Annual report & accounts **2018**

Faster leaner smarter

"The Group is the fifth largest procurement solutions business by revenue globally. It now has a solution set, operational and technological capability to serve its customers and grow its business in all of the major global markets."

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Financial Highlights

Revenue

£52,200,000

(2017: £25.4m)

Annualised contracted revenue

£45.1m

(2017: £22.6m)

New deal activity

64 new names

Three year cumulative average growth rate

45%

Adjusted operating profit

£13.1m

(2017: £4.3m)

Adjusted earnings per share

10.6p

(2017: 9.0p)

113 deals

Upsell activity

The Team

Alan Aubrey

Non-Executive Chairman

Alan is the Chief Executive Officer of IP Group plc, a FTSE 250 company that specialises in commercialising intellectual property. He is also a non-executive chairman of Ceres Power Holdings plc, a manufacturer of advanced solid oxide fuel cells, a non-executive director of Avacta Group plc, an AIM listed company that develops new detection and diagnostic devises for the bio-pharmaceutical markets and a non-executive director of Oxford Nanopore Technologies, currently developing a new generation of nanopore-based electronic systems for analysis of single molecules. From 2008 to 2014, he was also a Non-Executive Director of the Department for Business, Innovation & Skills (BIS). Alan is a fellow of the Institute of Chartered Accountants of England and Wales. Alan is a member of the Remuneration Committee and the Chair of the Audit Committee.

Rodney Potts

Non-Executive Director

Rodney was one of the founders and former Chief Executive of CODA Group plc, the global provider of accounting systems. Rodney is a member of the Remuneration Committee and the Audit Committee.

Sophie Tomkins

Senior Independent Non-Executive Director

Sophie is a qualified Chartered Accountant, followed by nearly two decades as a stockbroker, starting at Cazenove & then at the more entrepreneurial Collins Stewart, and Fairfax, where she ran a highly profitable operating division. Sophie sits on the Board of several AIM listed companies. She is Non-Executive Director and Audit Committee Chair of both Hotel Chocolat Group PLC (retail and manufacturing) and Cloudcall Group PLC (software), and has recently joined the Board of System1 Group PLC (market research & advertising). Sophie is the Chair of the Remuneration Committee and a member of the Audit Committee.

Hampton Wall

Chief Executive Officer

Hampton was appointed Chief Executive Officer during August 2017, following the acquisition of Perfect Commerce LLC. He has more than 30 years of corporate management, business development and international M&A experience. He has been President and Chief Executive Officer of Perfect Commerce for 10 years and was previously President of CorMine LLC, a leading procurement services BPO company that acquired Perfect Commerce in 2007. Prior to CorMine LLC, he held various positions at Ferguson Enterprises and Wolseley PLC over 17 years, latterly as the President of the Corporate Sales Division. Hampton is a graduate of Wake Forest University.

Sean McDonough

Chief Operating Officer

Sean joined the Group as Director of Professional Services during 2005 from Azolve Limited, which he co-founded. Previous roles include Director of Professional Services for CODA Group plc, UK Technical Director for BaaN, Head of Professional Services – Europe Silknet Limited and VP of Professional Services EMEA at Kana Communications.

Tim Sykes

Chief Financial Officer

Tim is a fellow of the Institute of Chartered Accountants of England and Wales. Over the last ten years, he has built up an expertise within the small cap AIM listed market with over 25 financial years' experience across 5-10 companies as consulting CFO, before joining Proactis on a full-time basis from January 2016. Prior to that, he held senior positions within corporate finance at KPMG and as Commercial Director at Mountain Warehouse.

Strategic Report

The Group continues to deliver on its ambitious long-term strategy of building a global business focussed on delivering value to its customers through the digital transformation of their procurement systems and processes through the application of technology.

The Group is the fifth largest procurement solutions business by revenue, globally, and now has a solution set and operational and technological capability to serve its customers and grow its business in all of the major global markets.

The Group's core strategic proposition to its shareholders is to deliver a business exhibiting profitable, cash generative organic growth with a high level of visibility through contracted forward revenue. The critical success factors in delivering this proