee similarly comprises Liz Richards as Chairperson, Lisa Charles-Jones, Mac Andrade and Chris Cole as attendee. 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. The significant issues considered by the Audit Committee relating to the Group's financial statements include Revenue recognition, Intangible Assets, and Contingent Consideration, as detailed in note 4 to the financial statements.

**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. During the year, KPMG LLP did not provide any non audit services (2018: £nil).

**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. The Group is debt free and has substantial cash resources. At 31 July 2019 the Group had net cash and cash equivalents totalling £24.1m. The Board has prepared cash flow forecasts for the forthcoming year based upon assumptions for trading and the requirements for cash resources, these forecasts take into account reasonably possible changes in trading financial performance.

**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 in a previous financial year which resulted in charges to the Board but has not completed a formal board evaluation process during the year.

# 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 Group and parent Company 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 the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and they have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use 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.

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 are responsible for 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, and 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 and a Directors’ Report 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.

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 2019 which comprise the consolidated statement of comprehensive income, consolidated and company statement of changes in equity, the consolidated and company balance sheets, the consolidated cash flow statement, and the related notes, including the accounting policies in note 1.

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 2019 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.

| Overview | |
|---|---|
| **Materiality:** Group financial statements as a whole | £320k (2018: £260k)<br>6.0% (2018: 4.6%) of consolidated profit before tax (2018: Group profit before tax and contingent consideration credit) |
| **Coverage** | 96% (2018: 94%) of Group Profit before tax |

| **Key audit matters** | | **vs 2018** |
|---|---|---|
| **Recurring risks** | Revenue recognition - software contracts | ▲ |
| | Business Combinations accounting including valuation of acquired intangible assets and contingent consideration | ◄► |

## 2. Key audit matters: including 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 matters, in decreasing order of audit significance, were as follows:

| | The risk | Our response |
|---|---|---|
| **Revenue recognition Software contracts**<br><br>**(Group and Parent)**<br><br>Software revenue (Group) £14,839k, (2018: £14,010k)<br><br>Deferred Income (Group) £7,991k (2018: £3,740k)<br><br>*Refer to pages 37 to 39 (accounting policy) and pages 52 and 69 (financial disclosures).* | **Accounting application**<br><br>The Group's contracts with customers can involve multiple contract deliverables.<br><br>Revenue recognition within the Group may therefore require separate recognition of each deliverable and as a result, judgement is required over the assessment of separate contract deliverables.<br><br>Quantification of the fair value of each identified deliverable requires the Group to make estimates as to the fair value of each contract deliverable identified.<br><br>This revenue recognition includes some elements of revenue recognised upfront and others recognised over time resulting in significant deferred income balances. There is therefore a risk that not all revenue is recognised in the appropriate period.<br><br>IFRS 15 "Revenue recognition" is effective for the first time in 2019. As this is the first year of adoption, inherently there is a risk of error occurring including over the significant deferred income balances. | Our procedures included:<br><br>— **Accounting analysis:** Determined if several performance obligations exist within a contract that results in more than one component of revenue. This was achieved by assessing a sample of contracts using our sampling methodology and the guidance in the relevant accounting standard, particularly as to deliverables having a stand-alone value;<br><br>— **Accounting analysis:** Assessed the Group's estimate of any subjective fair value attributed to each identified contract deliverable within each sampled contract and the timing of the revenue recognition for each deliverable against our own knowledge of similar contracts in the industry;<br><br>— **Accounting analysis:** Assessed the Group's revenue recognition policy in light of the adoption of IFRS 15 in the year. Tested a sample of contracts to assess if the transition adjustments made were recorded appropriately;<br><br>— **Test of details:** Tested a sample of revenue transactions to assess if revenue was recorded in the appropriate period with reference to contractual documents; and<br><br>— **Assessing transparency:** Assessed the adequacy of the Group's disclosures on revenue recognition |
| **Business combination accounting including valuation of acquired intangible assets and contingent consideration**<br><br>Acquired intangible assets £15,463k Contingent consideration payable £6,183k<br><br>*Refer to pages 40 and 41 (accounting policy) and pages 47 to 52 (financial disclosures).* | **Subjective estimate – valuation of acquired intangible assets**<br><br>The Group has acquired Cash & Traffic Management Limited, Compass Informatics Limited and Bellvedi Limited.<br><br>The exercise to recognise intangible assets acquired at fair value involves a significant degree of judgement on the inputs used to value the intangibles, (such as useful economic life of the assets and discount rate) and is a material estimate.<br><br>The effect of these matters is that, as part of our risk assessment, we determined that valuation of acquired intangible assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.<br><br>**Subjective estimate – valuation of contingent consideration**<br><br>The valuation of contingent consideration recognised at fair value involves a significant degree of judgement and is a material estimate.<br><br>The effect of these matters is that, as part of our risk assessment, we determined that valuation of contingent consideration has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 5) disclose the range estimated by the Group. | **Valuation of acquired intangible assets**<br><br>Our procedures included:<br><br>— **Accounting Analysis:** Considered the separately identified intangible assets acquired through gaining understanding of the businesses acquired and applying our professional experience and judgement<br><br>— **Benchmarking assumptions:** Challenging the basis for the key assumptions used in the valuation such as discount rate and growth rates applied in the valuation of the acquired intangibles by comparing to the general economic growth rates in the UK as well as discount rates used by other entities in the sector.<br><br>— **Historical comparisons:** Evaluating the key assumptions such as growth rate and discount rate having regard to internal data such as historic customer attrition rates and external data such as royalty rates charged for software use; and<br><br>— **Assessing transparency:** Considering the adequacy of the Group's disclosures in respect of business combinations accounting.<br><br>**Valuation of contingent consideration**<br><br>— **Historical Comparisons:** Performing retrospective review of historic consideration payments made for similar acquisitions by the Group and assessing accuracy of the estimated amount of consideration.<br><br>— **Benchmarking assumptions:** Challenging the basis for the key assumptions used in the valuation of contingent consideration such as forecast of future performance and probability weighting as compared to economic rates in the UK.<br><br>— **Sensitivity analysis:** Performing sensitivity analysis on the key assumptions being the forecast future cash flows and discount rate applied to help us assess their reasonableness and identify areas of potential additional focus including any management bias in their judgement; and<br><br>— **Assessing transparency:** Considering the adequacy of the Group's disclosures in respect of business combinations accounting. |

### 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 £320k (2018: £260k), determined with reference to a benchmark of Group profit before tax of 6,460k (of which it represents 5.0% (2018: 4.6% of profit before tax and contingent consideration credit).

Materiality for the parent company financial statements as a whole was set at £204.8k (2018: £180.7k), determined with reference to a benchmark of Company profit before tax of £3,307k, of which it represents 4.9% (2018: 4.9% of company profit before tax and contingent consideration credit).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £16.0k, in addition to other identified misstatements that warranted reporting on qualitative grounds.

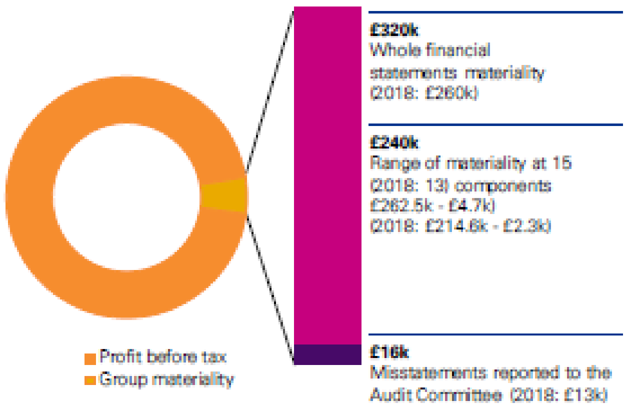
Of the Group's 15 (2018: 13) reporting components, we subjected 13 (2018: 11) to full scope audits for Group purposes. For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The components within the scope of our work accounted for the percentages illustrated opposite.

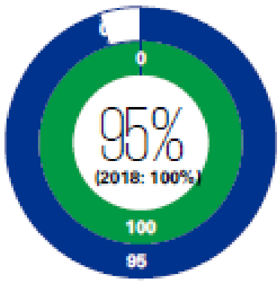
The work on all 15 (2018: 13) components was performed by the Group team.

**Profit before tax**
£6,460k (2018: £5,622k)

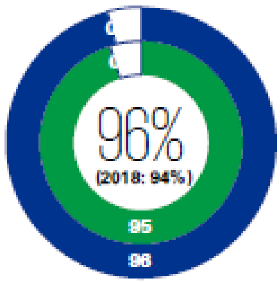
**Group Materiality**
£320k (2018: £260k)



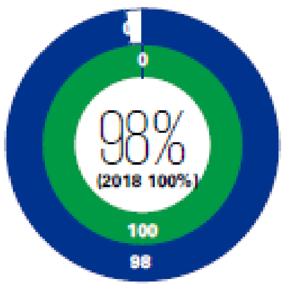

**Group revenue**




**Group profit before tax**




**Group total assets**




Full scope for group audit purposes 2019
Full scope for group audit purposes 2018
Residual components

### 4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

— The failure of a major customer;

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, 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 a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

### 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 25, 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 Auditors**
*Chartered Accountants*
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
14 November 2019

KPMG

Financial Statements

# Consolidated Statement of Comprehensive Income

## for the year ended 31 July 2019

| | Notes | 2019 Continuing operations £000 | 2019 Acquisitions £000 | 2019 **Total £000** | 2018 £000 |
|---|---|---|---|---|---|
| **Revenue** | 6 | 43,325 | 5,894 | **49,219** | 39,834 |
| **Cost of sales** | | (17,539) | (2,624) | **(20,163)** | (16,623) |
| **Gross profit** | | 25,786 | 3,270 | **29,056** | 23,211 |
| Administrative costs | | (19,158) | (3,202) | **(22,360)** | (14,727) |
| **Adjusted EBITDA*** | 6, 31 | 9,662 | 852 | **10,514** | 9,425 |
| Depreciation | 14 | (798) | (33) | **(831)** | (760) |
| **Adjusted profit **** | 31 | 8,864 | 819 | **9,683** | 8,665 |
| Amortisation of intangible assets | 15 | (1,831) | (420) | **(2,251)** | (1,774) |
| Other operating income | 9.4 | 244 | 16 | **260** | 214 |
| Share-based payment charges | 8 | (927) | (107) | **(1,034)** | (1,193) |
| **Operating profit / (loss) before exceptional items** | | 6,350 | 308 | **6,658** | 5,912 |
| Exceptional items (net) | 9.3 | 278 | (240) | **38** | 2,572 |
| **Operating profit / (loss)** | 9 | 6,628 | 68 | **6,696** | 8,484 |
| Finance income | 10 | 58 | - | **58** | 19 |
| Finance expense | 11 | (21) | - | **(21)** | (27) |
| Share of result of equity accounted investees | 16 | (174) | - | **(174)** | (201) |
| **Profit / (loss) before tax** | | 6,491 | 68 | **6,559** | 8,275 |
| Taxation | 12 | (1,337) | (151) | **(1,488)** | (1,029) |
| **Profit / (loss) after tax** | | 5,154 | (83) | **5,071** | 7,246 |
| **Other comprehensive income/(expense)** | | | | | |
| Items that are or may be reclassified subsequently to profit or loss | | | | | |
| Foreign currency translation differences – foreign operations | | - | 17 | **17** | - |
| **Total recognised income for the year** | | 5,154 | (66) | **5,088** | 7,246 |
| **Earnings per ordinary share** | | | | | |
| Basic | 13 | 18.07p | (0.29p) | **17.78p** | 25.70p |
| Diluted | 13 | 17.54p | (0.28p) | **17.26p** | 24.85p |

* 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 2019 Company number: 05019106

| | Note | 2019 £000 | 2018 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **2,678** | 2,181 |
| Intangible assets | 15 | **38,812** | 26,223 |
| Investments – equity | 16 | **350** | 250 |
| Loans due from associated undertakings | 16 | **250** | 250 |
| Investments in equity accounted investees | 16 | **1,098** | 972 |
| Deferred tax assets | 22 | **667** | 602 |
| | | **43,855** | 30,478 |
| **Current assets** | | | |
| Inventories | 17 | **381** | 253 |
| Trade and other receivables | 19 | **9,729** | 7,329 |
| Cash and cash equivalents | | **24,104** | 22,329 |
| | | **34,214** | 29,911 |
| **Total assets** | | **78,069** | 60,389 |
| **Non-current liabilities** | | | |
| Finance leases and hire-purchase contracts | 18 | **285** | 121 |
| Contingent consideration payable | 21 | **5,304** | 1,100 |
| Deferred tax liabilities | 22 | **5,942** | 3,875 |
| | | **11,531** | 5,096 |
| **Current liabilities** | | | |
| Finance leases and hire-purchase contracts | 18 | **277** | 157 |
| Trade and other payables | 20 | **16,936** | 10,316 |
| Contingent consideration payable | 21 | **879** | 2,165 |
| Current tax liabilities | | **505** | 546 |
| | | **18,597** | 13,184 |
| **Total liabilities** | | **30,128** | 18,280 |
| **Net assets** | | **47,941** | 42,109 |
| **Equity attributable to equity holders of the company** | | | |
| Called up share capital | 23 | **115** | 113 |
| Share premium reserve | 24 | **6,343** | 6,243 |
| Merger reserve | 24 | **3,921** | 3,160 |
| Retained earnings | 24 | **37,545** | 32,593 |
| Translation reserve | 24 | **17** | - |
| **Total equity** | | **47,941** | 42,109 |

The financial statements on pages 31 to 80 were approved and authorised for issue by the Board of Directors on 14 November 2019 and were signed on its behalf by:

**Chris Barnes** – 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 2017 | 112 | 5,948 | 3,010 | 24,577 | - | 33,647 |
| Profit for the year | - | - | - | 7,246 | - | 7,246 |
| Total comprehensive income | - | - | - | 7,246 | - | 7,246 |
| Transactions with owners: | | | | | | |
| Dividends | - | - | - | (423) | - | (423) |
| Share based payment charges | - | - | - | 1,193 | - | 1,193 |
| Exercise of share options | 1 | 295 | - | - | - | 296 |
| Shares issued as consideration for business combinations | - | - | 150 | - | - | 150 |
| **At 31 July 2018** | **113** | **6,243** | **3,160** | **32,593** | **-** | **42,109** |

| | Share Capital £'000 | Share Premium £'000 | Merger reserve £'000 | Retained Earnings £'000 | Translation reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| At 1 August 2018 | 113 | 6,243 | 3,160 | 32,593 | - | 42,109 |
| Adjustment on initial application of IFRS 15 (net of tax) – Note 32 | - | - | - | (667) | - | (667) |
| Profit for the year | - | - | - | 5,071 | - | 5,071 |
| Other comprehensive income | - | - | - | - | 17 | 17 |
| Total comprehensive income | - | - | - | 5,071 | 17 | 5,088 |
| Transactions with owners: | | | | | | |
| Dividends | - | - | - | (486) | - | (486) |
| Share based payment charges | - | - | - | 1,034 | - | 1,034 |
| Exercise of share options | 1 | 100 | - | - | - | 101 |
| Shares issued as consideration for business combinations | 1 | - | 761 | - | - | 762 |
| **At 31 July 2019** | **115** | **6,343** | **3,921** | **37,545** | **17** | **47,941** |

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 2019

| | Notes | **2019 £000** | 2018 £000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit for the year | | **5,071** | 7,246 |
| Finance income | 10 | **(58)** | (19) |
| Finance expense | 11 | **21** | 27 |
| Depreciation | 14 | **831** | 760 |
| Loss on disposal of plant and equipment | | **12** | 17 |
| Non cash exceptional items | 9.3 | **(99)** | (2,653) |
| Other operating income | 9.4 | **(260)** | (214) |
| Amortisation of intangible assets | 15 | **2,251** | 1,774 |
| Effect of foreign exchange adjustments | | **17** | - |
| Share of result of equity accounted investees | 16 | **174** | 201 |
| Income tax charge | 12 | **1,488** | 1,029 |
| Share based payment charges | 8 | **1,034** | 1,193 |
| **Operating cash inflow before changes in working capital** | | **10,482** | 9,361 |
| Movement in inventories | | **(128)** | (14) |
| Movement in trade and other receivables | | **(1,349)** | 1,259 |
| Movement in trade and other payables | | **4,877** | 1,411 |
| **Cash generated from operations** | | **13,882** | 12,017 |
| Interest received | 10 | **58** | 19 |
| Interest paid | 11 | **(21)** | (27) |
| Income tax paid | | **(1,545)** | (1,407) |
| **Net cash flow from operating activities** | | **12,374** | 10,602 |
| **Investing activities** | | | |
| Purchase of plant and equipment | 14 | **(731)** | (509) |
| Proceeds from disposal of plant and equipment | | **165** | 53 |
| Acquisition of subsidiaries (net of cash acquired) | 5 | **(6,757)** | (1,714) |
| Equity investments and loans to investments | 5 | **(400)** | (700) |
| **Net cash flow used in investing activities** | | **(7,723)** | (2,870) |
| **Financing activities** | | | |
| Dividends paid | 30 | **(486)** | (423) |
| Proceeds from exercise of share options | | **101** | 296 |
| Hire purchase repayments | 18 | **(342)** | (303) |
| Payment of contingent consideration | 21 | **(2,149)** | (323) |
| **Net cash flow used in from financing activities** | | **(2,876)** | (753) |
| Net increase in cash and cash equivalents | | **1,775** | 6,979 |
| Cash and cash equivalents at the beginning of the year | | **22,329** | 15,350 |
| **Cash and cash equivalents at the end of the year** | | **24,104** | 22,329 |

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 public company incorporated, domiciled and registered in England in the United Kingdom. The registered number is 05019106 and the registered address is Nexus, Discovery Way, Leeds, LS2 3AA. The consolidated financial statements of the Company for the year ended 31 July 2019 comprise the Company and its subsidiaries (together referred to as the 'Group') and equity account the Group's interest in associates. The parent company financial statements present information about the Company as a separate entity and not about its Group.

**2 Basis of preparation**

**(a) Statement of compliance**

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('IFRSs') 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, with the exception of the valuation of investments and contingent consideration which are included on a fair value basis.

**(c) Presentation currency**

These consolidated financial statements are presented in sterling. 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 2018. 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 2018:

- Annual Improvements to IFRS Standards 2014-2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRS 9 Financial Instruments
- Amendments to IFRS 2: Classification and Measurement of Share-Based Payment Transaction contracts
- IFRS 15 Revenue from Contracts with Customers

These standards have not had a material impact on the Consolidated Financial Statements with the exception of the adoption of IFRS 15. Further information regarding the adoption of this standard has been detailed in note 32.

# 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 2019. Apart from IFRS 16, these standards are not expected to have a significant impact on adoption.

Effective for the year ending 31 July 2020

- IFRS 16 Leases (effective date 1 January 2019). Provides a single lessee accounting model, specifying how leases are recognised measured, presented and disclosed.
- IFRIC 23 Uncertainty over Income Tax Treatments (effective date 1 January 2019).

Effective date for EU adoption to be confirmed

- Amendments to References to the Conceptual Framework in IFRS Standards (effective date to be confirmed)
- Annual Improvements to IFRS Standards 2015-2017 Cycle (effective date to be confirmed).

*IFRS 16 "Leases"*

The Group is required to adopt IFRS 16 "Leases" from 1 August 2019. It will bring most leases on to the balance sheet, eliminating the distinction between operating leases and finance leases. The Group has a number of operating lease arrangements and it is considered that the broad impact of IFRS 16 will be to recognise a right-of-use asset and a corresponding lease liability for the lease commitments which are detailed in note 25. Additionally, rentals on operating leases currently charged to the statement of comprehensive income will be replaced by a depreciation charge on the asset and an interest expense on the lease liability. The Group will adopt IFRS 16 using the modified retrospective approach. The cumulative effect of initially adopting IFRS 16 will be recognised as an adjustment to retained earnings at 1 August 2019 with no restatement of comparative information. The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 August 2019 and identified as leases in accordance with IAS 17 and IFRIC 4. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. Based on currently available information, the Group estimates that it will recognise additional lease assets and liabilities of £1.2m to £1.4m as at 1 August 2019. The impact on the Income Statement is estimated to be immaterial.

**(f) Going concern**

The Group is debt free and has substantial cash resources. At 31 July 2019 the Group had net cash and cash equivalents totalling £24.1m. The Board has prepared cash flow forecasts for the forthcoming year based upon assumptions for trading and the requirements for cash resources, these forecasts take into account reasonably possible changes in trading financial performance. The Group's policies for financial risk management are detailed in note 26 to these financial statements.

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 Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. 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.

# Notes to the Consolidated Financial Statements continued

**3 Significant accounting policies (continued)**

**(a) Basis of consolidation (continued)**

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

**(b) Revenue recognition**

The Group has initially applied IFRS 15 "Revenue from Contracts with Customers" from 1 August 2018. Due to the transition method chosen by the Group in applying this standard, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standard. See note 32 to the financial statements for further detail of the changes in accounting treatment arising on transition.

IFRS 15 has established a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 and related interpretations for the Group.

The Group derives revenue from software licencing and bespoke development work, post contract customer support, sale of hardware & condition monitoring technology, consultancy and professional services, traffic data collection & capture, passenger counting, plus event planning, parking and traffic management services.

The following tables provide information about the nature and timing of the satisfaction of performance obligations in contracts with customers, and the related revenue recognition policies. Revenue is recognised either when the performance obligation in the contract has been performed ("point in time" or "over time" as control is transferred to the customer). Consideration received in advance of the performance obligation being satisfied by the Group is included as a Contract Liability on the balance sheet. A contract asset is recognised when a performance obligation has been completed, but no consideration has yet been received. Adjustments are made to allocate discounts relative to the stand-alone selling price of each performance obligation. The Group does not adjust the transaction price for the time value of money as it does not expect to have any contracts where the period between the transfer of the promised service to the client, and the payment by the client exceeds one year.

The details of the significant accounting policies under IFRS 15 are set out below for each of the two operating segments within the Group.

**Rail Technology & Services**

| *Revenue Stream* | *Recognition Policy* |
|---|---|
| Software – perpetual and non-cancellable annual software licenses, and support and maintenance services associated with these licenses | There are two separate performance obligations associated with this revenue stream:<br>• Provision of the perpetual or non cancellable annual software license<br>• Maintenance and support services<br><br>The Group recognises the revenue from the sale of perpetual and non-cancellable annual software licences at the time that the license is made available to the customer as it is considered that control passes at that point in time. |

# Notes to the Consolidated Financial Statements continued

**3 Significant accounting policies (continued)**

**(b) Revenue recognition (continued)**

| *Revenue Stream* | *Recognition Policy* |
|---|---|
| Software – perpetual and non-cancellable annual software licenses, and support and maintenance services associated with these licenses (continued) | The allocation of the transaction price between the two performance obligations included in the contract is based on an expected cost plus margin approach as the stand-alone selling price is not observable.<br><br>Revenue related to ongoing support and periodic updates is recognised over the license period as the Group is unable to predict at inception of the license when the support and updates will be required to be provided to the customer. As such, control is considered to pass over time. |
| Software as a service, and support services associated with these licenses | Under IFRS 15 two distinct performance obligations have been identified for these contracts.<br><br>• Hosted software licenses<br>• Maintenance and support<br><br>Revenue from the provision of the hosted software license is recognised evenly over the period in which the license is hosted by the Group. This policy reflects the continuous transfer of the service to the customer throughout the contracted license period.<br><br>Revenue related to ongoing support and periodic updates is recognised over the license period as the group is unable to predict at inception of the license when the support and updates will be required to be provided to the customer. |
| Bespoke software development work | Revenue in relation to bespoke development work is recognised on completion of the work as specified in the contract with the customer as it is considered that control of the work does not pass until all development work has been completed. |
| Hardware | Under IFRS 15, the Group has identified one performance obligation in relation to the sale of hardware items, being delivery to the customer, which is considered the point in time that control passes and revenue is recognised.<br><br>Hardware items are also sold to the customer alongside a license for condition monitoring software. The transaction price is allocated to the components of the contract based on an adjusted market assessment approach.<br><br>Revenue recognition for the condition monitoring software license is recognised in line with nature of the software (hosted Software as a Service) which is detailed further above. |

# Notes to the Consolidated Financial Statements continued

**3 Significant accounting policies (continued)**

**(b) Revenue recognition (continued)**

| *Revenue Stream* | *Recognition Policy* |
|---|---|
| Hardware (continued) | Provision is made for any returns by customers. |
| Consultancy services | Consultancy service contracts are either contracted on a time and materials basis, or as fixed fee contracts.<br><br>Time and materials contracts are recognised over time as services are provided at the fee rate agreed with the client where there is an enforceable right to payment for performance completed to date.<br><br>Fixed fee contracts are recognised over time based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided where there is an enforceable right to payment. In contracts where there is no enforceable right to payment for performance completed to date, revenue is recognised on completion of the contracted deliverables. |

**<u>Traffic & Data Services</u>**

| *Revenue Stream* | *Recognition Policy* |
|---|---|
| Traffic data collection & capture and passenger counting | Revenue from traffic data collection & capture and passenger counting services deliverables is recognised on the provision of the contract deliverable(s) as agreed with the customer, unless there is an enforceable right to payment under the contract, in which instance revenue would be recognised over the completion of the project based on actual costs compared to expected total project costs. |
| Event planning, parking and traffic management services | There is considered to be one performance obligation in the completion of event planning, parking and traffic management, which is the completion of the service, and this is satisfied upon its completion of the service, being at a point in time. |

# Notes to the Consolidated Financial Statements continued

**(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 |

**(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.

# Notes to the Consolidated Financial Statements continued

**3 Significant accounting policies (continued)**

**(d) Intangible assets (continued)**

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. Settlement of contingent consideration is included within financing activities in the Statement of Cash Flows.

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.

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**

**i) Recognition and initial measurement**

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

# Notes to the Consolidated Financial Statements continued

**3 Significant accounting policies (continued)**

**(g) Financial instruments (continued)**

**ii) Classification and subsequent measurement**

***Financial assets***

**Classification**

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. This includes all derivative financial assets.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits.

**Subsequent measurement and gains and losses**

Financial assets at FVTPL - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

***Financial liabilities and equity***

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

(b) where the instrument will or may be settled in the Group own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

**iii) Impairment**

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15). The Group measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month ECL.

# Notes to the Consolidated Financial Statements continued

**3 Significant accounting policies (continued)**

**(g) Financial instruments (continued)**

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

**Measurement of ECLs**
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

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

**(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.

# Notes to the Consolidated Financial Statements continued

**3 Significant accounting policies (continued)**

**(j) Leases (continued)**

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.

**(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.

Directors LTIPs have two conditions attached – Earnings per Share (non-market condition) and Total Shareholder Return (TSR – market condition). An assessment of the fair value is made when the options are granted and in respect of TSR/market conditions, no further adjustment is made regardless of whether the conditions are met or not.

**(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, contingent consideration credits, any goodwill impairments and profit/loss on disposal, 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.

# Notes to the Consolidated Financial Statements continued

**3 Significant accounting policies (continued)**

**(q) Operating segments**

The Group has divided its results into two segments being ‘Rail Technology and Services’ and ‘Traffic & Data Services’. 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.

**(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.

**(u) Investments**

Investments are carried at fair 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.

**(v) Equity accounted investees**

Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group’s investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group’s share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Group’s share of losses exceeds its interest in an equity accounted investee, the Group’s carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

# Notes to the Consolidated Financial Statements continued

**3 Significant accounting policies (continued)**

**(w) Loans due from associated undertakings**

Loans due from associated undertakings are held at fair value on inception with subsequent changes recognised in the profit and loss account.

**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:

Estimates

*Revenue recognition*

The Group has adopted IFRS 15 Revenue recognition in the current financial year. The Group's assessment of the estimation involved at each step of the revenue recognition process is as detailed below:

Step 1 – Identify the Contract. No estimates identified.
Step 2 – Identify performance obligations. This is an accounting judgement which has been detailed further below.
Step 3 – Determine the transaction price. There are no significant estimates required to be taken by the group in calculating the transaction price.
Step 4 – Allocate the transaction price to the performance obligations in the contract. An estimate has been made by the group in allocating the transaction price to the performance obligation, based on an adjusted market assessment approach, or expected cost plus margin approach dependent on revenue stream.
Step 5 – Determine when to recognise revenue. This is an accounting judgement which has been detailed further below.

A level of estimation is required in assessing the level of potential customer returns for certain hardware products.

*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. Total intangible assets of £15.5m were recognised in respect of the three acquisitions completed in the year, and the net book value of all intangible assets is £38.8m at the end of the financial year.

Estimation uncertainty exists due to actual results varying 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. An impairment of £0.6m was recognised in respect of the Travel Compensation Services Limited acquisition that was made in the previous financial year.

*Contingent consideration*

Within the share purchase agreements for the acquisitions of Compass Informatics Limited, Cash & Traffic Management Limited, Bellvedi Limited and Tracsis Travel Compensation Services Limited & Delay Repay Sniper Limited, are various provisions relating to the payment of contingent consideration which are linked to financial performance post acquisition. There is a degree of estimation uncertainty in calculating the fair value of the contingent consideration as it is dependent on the future profit performance which results from assumptions about revenues and costs of the acquired businesses, and each of which is subject to a separate share purchase agreement and basis for calculating contingent consideration. Each Share Purchase Agreement contains different provisions for calculating contingent consideration, timeframes over which it is calculated and payable, and therefore sensitivities regarding the total amount to be paid. Included within the balance sheet is a total amount of £6.2m, which is management's best estimates of the fair value of the amount payable in respect of all of the acquisitions which have a remaining contingent consideration liability.

# Notes to the Consolidated Financial Statements continued

**4 Critical Accounting Estimates and Judgements (continued)**

Judgements

*Revenue Recognition*

Judgements have been taken in the application of IFRS 15 Revenue recognition for the first time in these financial statements. Performance obligations have been identified based on the contracts in place with customers in the accounting period. Consideration has subsequently been allocated to these performance obligations. A judgement has been taken by the group as to whether the performance obligations and subsequent revenue recognition is at a point in time or over a period of time. This judgement has been made by the Group with reference to the specific terms of the individual sales contracts.

**5 Acquisitions and investments in the current year**

**a) Acquisition: Compass Informatics Limited ('Compass')**

On 15 January 2019 the Group acquired Compass, a long-established Dublin based business which has been well known for a number of years now and is a natural fit for the Group's Traffic & Data Services division in terms of its strategy of improving its data service. This acquisition, the Group's first overseas transaction, strengthens the product and service offerings to the client base in the UK and also benefit those existing clients retained by Compass in Ireland, and offers potential benefit and cross-sell potential to Tracsis' existing transport clients. Compass is a software development and data analytics company that specialises in combining geographical information systems (GIS), location technologies, data analytics and field computing. The business works across a variety of sectors but derives most of its revenue from transport, asset management, planning, and environmental customers.

The acquisition consideration comprised an initial cash payment of €3.15m (£2.81m) which was funded out of Tracsis cash reserves and the issue of shares in Tracsis to a value of €350k (£0.31m). An additional payment of €0.5m (£0.49m) was also made on a euro for euro basis to reflect the net current asset position of the business, alongside additional contingent consideration of up to €2.0m is payable subject to Compass achieving certain stretched financial targets in the four years post acquisition.

In the year ended 30 September 2018, Compass generated revenue of €4.8m, Profit before Tax of €0.6m, and had net assets of €1.8m.

Under the terms of the acquisition there is a four year earn out period during which Tracsis expects the business to achieve growth.

The contingent consideration could range from €nil to €2.0m depending on the financial performance over the four years since acquisition and the Directors concluded that £1.1m was the fair value of the contingent consideration payable and included this in the balance sheet.

In the period to 31 July 2019 Compass contributed revenue of £2.4m and pre tax profit of £0.3m to the Group's results, before amortisation of associated intangible assets and exceptional deal costs. If the acquisition had occurred on 1 August 2018, management estimates that the contribution to Group revenue would have been £4.3m and Group pre tax profit for the period of £0.1m. 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 2018.

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 and includes the workforce of Compass.

The fair value adjustments 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 £124,000 which are included within administrative expenses.

# Notes to the Consolidated Financial Statements continued

**5 Acquisitions and investments in the current year (continued)**

**a) Acquisition: Compass Informatics Limited (continued)**

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

| | Pre-acquisition carrying amount £000 | Fair value adjustments £000 | Recognised value on acquisition £000 |
|---|---|---|---|
| Intangible assets: Technology assets | - | 1,183 | 1,183 |
| Intangible assets: Customer related intangibles | - | 2,313 | 2,313 |
| Tangible fixed assets | 25 | - | 25 |
| Cash and cash equivalents | 444 | - | 444 |
| Trade and other receivables | 533 | - | 533 |
| Trade and other payables | (273) | - | (273) |
| Income tax payable | (53) | - | (53) |
| Deferred tax asset/(liability) | 105 | (594) | (489) |
| Net identified assets and liabilities | 781 | 2,902 | 3,683 |
| Goodwill on acquisition | | | 1,021 |
| | | | 4,704 |

| | |
|---|---|
| Consideration paid in cash | 3,260 |
| Consideration paid: fair value of shares issued | 312 |
| Fair value of contingent consideration payable | 1,132 |
| Total consideration | 4,704 |

**b) Acquisition: Cash & Traffic Management Limited ('CTM')**

On 16 January 2019, the Group acquired CTM, a well-established provider of event traffic planning, admission control, and a range of other event-related services to some of the UK's largest and most prestigious event clients. CTM is highly complementary to the Tracsis Traffic & Data Services division with good cross-sell potential along with clear synergy benefits with Tracsis' existing SEP Events business which was an excellent acquisition for Tracsis, that should lead to margin improvement in the fullness of time.

CTM has an excellent track record of organic growth, client retention and profitability over many years. The acquisition consideration comprised an initial cash payment of £1.305m which was funded out of Tracsis cash reserves and the issue shares in Tracsis to a value of £0.155m, along with an additional payment of £0.528m to reflect the net current asset position of the business. Additional contingent consideration of up to £0.75m is payable subject to CTM achieving certain stretch financial targets in the two years post acquisition.

In the period ended 15 January 2019, CTM generated revenue of £5.2m, Profit before Tax of £0.35m, and had net assets of £1.1m.

Under the terms of the acquisition there is a two year earn out period during which Tracsis expects the business to achieve growth.

The contingent consideration could range from £nil to £0.75m depending on the financial performance over the two years since acquisition and the Directors concluded that £0.6m was the fair value of the contingent consideration payable and included this in the balance sheet.

# Notes to the Consolidated Financial Statements continued

**5 Acquisitions and investments in the current year (continued)**

**b) Acquisition: Cash & Traffic Management Limited ('CTM') (continued)**

In the period to 31 July 2019 CTM contributed revenue of £3.1m and pre tax profit of £0.4m to the Group's results, before amortisation of associated intangible assets and exceptional deal costs. If the acquisition had occurred on 1 August 2018, management estimates that the contribution to Group revenue would have been £5.5m and Group pre tax profit for the period of £0.5m. 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 2018.

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 and includes the workforce of CTM.

The fair value adjustments 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 £56,000 which are included within administrative expenses.

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 related intangibles | - | 1,768 | 1,768 |
| Tangible fixed assets | 116 | - | 116 |
| Cash and cash equivalents | 955 | - | 955 |
| Trade and other receivables | 488 | - | 488 |
| Trade and other payables | (372) | - | (372) |
| Income tax payable | (77) | - | (77) |
| Deferred tax liability | (22) | (300) | (322) |
| Net identified assets and liabilities | 1,088 | 1,468 | 2,556 |
| Goodwill on acquisition | | | 32 |
| | | | 2,588 |
| | | | |
| Consideration paid in cash | | | 1,833 |
| Consideration paid: fair value of shares issued | | | 155 |
| Fair value of contingent consideration payable | | | 600 |
| Total consideration | | | 2,588 |

# Notes to the Consolidated Financial Statements continued

**5 Acquisitions and investments in the current year (continued)**

**c) Acquisition: Bellvedi Limited ('Bellvedi')**

On 1 May 2019, the Group acquired Bellvedi Limited a UK based software company that operates within the rail industry and specialises in timetabling optimisation software. Bellvedi's key product, ATTUne, is a timetable planning software package and is extensively used by Train Operating Companies, infrastructure providers, franchise bidding teams and rail consultancies for the creation, validation, optioneering and optimisation of timetables in time pressured environments.

Tracsis and Bellvedi have partnered on several significant software projects - most notably on Tracsis' recent major contract wins - with the ATTUne software forming a key part of the TRACS Enterprise offering. As such, the acquisition of Bellvedi is strategically important and highly complementary to the Tracsis software offering and future product roadmap.

The acquisition consideration comprised an initial cash payment of £3.7m which was funded out of Tracsis cash reserves and the issue of shares in Tracsis to a value of £0.3m. An additional payment of £0.91m was also made on a pound for pound basis to reflect the net current asset position of the business, alongside additional contingent consideration of up to £7.9m is payable subject to Bellvedi achieving certain stretched financial targets in the four years post acquisition.

In the 13 month period ended 29 April 2019, Bellvedi generated revenue of £1.8m, Profit before Tax of £0.8m, and had net assets of £0.9m.

Under the terms of the acquisition there is a four year earn out period during which Tracsis expects the business to achieve significant growth.

The contingent consideration could range from £nil to £7.9m depending on the financial performance over the four years since acquisition and the Directors concluded that £4.1m was the fair value of the contingent consideration payable and included this in the balance sheet.

In the period to 31 July 2019 Bellvedi contributed revenue of £0.4m and pre tax profit of £0.1m to the Group's results, before amortisation of associated intangible assets and exceptional deal costs. If the acquisition had occurred on 1 August 2018, management estimates that the contribution to Group revenue would have been £1.6m and Group pre tax profit for the period of £0.7m. 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 2018.

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 and includes the workforce of Bellvedi.

The fair value adjustments 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 £60,000 which are included within administrative expenses.

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

# Notes to the Consolidated Financial Statements continued

**5 Acquisitions and investments in the current year (continued)**

**c) Acquisition: Bellvedi Limited ('Bellvedi') (continued)**

| | Pre-acquisition carrying amount £000 | Fair value adjustments £000 | Recognised value on acquisition £000 |
|---|---|---|---|
| Intangible assets: Technology assets | - | 4,663 | 4,663 |
| Intangible assets: Customer related intangibles | - | 4,443 | 4,443 |
| Tangible fixed assets | 7 | - | 7 |
| Cash and cash equivalents | 1,490 | - | 1,490 |
| Trade and other receivables | 239 | (63) | 176 |
| Trade and other payables | (750) | 417 | (333) |
| Income tax payable | (69) | - | (69) |
| Deferred tax liability | - | (1,512) | (1,512) |
| Net identified assets and liabilities | 917 | 7,948 | 8,865 |
| Goodwill on acquisition | | | 40 |
| | | | 8,905 |
| | | | |
| Consideration paid in cash | | | 4,553 |
| Consideration paid: fair value of shares issued | | | 295 |
| Fair value of contingent consideration payable | | | 4,057 |
| Total consideration | | | 8,905 |

**d) 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 totalling £1.0m, plus a warrant for a further £0.3m. The first tranche of the investment took place during the year ended 31 July 2017 and comprised an investment of £0.425m in return for 11.4%. Tranches two and three were made during the year ending 31 July 2018, and comprised a further investment of £0.575m in return for a further 11.9% to take the total investment to 23.3%, for total consideration of £1.0m. The final tranche of investment was completed in year ended 31 July 2019 following the exercise of a £0.3m warrant increasing the Group's equity stake to 28.1%.

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.

During the year, Vivacity Labs Limited completed a fund raising exercise where it raised £1.15m at a pre money valuation of £7m. The Group did not participate in this fund raise and as a result, its shareholding reduced from 28.1% to 24.6%.

It has been accounted for as an associated undertaking in year ended 31 July 2019. Further details are provided in note 16.

# Notes to the Consolidated Financial Statements continued

**5 Acquisitions and investments in the current year (continued)**

**e) Investment: 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.

The investment is carried at fair value.

During the year, Citi Logik Limited completed a fund raising exercise where it raised £1.15m at a pre money valuation of £2.85m. Tracsis invested £0.1m and as a result, its equity stake reduced from 17.2% to 14.9%.

**6 Revenue and Segmental analysis**

**a) Revenue**

Sales revenue is summarised below

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Rail Technology & Services | **21,934** | 18,968 |
| Traffic & Data Services | **27,285** | 20,866 |
| Total revenue | **49,219** | 39,834 |

Revenue can also be analysed as follows:

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Software and related services | **14,839** | 14,010 |
| Other | **34,380** | 25,824 |
| Total | **49,219** | 39,834 |

Revenue to come from contracts entered into with performance obligations not fulfilled or only partially fulfilled amounted to £16.1m as at 31 July 2019.

**Major customers**
Transactions with the Group's largest customer represent 18% of the Group's total revenues (2018: 14%).

**Geographic split of revenue**
A geographical analysis of revenue is provided below:

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| United Kingdom | **45,511** | 38,388 |
| North America | **106** | 260 |
| Rest of the World | **3,602** | 1,186 |
| Total | **49,219** | 39,834 |

# Notes to the Consolidated Financial Statements continued

**6 Revenue and Segmental analysis (continued)**

**b) Segmental Analysis**

The Group has divided its results into two segments being 'Rail Technology and Services' and 'Traffic & Data Services'. Bellvedi Limited is included in "Rail Technology and Services", and Cash & Traffic Management Limited and Compass Informatics Limited are included in "Traffic & Data Services".

The Group has a wide range of products and services and products and services for the rail industry, such as software, hosting services, consultancy and remote condition monitoring, and these have been included within the Rail Technology & Services segment as they have similar customer bases (such as Train Operating Companies and Infrastructure Providers), whereas traffic data collection and event planning & traffic management have similar economic characteristics and distribution methods and so have been included within the Traffic & Data Services segment.

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

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

**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.

| | 2019 | | | |
|---|---|---|---|---|
| | **Rail Technology & Services** | **Traffic & Data Services** | **Unallocated** | **Total** |
| | **£000** | **£000** | **£000** | **£000** |
| Revenues | | | | |
| Total revenue for reportable segments | **21,934** | **27,285** | **-** | **49,219** |
| Consolidated revenue | **21,934** | **27,285** | **-** | **49,219** |
| Profit or loss | | | | |
| EBITDA for reportable segments | **6,932** | **3,582** | **-** | **10,514** |
| Amortisation of intangible assets | **-** | **-** | **(2,251)** | **(2,251)** |
| Depreciation | **(166)** | **(665)** | **-** | **(831)** |
| Exceptional items | **(60)** | **(1)** | **99** | **38** |
| Other operating income | **-** | **-** | **260** | **260** |
| Share-based payment charges | **-** | **-** | **(1,034)** | **(1,034)** |
| Interest receivable/payable(net) | **-** | **-** | **37** | **37** |
| Share of result of equity accounted investees | **-** | **-** | **(174)** | **(174)** |
| Consolidated profit before tax | **6,706** | **2,916** | **(3,063)** | **6,559** |

# Notes to the Consolidated Financial Statements continued

## 6 Revenue and Segmental analysis (continued)

### b) Segmental Analysis (continued)

| | 2018 | | | |
|---|---|---|---|---|
| | Rail Technology & Services £000 | Traffic & Data Services £000 | Unallocated £000 | Total £000 |
| Revenues | | | | |
| Total revenue for reportable segments | 18,968 | 20,866 | - | 39,834 |
| Consolidated revenue | 18,968 | 20,866 | - | 39,834 |
| Profit or loss | | | | |
| EBITDA for reportable segments | 6,802 | 2,623 | - | 9,425 |
| Amortisation of intangible assets | - | - | (1,774) | (1,774) |
| Depreciation | (135) | (625) | - | (760) |
| Exceptional items | 2,572 | - | - | 2,572 |
| Other operating income | - | - | 214 | 214 |
| Share-based payment charges | - | - | (1,193) | (1,193) |
| Interest receivable/payable(net) | - | - | (8) | (8) |
| Share of result of equity accounted investees | - | - | (201) | (201) |
| Consolidated profit before tax | 9,239 | 1,998 | (2,962) | 8,275 |

| | **2019** | | | |
|---|---|---|---|---|
| | **Rail Technology & Services £'000** | **Traffic & Data Services £000** | **Unallocated £000** | **Total £000** |
| **Assets** | | | | |
| Total assets for reportable segments (exc. cash) | **3,257** | **9,531** | **-** | **12,788** |
| Intangible assets and investments | **-** | **-** | **40,510** | **40,510** |
| Deferred tax assets | **-** | **-** | **667** | **667** |
| Cash and cash equivalents | **12,866** | **5,817** | **5,421** | **24,104** |
| Consolidated total assets | **16,123** | **15,348** | **46,598** | **78,069** |
| | | | | |
| **Liabilities** | | | | |
| Total liabilities for reportable segments | **(10,568)** | **(7,435)** | **-** | **(18,003)** |
| Deferred tax liabilities | **-** | **-** | **(5,942)** | **(5,942)** |
| Contingent consideration | **-** | **-** | **(6,183)** | **(6,183)** |
| Consolidated total liabilities | **(10,568)** | **(7,435)** | **(12,125)** | **(30,128)** |

# Notes to the Consolidated Financial Statements continued

**6 Revenue and Segmental analysis (continued)**

**b) Segmental Analysis (continued)**

| | 2018 | | | |
|---|---|---|---|---|
| | Rail Technology & Services £'000 | Traffic & Data Services £000 | Unallocated £000 | Total £000 |
| Assets | | | | |
| Total assets for reportable segments (exc. cash) | 3,142 | 6,621 | - | 9,763 |
| Intangible assets and investments | - | - | 27,695 | 27,695 |
| Deferred tax assets | - | - | 602 | 602 |
| Cash and cash equivalents | 5,673 | 3,520 | 13,136 | 22,329 |
| Consolidated total assets | 8,815 | 10,141 | 41,433 | 60,389 |
| | | | | |
| Liabilities | | | | |
| Total liabilities for reportable segments | (6,489) | (4,651) | - | (11,140) |
| Deferred tax | - | - | (3,875) | (3,875) |
| Contingent consideration | - | - | (3,265) | (3,265) |
| Consolidated total liabilities | (6,489) | (4,651) | (7,140) | (18,280) |

# Notes to the Consolidated Financial Statements continued

## 7 Employees and personnel costs

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Staff costs: | | |
| Wages and salaries | **21,591** | 17,240 |
| Social security contributions | **1,703** | 1,374 |
| Contributions to defined contribution plans | **605** | 352 |
| Equity-settled share based payment transactions | **1,034** | 1,193 |
| | **24,933** | 20,159 |
| | | |
| Average number of permanent staff | **462** | 394 |
| Average number of casual staff (full time equivalents) | **315** | 273 |
| | **777** | 667 |

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 19 to 22. Total directors' remuneration, including bonus and pension contributions was £812,000 (2018: £750,000). The aggregate remuneration of the highest paid director was £312,000 (2018: £376,000). The highest paid director did not exercise any share options nor did he receive any shares under a long term incentive plan during the year. No directors (2018: one) exercised share options during the year. Two directors (2018: two) participate in the long term incentive plan. Two directors (2018: two) receive employer pension contributions into a personal pension scheme. Directors of the Company control 0.6% of the voting shares of the company (2018: 4.4%). Details of other key management personnel are disclosed in note 27.

## 8 Share based payments

The Group has various share option schemes for its employees.

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 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 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 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 to 2018 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* | | | | | | |
| 22/09/2011 | 1 | 8,000 | Time served | 63.5 | 22/03/2012* | 22/09/2021 |
| 02/08/2012 | 5 | 10,089 | Time served | 0.40 | 02/08/2013** | 02/08/2022 |
| 02/08/2012 | 2 | 20,000 | Time served | 123.0 | 02/02/2013* | 02/08/2022 |
| 08/01/2013 | 1 | 6,000 | 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 | 3 | 19,501 | Time served | 162.5 | 01/02/2014* | 01/08/2023 |
| 01/08/2013 | 3 | 2,678 | Time served | 0.40 | 01/08/2014** | 01/08/2023 |
| 01/01/2014 | 1 | 7,250 | Time served | 199.5 | 01/07/2014* | 01/01/2024 |
| 01/08/2014 | 18 | 52,870 | Time served | 0.40 | 01/08/2015** | 01/08/2024 |
| 01/08/2015 | 47 | 91,014 | Time served | 0.40 | 01/08/2016**** | 01/08/2025 |
| 25/09/2015 | 18 | 52,603 | Time served | 0.40 | 25/09/2016**** | 25/09/2025 |
| 01/12/2015 | 5 | 53,188 | Time served | 0.40 | 01/12/2016**** | 01/12/2025 |
| 01/08/2016 | 69 | 193,374 | Time served | 0.40 | 01/08/2017**** | 01/08/2026 |
| 01/08/2017 | 45 | 79,281 | Time served | 0.40 | 01/08/2018**** | 01/08/2027 |
| 01/08/2018 | 89 | 132,550 | Time served | 0.40 | 01/08/2019**** | 01/08/2028 |
| 16/01/2019 | 17 | 57,878 | Time served | 0.40 | 16/01/2020**** | 16/01/2029 |
| 01/05/2019 | 7 | 40,075 | Time served | 0.40 | 01/05/2023 ***** | 01/05/2029 |
| *Directors' schemes* | | | | | | |
| 15/12/2015 | 1 | 18,370 | EPS and TSR | 0.40 | 15/12/2018 | 15/12/2025 |
| 06/01/2017 | 2 | 55,412 | EPS and TSR | 0.40 | 06/01/2020 | 06/01/2027 |
| 28/02/2018 | 1 | 44,342 | EPS and TSR | 0.40 | 28/02/2021 | 28/02/2028 |
| 01/05/2019 | 1 | 21,417 | Time served | 0.40 | 04/02/2022 | 04/02/2029 |
| **Outstanding** | | **1,035,892** | | | | |

* 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

***** Vesting of these options are linked to time served and also the financial performance of Bellvedi Limited which was acquired during the year

# 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:

| | **2019 Number** | **2019 Weighted Average Exercise Price** | 2018 Number | 2018 Weighted Average Exercise Price |
|---|---|---|---|---|
| Outstanding at 1 August | **1,095,090** | **26.9p** | 1,342,730 | 44.0p |
| Granted | **252,928** | **0.4p** | 137,103 | 0.4p |
| Lapsed | **(22,697)** | **0.4p** | (43,012) | 0.4p |
| Exercised | **(289,429)** | **34.6p** | (341,731) | 86.7p |
| Outstanding at 31 July | **1,035,892** | **18.9p** | 1,095,090 | 26.9p |
| Exercisable at 31 July | **559,300** | **35.0p** | 613,006 | 47.6p |

Share options were exercised at numerous points in the year, and the average share price for the year ended 31 July 2019 was 643p (2018: 515p).

The share options outstanding at the end of the year have a weighted average remaining contractual life of 6.9 years (2018: 5 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 | 22/09/2011 | 02/08/2012 | 02/08/2012 | 01/11/2012 | 08/01/2013 | 28/01/2013 | 01/08/2013 |
|---|---|---|---|---|---|---|---|
| Share price at date of grant | 63.5p | 123.0p | 123.0p | 133.5p | 159.0p | 155.0p | 162.5p |
| Exercise price | 63.5p | 0.4p | 123.0p | 133.5p | 159.0p | 155.0p | 162.5p |
| Vesting period (years) | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Expected volatility | 50% | 20% | 20% | 20% | 20% | 20% | 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 | 01/08/2013 | 01/01/2014 | 01/08/2014 | 01/08/2015 | 25/09/2015 | 01/12/2015 | 15/12/2015 |
|---|---|---|---|---|---|---|---|
| Share price at date of grant | 162.5p | 199.5p | 330.0p | 420.0p | 452.5p | 462.5p | 550.0p |
| Exercise price | 0.4p | 199.5p | 0.4p | 0.4p | 0.4p | 0.4p | 0.4p |
| Vesting period (years) | 3 | 3 | 3 | 3.5 | 3.5 | 3.5 | 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 | - | - | - | - | - | - | - |

# Notes to the Consolidated Financial Statements continued

## 8 Share based payments (continued)

*Options granted in previous years (continued):*

| Options granted on | 01/08/ 2016 | 06/01/ 2017 | 01/08/20 17 | 28/02/20 18 |
|---|---|---|---|---|
| Share price at date of grant | 438.0p | 502.5p | 445.0p | 500.0p |
| Exercise price | 0.4p | 0.4p | 0.4p | 0.4p |
| Vesting period (years) | 3.5 | 3 | 3.5 | 3 |
| Expected volatility | 30% | 30% | 30% | 30% |
| 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 | - | - | - | - |

*Options granted in the current year:*

| Options granted on | 01/08/ 2018 | 16/01/ 2019 | 01/05/ 2019 | 01/05/ 2019 |
|---|---|---|---|---|
| Share price at date of grant | 625.0p | 595.0p | 655.0p | 655.0p |
| Exercise price | 0.4p | 0.4p | 0.4p | 0.4p |
| Vesting period (years) | 3.5 | 3.5 | 3.5 | 3 |
| Expected volatility | 30% | 30% | 30% | 30% |
| 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 | - | - | - | - |

The expected volatility is based on the historic volatility of the Company's share price. An assessment of the likelihood of market conditions being achieved is made at the time that the options are granted.

**Charge to the income statement**

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Share based payment charges | **1,034** | 1,193 |

## 9 Operating profit

### 9.1 Operating profit is stated after charging:

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Depreciation of property, plant and equipment - owned | **604** | 592 |
| Depreciation of property, plant and equipment - leased | **227** | 168 |
| Total depreciation | **831** | 760 |
| Total amortisation | **2,251** | 1,774 |
| Loss on disposal of plant and equipment | **12** | 17 |
| Operating lease rentals: Land and buildings | **499** | 474 |
| Operating lease rentals: Plant & machinery | **61** | 37 |
| Total operating lease rentals | **560** | 511 |
| Research and development expenditure expensed as incurred | **2,166** | 1,942 |

# Notes to the Consolidated Financial Statements continued

### 9.2 Auditor's remuneration:

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Audit of these financial statements | **30** | 25 |
| Amounts receivable by auditors and their associates in respect of: | | |
| - Audit of financial statements of subsidiaries pursuant to legislation | **119** | 75 |
| - Other services | **-** | - |

### 9.3 Exceptional items:

The Group incurred a number of exceptional items in 2019 and 2018 which are analysed as follows:

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Non cash: | | |
| Goodwill impairment | **623** | - |
| Contingent consideration credit | **(722)** | (2,653) |
| Cash: | | |
| Disposal of non core data capture operation | **(179)** | - |
| Legal and professional fees in respect of acquisitions | **240** | 81 |
| Total exceptional items | **(38)** | (2,572) |

**2019**

During 2019, the Group acquired Compass Informatics Limited, Cash & Traffic Management Limited and Bellvedi Limited, and incurred £240,000 of exceptional deal related costs as a result. The Group also disposed of a small, non core data capture business with a net profit on disposal of £179,000. This operation had revenue in the period prior to its disposal of £0.3m and a profit/loss of £nil.

The Group conducted a review of the remaining intangible assets which arose on the acquisition of Travel Compensation Services Limited (renamed Tracsis Travel Compensation Services Limited) and Delay Repay Sniper Limited. Following this review, the Group has determined that an impairment of £623,000 existed in goodwill. The contingent consideration related to this acquisition has also been re-assessed, resulting in an exceptional credit to the Statement of Comprehensive Income of £722,000.

**2018**

During 2018, the Group acquired Travel Compensation Services Limited and Delay Repay Sniper Limited, and incurred £81,000 of exceptional deal related costs as a result. An exceptional credit on contingent consideration arose as the final amounts in respect of the acquisition of Ontrac Limited was finalised and £2,058,000 was paid post year end against an amount included in the Balance Sheet of £4,711,000 resulting in an exceptional credit of £2,653,000

### 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 £260,000 in 2019 (2018: £214,000).

### 10 Finance income

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Interest received on bank deposits | **58** | 19 |

# Notes to the Consolidated Financial Statements continued

## 11 Finance expense

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Interest on finance lease obligations | **21** | 27 |

## 12 Taxation

**Recognised in the income statement**

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| **Current tax expense** | | |
| Current year | **1,571** | 1,515 |
| Adjustment in respect of prior periods | **(6)** | - |
| Total current tax | **1,565** | 1,515 |
| **Deferred tax** | | |
| Current year | | |
| Origination and reversal of temporary differences | **(77)** | (486) |
| Rate changes | **-** | - |
| Total deferred tax | **(77)** | (486) |
| **Total tax in income statement** | **1,488** | 1,029 |

Reconciliation of the effective tax rate

| | **2019** | **2019** | 2018 | 2018 |
|---|---|---|---|---|
| | **£000** | **%** | £000 | % |
| Profit before tax for the period | **6,559** | **100.0** | 8,275 | 100.0 |
| Expected tax charge based on the standard rate of corporation tax in the UK of 19.0% (2018: 19.0%) | **1,246** | **19.0** | 1,572 | 19.0 |
| Expenses not deductible for tax purposes | **77** | **1.2** | 26 | 0.3 |
| Non taxable income | **-** | **-** | (504) | (6.1) |
| Adjustments in respect of previous years | **(6)** | **(0.1)** | - | - |
| Other movements | **171** | **2.6** | (65) | (0.8) |
| Total tax expense | **1,488** | **22.7** | 1,029 | 12.4 |

Reductions in the corporation tax rate from 19% 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, and substantively enacted on 6 September 2016. The deferred tax asset and liability at 31 July 2019 and 31 July 2018 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.

## 13 Earnings per share

**Basic earnings per share**

The calculation of basic earnings per share at 31 July 2019 was based on the profit attributable to ordinary shareholders of £5,071,000 (2018: £7,246,000) and a weighted average number of ordinary shares in issue of 28,521,000 (2018: 28,196,000), calculated as follows:

**Weighted average number of ordinary shares**

In thousands of shares

| | **2019** | 2018 |
|---|---|---|
| Issued ordinary shares at 1 August | **28,334** | 27,964 |
| Effect of shares issued related to business combinations | **54** | 14 |
| Effect of shares issued for cash | **133** | 218 |
| Weighted average number of shares at 31 July | **28,521** | 28,196 |

# Notes to the Consolidated Financial Statements continued

**13 Earnings per share (continued)**

**Diluted earnings per share**

The calculation of diluted earnings per share at 31 July 2019 was based on profit attributable to ordinary shareholders of £5,071,000 (2018: £7,246,000) and a weighted average number of ordinary shares in issue after adjustment for the effects of all dilutive potential ordinary shares of 29,387,000 (2018: 29,159,000):

**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. These figures are relevant to the Group and are provided to provide a comparison to similar businesses and are metrics used by Equities Analysts who cover the Group. The largest components of the adjusting items, being amortisation, and share based payment charges are deemed to be 'non cash' in nature, and therefore excluded in order to assist with the understanding of underlying trading. A reconciliation of this figure is provided below. The Group has also presented an 'adjusted Profit' metric as detailed in note 31, with the key difference between the numbers presented below, and those disclosed in note 31 being the income tax charge.

| | **2019** | 2018 |
|---|---|---|
| | **£'000** | £'000 |
| Profit attributable to ordinary shareholders | **5,071** | 7,246 |
| Amortisation of intangible assets | **2,251** | 1,774 |
| Share-based payment charges | **1,034** | 1,193 |
| Exceptional items | **(38)** | (2,572) |
| Other operating income | **(260)** | (214) |
| Adjusted profit for EPS purposes | **8,058** | 7,427 |

**Weighted average number of ordinary shares**
In thousands of shares

| | | |
|---|---|---|
| For the purposes of calculating Basic earnings per share | **28,521** | 28,196 |
| Adjustment for the effects of all dilutive potential ordinary shares | **29,387** | 29,159 |

| | | |
|---|---|---|
| Basic adjusted earnings per share | **28.25p** | 26.34p |
| Diluted adjusted earnings per share | **27.42p** | 25.47p |

# 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 2017 | 400 | 1,376 | 1,619 | 2,199 | 5,594 |
| Additions | - | 54 | 143 | 343 | 540 |
| Arising on acquisition | - | - | 10 | - | 10 |
| Disposals | - | (210) | (147) | (582) | (939) |
| At 31 July 2018 | 400 | 1,220 | 1,625 | 1,960 | 5,205 |
| Additions | - | 625 | 357 | 375 | 1,357 |
| Arising on acquisition | - | 76 | 37 | 35 | 148 |
| Disposals | - | (463) | (66) | (64) | (593) |
| At 31 July 2019 | 400 | 1,458 | 1,953 | 2,306 | 6,117 |
| | | | | | |
| **Depreciation** | | | | | |
| At 1 August 2017 | 78 | 484 | 1,384 | 1,187 | 3,133 |
| Charge for the year | 12 | 224 | 157 | 367 | 760 |
| Disposals | - | (151) | (147) | (571) | (869) |
| At 31 July 2018 | 90 | 557 | 1,394 | 983 | 3,024 |
| Charge for the year | 15 | 236 | 180 | 400 | 831 |
| Disposals | - | (308) | (57) | (51) | (416) |
| At 31 July 2019 | 105 | 485 | 1,517 | 1,332 | 3,439 |
| | | | | | |
| **Net book value** | | | | | |
| At 1 August 2017 | 322 | 892 | 235 | 1,012 | 2,461 |
| At 31 July 2018 | 310 | 663 | 231 | 977 | 2,181 |
| **At 31 July 2019** | **295** | **973** | **436** | **974** | **2,678** |

The net book value of assets held under finance lease obligations is £882,000 (2018: £511,000).

# 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 2017 | 3,025 | 22,373 | 3,974 | 29,372 |
| Arising on acquisition | 623 | 1,238 | 1,678 | 3,539 |
| At 31 July 2018 | 3,648 | 23,611 | 5,652 | 32,911 |
| Arising on acquisition | 1,093 | 8,524 | 5,846 | 15,463 |
| At 31 July 2019 | 4,741 | 32,135 | 11,498 | 48,374 |
| **Amortisation and impairment** | | | | |
| At 1 August 2017 | - | 3,548 | 1,366 | 4,914 |
| Charge for the year | - | 1,327 | 447 | 1,774 |
| At 31 July 2018 | - | 4,875 | 1,813 | 6,688 |
| Impairment charge | 623 | - | - | 623 |
| Charge for the year | - | 1,573 | 678 | 2,251 |
| At 31 July 2019 | 623 | 6,448 | 2,491 | 9,562 |
| **Carrying amounts** | | | | |
| At 1 August 2017 | 3,025 | 18,825 | 2,608 | 24,458 |
| At 31 July 2018 | 3,648 | 18,736 | 3,839 | 26,223 |
| **At 31 July 2019** | **4,118** | **25,687** | **9,007** | **38,812** |

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** | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **£000** | £000 | **£000** | £000 | **£000** | £000 |
| Tracsis Rail Consultancy Limited | **671** | 671 | **354** | 390 | **-** | - |
| Tracsis Passenger Analytics Limited | **43** | 43 | **185** | 203 | **-** | - |
| Safety Information Systems Limited | **136** | 136 | **140** | 154 | **7** | 31 |
| MPEC Technology Limited | **269** | 269 | **755** | 819 | **125** | 193 |
| Tracsis Traffic Data Limited | **390** | 390 | **632** | 802 | **-** | - |
| Datasys Integration Limited | **359** | 359 | **2,291** | 2,446 | **795** | 961 |
| SEP Limited | **555** | 555 | **966** | 1,039 | **-** | - |
| Ontrac Technology Limited | **602** | 602 | **11,021** | 11,695 | **886** | 1,026 |
| Tracsis Travel Compensation Services Limited & Delay Repay Sniper Limited | **-** | 623 | **1,126** | 1,188 | **1,460** | 1,628 |
| Cash & Traffic Management Limited | **32** | - | **1,672** | - | **-** | - |
| Compass Informatics Limited | **1,021** | - | **2,188** | - | **1,119** | - |
| Bellvedi Limited | **40** | - | **4,357** | - | **4,615** | - |
| | **4,118** | 3,648 | **25,687** | 18,736 | **9,007** | 3,839 |

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

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Administrative expenses | **2,251** | 1,774 |

# 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.

| | **2019** | 2018 |
|---|---|---|
| Long term growth rate | **1.0%** | 1.0% |
| Discount rate | **10-12%** | 10-12% |

A rate of 10% is used for impairment testing within the Rail Technology & Services segment, and a rate of 12% is used for impairment testing within the Traffic & Data Services segment.

The directors' key assumptions relate to profitability, revenue growth and the discount rate, however, carrying value is not significantly sensitive to reasonably foreseeable changes in these assumptions in respect of all acquired intangible assets with the exception of the goodwill relating to the acquisition of Travel Compensation Services Limited and Delay Repay Sniper Limited which has been assessed by the Group in the year and an impairment of £623,000 has been recognised in these financial statements.

## 16 Investments

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

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

| | % held At 31 July | **2019 £000** | 2018 £000 |
|---|---|---|---|
| Citi Logik Limited | 14.9% | **600** | 500 |
| Nutshell Software Limited | 37.8% | **500** | 500 |
| Vivacity Labs Limited | 24.6% | **1,300** | 1,000 |
| | | **2,400** | 2,000 |

These are split as follows:

*Equity investments:*

| | **2019 £000** | 2018 £000 |
|---|---|---|
| Citi Logik Limited | **475** | 375 |
| Nutshell Software Limited | **250** | 250 |
| Vivacity Labs Limited | **1,300** | 1,000 |
| | **2,025** | 1,625 |

# Notes to the Consolidated Financial Statements continued

## 16 Investments (continued)

*Convertible Loan notes receivable from investments:*

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Citi Logik Limited | **125** | 125 |
| Nutshell Software Limited | **250** | 250 |
| | **375** | 375 |

During the previous financial year, the Group increased its investment in Vivacity Labs Limited from 11.4% to 23.3% and as such it has been accounted for as an equity accounted investee. A share of the loss of £192,000 (2018: £121,000) was recognised.

Nutshell Software Limited was accounted for as an associated undertaking, with a share of profit of £18,000 (2018: loss of £80,000).

The carrying value of the investments as follows:

*Investments – equity*

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Citi Logik Limited | **350** | 250 |
| | **350** | 250 |

*Convertible Loan notes receivable from associated undertakings:*

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Nutshell Software Limited | **250** | 250 |
| | **250** | 250 |

*Investments in equity accounted investees:*

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Nutshell Software Limited | **111** | 93 |
| Vivacity Labs Limited | **987** | 879 |
| | **1,098** | 972 |

# Notes to the Consolidated Financial Statements continued

## 17 Inventories

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Raw materials & work in progress | **124** | 180 |
| Finished goods | **257** | 73 |
| | **381** | 253 |

The value of inventories expensed in the period in cost of sales was £1,402,000 (2018: £698,000). 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 Finance leases and hire purchase contracts

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Due within one year | **277** | 157 |
| Due after more than one year: | | |
| Between one and two years | **241** | 114 |
| Between two and three years | **44** | 7 |
| Total due after more than one year | **285** | 121 |
| Total obligation | **562** | 278 |

A reconciliation of the obligation is stated below.

| | 2019 £000 | 2018 £000 |
|---|---|---|
| At start of the year | **278** | 550 |
| New contracts | **626** | 31 |
| Repayments | **(342)** | (303) |
| At end of the year | **562** | 278 |

| | Carrying amount £000 | Contractual cash flows £000 | Less than one year £000 | One to Two years £000 | Two to Five years £000 |
|---|---|---|---|---|---|
| Finance lease and hire purchase obligations | | | | | |
| **2019** | **562** | **601** | **306** | **247** | **48** |
| 2018 | 278 | 301 | 172 | 120 | 9 |

# Notes to the Consolidated Financial Statements continued

## 19 Trade and other receivables

| | 2019 | 2018 |
|---|---|---|
| | £000 | £000 |
| Trade receivables | **8,884** | 6,573 |
| Other receivables and prepayments | **807** | 521 |
| Amounts recoverable on contracts | **-** | 235 |
| Contract assets | **38** | - |
| | **9,729** | 7,329 |

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 as detailed in note 6 (2019: 18% of revenue, 2018: 14% of revenue), 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 fair values of trade and other receivables are the same as their book values.

The expected credit loss for group trade receivables is immaterial. 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 continues to evolve.

The summarised ageing analysis of trade receivables past due but considered to be not impaired is as follows:

| | 2019 | 2018 |
|---|---|---|
| | £000 | £000 |
| Under 30 days overdue | **1,536** | 978 |
| Between 30 and 60 days overdue | **283** | 80 |
| Over 60 days overdue | **-** | - |
| | **1,819** | 1,058 |

The other classes within trade and other receivables do not contain impaired assets.

# Notes to the Consolidated Financial Statements continued

## 20 Trade and other payables

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Trade payables | **1,445** | 1,075 |
| Other tax and social security | **3,196** | 2,122 |
| Contract liabilities | **7,991** | 3,740 |
| Accruals and other payables | **4,304** | 3,379 |
| | **16,936** | 10,316 |

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

Contract liabilities relates to consideration received in advance of the completion of the associated performance obligation.

## 21 Contingent consideration

During the financial year, the Group acquired Cash & Traffic Management Limited, Compass Informatics Limited and Bellvedi Limited. Under the share purchase agreements in place for each of these acquisitions, contingent consideration is payable which is linked to the profitability of the acquired businesses for a two to four year period post acquisition. The maximum amount payable is £750,000 for Cash & Traffic Management Limited, €2,000,000 for Compass Informatics Limited and £7,900,000 for Bellvedi Limited. The fair value of the amount payable was assessed at £600,000 for Cash & Traffic Management Limited, £1,132,000 for Compass Informatics Limited and £4,057,000 for Bellvedi Limited.

During the previous financial year, the Group acquired Travel Compensation Services Limited (renamed Tracsis Travel Compensation Services Limited) and Delay Repay Sniper Limited. Under the share purchase agreement, contingent consideration is payable which is linked to the profitability of the acquired businesses for a three year period post acquisition. The maximum amount payable is £4,700,000. The fair value of the amount payable was assessed at £1,200,000 at the previous financial year end date. Contingent consideration of £84,000 has been paid in the year, and the fair value of the consideration has been assessed as £394,000 at 31 July 2019, following an exceptional credit to the Statement of Comprehensive Income of £722,000.

During the financial year, contingent consideration of £2,058,000 was paid in respect of the Ontrac acquisition which was made in year ended 31 July 2016 (2018: £nil), £7,000 in respect of the SEP acquisition which was made in year ended 31 July 2016 (2018: £323,000) and £84,000 in respect of the Travel Compensation Services acquisition which was made in the year end 31 July 2018 (2018: £nil).

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

| | 2019 £000 | 2018 £000 |
|---|---|---|
| SEP Limited | **-** | 7 |
| Ontrac Limited | **-** | 2,058 |
| Tracsis Travel Compensation Services Limited & Delay Repay Sniper Limited | **394** | 1,200 |
| Cash & Travel Management Limited | **600** | - |
| Compass Informatics Limited | **1,132** | - |
| Bellvedi Limited | **4,057** | - |
| | **6,183** | 3,265 |

# Notes to the Consolidated Financial Statements continued

## 21 Contingent consideration (continued)

The Group has made numerous acquisitions over the past few years and carries contingent consideration payable in respect of them, which is considered to be a 'Level 3 financial liability' as defined by IFRS 13. These are carried at fair value, which is based on the estimated amounts payable based on the provisions of the Share Purchase Agreements and involves assumptions about future profit forecasts, which results from assumptions about revenues and costs. The Group has considered multiple profit related scenarios in estimating the fair value of contingent consideration payable in the future. In all cases, contingent consideration payable could range from zero to the maximum amount included in the Share Purchase Agreements as detailed in this note and also note 5. Each Share Purchase Agreement contains different provisions for calculating contingent consideration, timeframes over which it is calculated and payable, and therefore sensitivities regarding the total amount to be paid. The movement on contingent consideration can be summarised as follows:

| | **2019** **£000** | 2018 £000 |
|---|---|---|
| At the start of the year | **3,265** | 5,041 |
| Arising on acquisition | **5,789** | 1,200 |
| Cash payment | **(2,149)** | (323) |
| Release to Statement of Comprehensive Income | **(722)** | (2,653) |
| At the end of the year | **6,183** | 3,265 |

The ageing profile of the remaining liabilities can be summarised as follows:

| | **2019** **£000** | 2018 £000 |
|---|---|---|
| Payable in less than one year | **879** | 2,165 |
| Payable in more than one year | **5,304** | 1,100 |
| Total | **6,183** | 3,265 |

## 22 Deferred tax

| **Non-current liability/(asset)** | **Intangible assets £000** | **Accelerated capital allowances £000** | **Share options £000** | **Other £'000** | **Total £000** |
|---|---|---|---|---|---|
| At 31 July 2017 | 3,644 | 74 | (457) | - | 3,261 |
| Arising on acquisition | 496 | 2 | - | - | 498 |
| (Credit)/charge to statement of comprehensive income (note 12) | (301) | (40) | (145) | - | (486) |
| At 31 July 2018 | 3,839 | 36 | (602) | - | 3,273 |
| Arising on adoption of IFRS 15 (note 32) | - | - | - | (244) | (244) |
| Arising on acquisition (note 5) | 2,406 | 22 | - | (105) | 2,323 |
| (Credit)/charge to statement of comprehensive income (note 12) | (386) | 25 | 40 | 244 | (77) |
| **At 31 July 2019** | **5,859** | **83** | **(562)** | **(105)** | **5,275** |

The closing deferred tax asset and liability has been calculated at 17% as at 31 July 2019 (2018: 17%).

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

| | **2019** **£000** | 2018 £000 |
|---|---|---|
| Deferred tax assets | **(667)** | (602) |
| Deferred tax liabilities | **5,942** | 3,875 |
| Net liability per table above | **5,275** | 3,273 |

# Notes to the Consolidated Financial Statements continued

## 23 Share capital

| | 2019 Number | 2019 £ | 2018 Number | 2018 £ |
|---|---|---|---|---|
| **Allotted, called up and fully paid:** | | | | |
| Ordinary shares of 0.4p each | **28,748,578** | **114,994** | 28,334,086 | 113,336 |

The following share transactions have taken place during the year ended 31 July 2019:

| | 2019 Number | 2018 Number |
|---|---|---|
| At start of the year | **28,334,086** | 27,963,784 |
| Issued as consideration for business combinations | **125,063** | 28,571 |
| Exercise of share options (Note 8) | **289,429** | 341,731 |
| At end of the year | **28,748,578** | 28,334,086 |

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

## 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 was incorporated into retained earnings during a previous year. |
| Translation reserve | Translation differences on retranslation of Irish subsidiary |

# Notes to the Consolidated Financial Statements continued

## 25 Operating leases

The Group leases several office facilities under operating leases plus various other assets. During the year £560,000 was recognised as an expense in the income statement in respect of operating leases (2018: £511,000).

**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:

| | **2019** | 2018 |
|---|---|---|
| | **£'000** | £'000 |
| Within one year | **585** | 338 |
| In the second to fifth years | **726** | 413 |
| | **1,311** | 751 |

**Plant and machinery**

| | **2019** | 2018 |
|---|---|---|
| | **£'000** | £'000 |
| Within one year | **55** | 46 |
| In the second to fifth years | **45** | 72 |
| | **100** | 118 |

## 26 Financial risk management

The principal financial instruments comprise cash and short term deposits (30 day deposit). 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.

| | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Fixed** | **Floating** | | Fixed | Floating | |
| **Financial assets** | **Rate** | **Rate** | **Total** | Rate | Rate | Total |
| | **£000** | **£000** | **£000** | £000 | £000 | £000 |
| Cash and short term deposits | **3,000** | **21,104** | **24,104** | - | 22,329 | 22,329 |

# 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 (1)
- cash at bank (1);
- trade and other payables (1)
- contingent consideration (2)
- investments in equity and debt instruments (3); and
- finance lease liabilities (4)

(1) Items are measured at amortised cost. There are no significant financing components and short-term in nature.
(2) Measured at fair value with changes through the Income Statement
(3) Investments in equity measured at fair value, investments in debt instruments measured at amortised cost
(4) Measured at amortised cost

The group considers that the fair value is materially consistent with amortised cost for those assets measured on this basis. 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 2019, the Group had £3.0m in a fixed rate 30 day deposit account (2018: £nil).

**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. The Group holds its cash balances with highly rated financial institutions and it is also spread across numerous institutions to avoid any exposure to one individual bank.

**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.

**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.

# Notes to the Consolidated Financial Statements continued

## 26 Financial risk management (continued)

**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 and Australian dollar. The Group acquired Compass Informatics Limited during the year which increased its exposure to the Euro given that Compass is based in Ireland and raises the vast majority of its sales invoices in Euros.

**Changes in liabilities from financing activities**

| | Contingent Consideration £000 | Finance leases £000 |
|---|---|---|
| At 1 August 2018 | 3,265 | 278 |
| ***Changes from financing cash flows*** | | |
| Payment of finance lease liabilities | - | (342) |
| Payment of contingent consideration | (2,149) | - |
| **Total changes from financing cash flow** | (2,149) | (342) |
| Changes in fair value | (722) | - |
| ***Other changes*** | | |
| Arising on acquisition | 5,789 | - |
| New finance leases | - | 626 |
| **At 31 July 2019** | **6,183** | **562** |

| | Contingent Consideration £000 | Finance leases £000 |
|---|---|---|
| At 1 August 2017 | 5,041 | 550 |
| *Changes from financing cash flows* | | |
| Payment of finance lease liabilities | - | (303) |
| Payment of contingent consideration | (323) | - |
| Total changes from financing cash flow | (323) | (303) |
| Changes in fair value | (2,653) | - |
| *Other changes* | | |
| Arising on acquisition | 1,200 | - |
| New finance leases | - | 31 |
| At 31 July 2018 | 3,265 | 278 |

# 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 | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **£000** | £000 | **£000** | £000 |
| Leeds Innovation Centre Limited (1) | **78** | 99 | **-** | 13 |
| Nexus Leeds Limited (1) | **73** | - | **19** | - |
| Ashtead Plant Hire Co Limited (2) | **-** | 5 | **-** | 1 |
| Flash Forward Consulting Limited (3) | **6** | 28 | **-** | 5 |
| Citi Logik Limited (4) | **-** | 36 | **-** | - |
| Nutshell Software Limited (4) | **254** | 107 | **12** | 9 |
| Vivacity Labs Limited (4) | **202** | 17 | **36** | - |

| | Sale of goods and services | | Amounts owed by related parties | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **£000** | £000 | **£000** | £000 |
| WSP UK Limited (5) | **3,709** | 3,180 | **1,364** | 883 |
| Flash Forward Consulting Limited (3) | **-** | 1 | **-** | - |
| Citi Logik Limited (4) | **-** | 30 | **-** | 36 |
| Nutshell Software Limited (4) | **10** | - | **-** | - |

(1) Leeds Innovation Centre Limited and Nexus Leeds Limited are companies which are connected to The University of Leeds. Tracsis plc rents its office accommodation, along with related office services, from this company.

(2) Ashtead Plant Hire Co Limited is a subsidiary of Ashtead Group plc (Ashtead) of which Chris Cole was Chairman up until 11 September 2018. 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.

(3) Flash Forward Consulting Limited is a related party as John Nelson served as a Non-executive Director of Tracsis plc during the year and also Chairman of Flash Forward Consulting Limited

(4) Citi Logik Limited, Nutshell Software Limited, and Vivacity Labs Limited, are related parties by virtue of the Group's shareholding in these entities.

(5) 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 key management personnel to be its directors and the directors of the Group's subsidiaries. Full details of their compensation are set out below:

| | **2019** | 2018 |
|---|---|---|
| | **£'000** | £'000 |
| Total remuneration | **3,087** | 2,214 |
| Share based payment charges | **440** | 451 |
| | **3,527** | 2,665 |

# Notes to the Consolidated Financial Statements continued

## 28 Employee benefits

The Group makes contributions to defined contribution pension schemes for its employees. The assets of the schemes are held separately in independently administered funds. The pension cost charge for the year comprises contributions payable by the Group to the schemes and other personal pension plans and amounted to £605,000 (2018: £352,000). There were outstanding contributions at 31 July 2019 of £101,000 (2018: £62,000).

## 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% |
| Tracsis Travel Compensation Services Limited (1) | Rail industry software | England and Wales | 100% |
| Delay Repay Sniper Limited (1) | Rail industry software | England and Wales | 100% |
| Cash & Traffic Management Limited (2)** | Event planning & traffic management | England and Wales | 100% |
| Compass Informatics Limited (7)** | Software development | Republic of Ireland | 100% |
| Bellvedi Limited (1)** | Rail industry software | England and Wales | 100% |
| Compass Informatics UK Limited (2)** | Dormant | England and Wales | 100% |
| S Dalby Consulting Limited (1) | Dormant | England and Wales | 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% |
| Minority investments: | | | |
| Citi Logik Limited (3) | Mobile Network Data Analysis | England and Wales | 14.9% |
| Nutshell Software Limited (4) | Mobile application development | England and Wales | 37.8% |
| Vivacity Labs Limited (5) | Machine Learning technology | England and Wales | 24.6% |

# Notes to the Consolidated Financial Statements continued

## 29 Group entities (continued)

*Entity disposed of in financial year / ** Company acquired during financial year

The registered offices of the subsidiaries are as follows:

(1) Nexus, Discovery Way, Leeds, England, LS2 3AA
(2) Templar House, 1 Sandbeck Court, Sandbeck Way, Wetherby, England LS22 7BA
(3) The Platform, New Station Street, Leeds, England, LS1 4JB
(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
(7) Block 8, Blackrock Business Park, Carysfort Avenue, Blackrock, County Dublin, Ireland, A94 W209

## 30 Dividends

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

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Final dividend for 2016/17 of 0.80p per share paid | **-** | 225 |
| Interim dividend for 2017/18 of 0.70p per share paid | **-** | 198 |
| Final dividend for 2017/18 of 0.9p per share paid | **257** | - |
| Interim dividend for 2018/19 of 0.8p per share paid | **229** | - |
| Total dividends paid | **486** | 423 |

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

| | **2019** | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|---|---|
| | **£000** | £000 | £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 paid | **-** | - | 225 | - | - | - | - | - |
| Interim dividend for 2017/18 of 0.70p per share paid | **-** | 198 | - | - | - | - | - | - |
| Final dividend for 2017/18 of 0.90p per share paid | **-** | 257 | - | - | - | - | - | - |
| Interim dividend for 2018/19 of 0.8p per share paid | **229** | - | - | - | - | - | - | - |
| Final dividend for 2018/19 of 1.0p per share proposed | **287** | - | - | - | - | - | - | - |

# Notes to the Consolidated Financial Statements continued

## 30 Dividends (continued)

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

| | **2019** | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|---|---|
| Total dividends paid per share | **1.8p** | 1.6p | 1.4p | 1.2p | 1.0p | 0.8p | 0.7p | 0.55p |

The dividend will be payable on 14 February 2020 to shareholders on the Register at 31 January 2020.

## 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. These figures are relevant to the Group and are provided to provide a comparison to similar businesses and are metrics used by Equities Analysts who cover the Group as they better reflect the underlying performance of the group, and its ability to generate cash. The largest components of the adjusting items, being depreciation, amortisation, share based payments, and share of associates are 'non cash' items and so separately analysed in order to assist with the understanding of underlying trading. 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:

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Profit before tax | **6,559** | 8,275 |
| Finance income / expense – net | **(37)** | 8 |
| Share-based payment charges | **1,034** | 1,193 |
| Exceptional items | **(38)** | (2,572) |
| Other operating income | **(260)** | (214) |
| Amortisation of intangible assets | **2,251** | 1,774 |
| Depreciation | **831** | 760 |
| Share of result of equity accounted investees | **174** | 201 |
| Adjusted EBITDA | **10,514** | 9,425 |

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:

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Profit before tax | **6,559** | 8,275 |
| Finance income / expense – net | **(37)** | 8 |
| Share-based payment charges | **1,034** | 1,193 |
| Exceptional items | **(38)** | (2,572) |
| Other operating income | **(260)** | (214) |
| Amortisation of intangible assets | **2,251** | 1,774 |
| Share of result of equity accounted investees | **174** | 201 |
| Adjusted profit | **9,683** | 8,665 |

Adjusted EBITDA reconciles to adjusted profit as set out below:

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Adjusted EBITDA | **10,514** | 9,425 |
| Depreciation | **(831)** | (760) |
| Adjusted profit | **9,683** | 8,665 |

# Notes to the Consolidated Financial Statements continued

## 32 IFRS 15 reconciliation

The Group adopted IFRS 15 with effect from 1 August 2018, using the cumulative effect method, under which the comparative information is not restated. The impact of adopting this is set out below, but can be summarised as the removal of certain accrued income balances to be replaced with contract assets, and the reversal of certain revenue previously recognised on a stage of completion basis, for which performance obligations had not been fully met at year end under IFRS 15. The net impact was a charge to reserves of £667,000 which can be summarised as follows:

| | As previously reported at 31 July 2018 £'000 | IFRS 15 Adjustment at 31 July 2018 £'000 | Under IFRS 15 as at 31 July 2018 £'000 |
|---|---|---|---|
| Trade and other receivables | 7,329 | (146) | 7,183 |
| Trade and other payables | (10,316) | (765) | (11,081) |
| Deferred tax (liabilities)/asset | (3,273) | 244 | (3,029) |
| Retained earnings | (32,593) | 667 | 31,926 |

Impact on the consolidated income statement for the year ended 31 July 2019:

| | As reported £'000 | Adjustments £'000 | Amounts without adoption of IFRS 15 £'000 |
|---|---|---|---|
| **Revenue** | 49,219 | 395 | 49,614 |
| **Cost of sales** | (20,163) | 51 | (20,112) |
| **Gross profit** | 29,056 | 446 | 29,502 |
| Administrative costs | (22,360) | - | (22,360) |
| **Adjusted EBITDA** | 10,514 | 446 | 10,960 |
| Depreciation | (831) | - | (831) |
| **Adjusted profit** | 9,683 | 446 | 10,129 |
| Amortisation of intangible assets | (2,251) | - | (2,251) |
| Other operating income | 260 | - | 260 |
| Share-based payment charges | (1,034) | - | (1,034) |
| **Operating profit before exceptional items** | 6,658 | 446 | 7,104 |
| Exceptional items | 38 | - | 38 |
| **Operating profit** | 6,696 | 446 | 7,142 |
| Finance income | 58 | - | 58 |
| Finance expense | (21) | - | (21) |
| Share of result of equity accounted investees | (174) | - | (174) |
| **Profit before tax** | 6,559 | 446 | 7,005 |
| Taxation | (1,488) | (85) | (1,573) |
| **Profit after tax** | 5,071 | 361 | 5,432 |
| **Foreign currency translation** | 17 | - | 17 |
| **Total recognised income for the year** | 5,088 | 361 | 5,449 |

# Notes to the Consolidated Financial Statements continued

**32 IFRS 15 reconciliation (continued)**

Impact on the consolidated balance sheet as at 31 July 2019:

| | As reported £'000 | Adjustments £'000 | Amounts without adoption of IFRS 15 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 2,678 | - | 2,678 |
| Intangible assets | 38,812 | - | 38,812 |
| Investments – equity | 350 | - | 350 |
| Loans due from associated undertakings | 250 | - | 250 |
| Investments in equity accounted investees | 1,098 | - | 1,098 |
| Deferred tax assets | 667 | - | 667 |
| | 43,855 | - | 43,855 |
| **Current assets** | | | |
| Inventories | 381 | - | 381 |
| Trade and other receivables | 9,729 | 67 | 9,796 |
| Cash and cash equivalents | 24,104 | - | 24,104 |
| | 34,214 | 67 | 34,281 |
| **Total assets** | 78,069 | 67 | 78,136 |
| **Non-current liabilities** | | | |
| Finance leases and hire-purchase contracts | 285 | - | 285 |
| Contingent consideration payable | 5,304 | - | 5,304 |
| Deferred tax liabilities | 5,942 | 244 | 6,186 |
| | 11,531 | 244 | 11,775 |
| **Current liabilities** | | | |
| Finance leases and hire-purchase contracts | 277 | - | 277 |
| Trade and other payables | 16,936 | (1,290) | 15,646 |
| Contingent consideration payable | 879 | - | 879 |
| Current tax liabilities | 505 | 85 | 590 |
| | 18,597 | (1,205) | 17,392 |
| **Total liabilities** | 30,128 | (961) | 29,167 |
| **Net assets** | 47,941 | 1,028 | 48,969 |
| **Equity attributable to equity holders of the Company** | | | |
| Called up share capital | 115 | - | 115 |
| Share premium reserve | 6,343 | - | 6,343 |
| Merger reserve | 3,921 | - | 3,921 |
| Retained earnings | 37,545 | 1,028 | 38,573 |
| Translation reserve | 17 | - | 17 |
| **Net assets** | 47,941 | 1,028 | 48,969 |

Financial Statements

# Company Balance Sheet (prepared under FRS 101)

as at 31 July 2019

Company number: 05019106

| | Note | **2019 £000** | 2018 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 34 | **349** | 342 |
| Investments | 35 | **54,751** | 38,845 |
| Deferred tax assets | 39 | **208** | 360 |
| | | **55,308** | 39,547 |
| **Current assets** | | | |
| Cash and cash equivalents | | **6,987** | 10,152 |
| Trade and other receivables | 36 | **2,385** | 2,608 |
| | | **9,372** | 12,760 |
| Total assets | | **64,680** | 52,307 |
| **Non-current liabilities** | | | |
| Contingent consideration | 38 | **5,304** | 1,100 |
| | | **5,304** | 1,100 |
| **Current liabilities** | | | |
| Trade and other payables | 37 | **14,854** | 10,304 |
| Contingent consideration | 38 | **879** | 2,165 |
| | | **15,733** | 12,469 |
| Total liabilities | | **21,037** | 13,569 |
| **Net assets** | | **43,643** | 38,738 |
| **Capital and reserves** | | | |
| Called up share capital | 40 | **115** | 113 |
| Share premium reserve | | **6,343** | 6,243 |
| Merger reserve | | **3,921** | 3,160 |
| Retained earnings | | **33,264** | 29,222 |
| **Total equity** | | **43,643** | 38,738 |

The Company's profit for the year, after dividends received was £3,738,000 (2018: £6,315,000)

The financial statements were approved and authorised for issue by the Board of Directors on 14 November 2019 and were signed on its behalf by:

**Chris Barnes** – Chief Executive Officer **Max Cawthra** – Chief Financial Officer

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 2018 | 113 | 6,243 | 3,160 | 29,222 | 38,738 |
| Adjustment on initial application of IFRS 15 (net of tax) | - | - | - | (244) | (244) |
| Profit and total comprehensive income | - | - | - | 3,738 | 3,738 |
| Dividends | - | - | - | (486) | (486) |
| Share based payment charges | - | - | - | 1,034 | 1,034 |
| Shares issued as consideration for business combinations | 1 | - | 761 | - | 762 |
| Exercise of share options | 1 | 100 | - | - | 101 |
| **At 31 July 2019** | **115** | **6,343** | **3,921** | **33,264** | **43,643** |

| | Share capital £000 | Share premium £000 | Merger reserve £000 | Retained earnings £000 | Total equity £000 |
|---|---|---|---|---|---|
| At 1 August 2017 | 112 | 5,948 | 3,010 | 22,137 | 31,207 |
| Profit and total comprehensive income | - | - | - | 6,315 | 6,315 |
| Dividends | - | - | - | (423) | (423) |
| Share based payment charges | - | - | - | 1,193 | 1,193 |
| Shares issued as consideration for business combinations | - | - | 150 | - | 150 |
| Exercise of share options | 1 | 295 | - | - | 296 |
| **At 31 July 2018** | **113** | **6,243** | **3,160** | **29,222** | **38,738** |

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 is incorporated in retained earnings in the previous and current financial year. |

Financial Statements

# Notes to the Company Balance Sheet

**33 Company accounting policies**

Tracsis plc ("the Company") was incorporated and is domiciled in England, in the United Kingdom. Its registered office is Nexus, Discovery Way, Leeds, LS2 3AA, 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 Group's financial statements.

**Revenue recognition**

The Company has initially applied IFRS 15 "Revenue from Contracts with Customers" from 1 August 2018. Due to the transition method chosen by the company in applying this standard, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standard.

IFRS 15 has established a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 and related interpretations for the Company

The Company derives revenue from software licencing, bespoke development work and post contract customer support.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, and the related revenue recognition policies. Revenue is recognised either when the performance obligation in the contract has been performed ("point in time" or "over time" as control is transferred to the customer). Consideration received in advance of the performance obligation being satisfied by the Company is included as a Contract Liability on the balance sheet. A contract asset is recognised when a performance obligation has been completed, but no consideration has yet been received. Adjustments are made to allocate discounts relative to the stand-alone selling price of each performance obligation. The Group does not adjust the transaction price for the time value of money as it does not expect to have any contracts where the period between the transfer of the promised service to the client, and the payment by the client exceeds one year.

# Notes to the Company Balance Sheet continued

**33 Company accounting policies (continued)**

| *Revenue Stream* | *Recognition Policy* |
|---|---|
| Software – perpetual and non-cancellable annual software licenses, and support and maintenance services associated with these licenses | There are two separate performance obligations associated with this revenue stream:<br>• Provision of the perpetual or non cancellable annual software license<br>• Maintenance and support services<br><br>The company recognises the revenue from the sale of perpetual and non-cancellable annual software licences at the time that the license is made available to the customer as it is considered that control passes at that point in time.<br><br>The allocation of the transaction price between the two performance obligations included in the contract is based on an expected cost plus margin approach as the stand-alone selling price is not observable.<br><br>Revenue related to ongoing support and periodic updates is recognised over the license period as the Group is unable to predict at inception of the license when the support and updates will be required to be provided to the customer. As such, control is considered to pass over time. |
| Software as a service, and support services associated with these licenses | Under IFRS 15 two distinct performance obligations have been identified for these contracts.<br>• Hosted software licenses<br>• Maintenance and support<br><br>Revenue from the provision of the hosted software license is recognised evenly over the period in which the license is hosted by the Group. This policy reflects the continuous transfer of the service to the customer throughout the contracted license period.<br><br>Revenue related to ongoing support and periodic updates is recognised over the license period as the group is unable to predict at inception of the license when the support and updates will be required to be provided to the customer. |
| Bespoke software development work | Revenue in relation to bespoke development work is recognised on completion of the work as specified in the contract with the customer as it is considered that control of the work does not pass until all development work has been completed. |

# Notes to the Company Balance Sheet continued

## 33 Company accounting policies (continued)

**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.

**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 in full 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 £3,738,000 after receiving dividends from subsidiary undertakings of £4,200,000 (2018: profit of £6,315,000 after receiving dividends from subsidiary undertakings of £3,350,000 and an exceptional contingent consideration credit of £2,653,000).

# Notes to the Company Balance Sheet continued

## 34 Property, plant and equipment

| | Freehold Land & Buildings* £000 | Computer equipment £000 | **Total £000** |
|---|---|---|---|
| **Cost** | | | |
| At 1 August 2018 | 400 | 68 | 468 |
| Additions | - | 39 | 39 |
| At 31 July 2019 | 400 | 107 | 507 |
| **Depreciation** | | | |
| At 1 August 2018 | 90 | 36 | 126 |
| Charge for the year | 12 | 20 | 32 |
| At 31 July 2019 | 102 | 56 | 158 |
| **Net book value** | | | |
| At 31 July 2018 | 310 | 32 | 342 |
| **At 31 July 2019** | **298** | **51** | **349** |

*Includes land of £100,000 which is not depreciated

## 35 Investments

| | Shares in, and loans to subsidiary undertakings £000 |
|---|---|
| At 1 August 2018 | 38,845 |
| Additions | 16,597 |
| Impairment | (691) |
| **At 31 July 2019** | **54,751** |

# 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 | England and Wales | Rail industry consultancy | Ordinary 100% | Direct |
| Tracsis Passenger Counts 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 | 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 |
| Tracsis Travel Compensation Services Limited | England and Wales | Rail industry software | Ordinary 100% | Indirect |
| Delay Repay Sniper Limited | England and Wales | Rail industry software | Ordinary 100% | Direct |
| Cash & Traffic Management Limited | England and Wales | Event planning & traffic management | Ordinary 100% | Direct |
| Compass Informatics Limited | Republic of Ireland | Software Development | Ordinary 100% | Direct |
| Bellvedi Limited | England and Wales | Rail industry software | Ordinary 100% | Direct |
| Compass Informatics UK Limited | England and Wales | Dormant | Ordinary 100% | Indirect |
| S Dalby Consulting Limited | England and Wales | Dormant | Ordinary 100% | Direct |
| 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 14.9% | Direct |
| Nutshell Software Limited | England and Wales | Mobile application development | Ordinary 37.8% | Direct |
| Vivacity Labs Limited | England and Wales | Machine learning technology | Ordinary 24.6% | Direct |

# Notes to the Company Balance Sheet continued

## 36 Trade and other receivables

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Trade receivables | **160** | 294 |
| Amounts owed by group undertakings | **920** | 1,168 |
| Other debtors | **354** | 362 |
| Corporation Tax | **874** | 756 |
| Prepayments | **77** | 28 |
| | **2,385** | 2,608 |

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

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Trade payables | **95** | 125 |
| Other tax and social security | **73** | 60 |
| Amounts owed to group undertakings | **12,237** | 8,996 |
| Accruals and contract liabilities | **2,449** | 1,123 |
| | **14,854** | 10,304 |

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

## 38 Contingent consideration

During the financial year, the Group acquired Cash & Traffic Management Limited, Compass Informatics Limited and Bellvedi Limited. Under the share purchase agreements in place for each of these acquisitions, contingent consideration is payable which is linked to the profitability of the acquired businesses for a two to four year period post acquisition. The maximum amount payable is £750,000 for Cash & Traffic Management Limited, €2,000,000 for Compass Informatics Limited and £7,900,000 for Bellvedi Limited. The fair value of the amount payable was assessed at £600,000 for Cash & Traffic Management Limited, £1,132,000 for Compass Informatics Limited and £4,057,000 for Bellvedi Limited.

During the previous financial year, the Group acquired Travel Compensation Services Limited (renamed Tracsis Travel Compensation Services Limited) and Delay Repay Sniper Limited. Under the share purchase agreement, contingent consideration is payable which is linked to the profitability of the acquired businesses for a three year period post acquisition. The maximum amount payable is £4,700,000. The fair value of the amount payable was assessed at £1,200,000 at the previous financial year end date. Contingent consideration of £84,000 has been paid in the year, and the fair value of the consideration has been assessed as £394,000 at 31 July 2019, following an exceptional credit to the Statement of Comprehensive Income of £722,000.

During the financial year, contingent consideration of £2,058,000 was paid in respect of the Ontrac acquisition which was made in year ended 31 July 2016 (2018: £nil), £7,000 in respect of the SEP acquisition which was made in year ended 31 July 2016 (2018: £323,000) and £84,000 in respect of the Travel Compensation Services acquisition which was made in the year end 31 July 2018 (2018: £nil).

# Notes to the Consolidated Financial Statements continued

### 38 Contingent consideration (continued)

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

| | 2019 £000 | 2018 £000 |
|---|---|---|
| SEP Limited | - | 7 |
| Ontrac Limited | - | 2,058 |
| Tracsis Travel Compensation Services Limited & Delay Repay Sniper Limited | 394 | 1,200 |
| Cash & Travel Management Limited | 600 | - |
| Compass Informatics Limited | 1,132 | - |
| Bellvedi Limited | 4,057 | - |
| | 6,183 | 3,265 |

The ageing profile of the remaining liabilities can be summarised as follows:

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Payable in less than one year | 879 | 2,165 |
| Payable in more than one year | 5,304 | 1,100 |
| Total | 6,183 | 3,265 |

### 39 Deferred tax (asset) / liability

| | 2019 £000 | 2018 £000 |
|---|---|---|
| At start of the year | (360) | (369) |
| Charge to statement of comprehensive income during the year | 152 | 9 |
| At end of the year | (208) | (360) |

The deferred tax asset can be split as follows:

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Accelerated Capital Allowances | 1 | - |
| Share options | (209) | (360) |
| At end of the year | (208) | (360) |

# Notes to the Consolidated Financial Statements continued

### 40 Share capital

| | 2019 Number | 2019 £ | 2018 Number | 2018 £ |
|---|---|---|---|---|
| **Allotted, called up and fully paid:** | | | | |
| Ordinary shares of 0.4p each | **28,748,578** | **114,994** | 28,334,086 | 113,336 |

The following share transactions have taken place during the year ended 31 July 2019:

| | 2019 Number | 2018 Number |
|---|---|---|
| At start of the year | **28,334,086** | 27,963,784 |
| Issued as consideration for business combinations | **125,063** | 28,571 |
| Exercise of share options | **289,429** | 341,731 |
| At end of the year | **28,748,578** | 28,334,086 |

### 41 Operating leases

Operating lease commitments.

Minimum lease payments are payable as follows:

| **Land and buildings:** | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Within one year | **180** | 26 |
| Between one and two years | **185** | - |
| Between two to five years | **123** | - |

### 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 | |
|---|---|---|---|---|
| | 2019 £000 | 2018 £000 | 2019 £000 | 2018 £000 |
| Leeds Innovation Centre Limited | **78** | 99 | **-** | 13 |
| Nexus Leeds Limited | **73** | - | **19** | - |

Leeds Innovation Centre Limited and Nexus Leeds Limited are companies which are connected to The University of Leeds. Tracsis plc rents its office accommodation, along with related office services, from these companies.

**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.

# Group information

**Company Secretary and Registered Office**
Max Cawthra
Nexus
Discovery Way
Leeds
LS2 3AA

The registered office of all subsidiary entities is detail in note 29 to the Group Financial statements.

Telephone +44 (0) 845 125 9162
Fax +44 (0) 845 125 9163

**Registered number**
05019106

**Website**
www.tracsis.com

**Auditor**
KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

**Principal bankers**
HSBC Bank plc
33 Park Row
Leeds
LS1 1LD

**Additional bankers**
Barclays
NatWest
Santander
Royal Bank of Scotland
Co-Operative
Bank of Ireland
Triodos

**Nominated Advisor and Stockbroker**
finnCap Limited
60 New Broad Street
London
EC2M 1JJ

**Registrars**
Neville Registrars
18 Laurel Lane
Halesowen
West Midlands
B63 3DA

**Solicitors**
Haynes & Boone
1 New Fetter Lane
London
EC4A 1AN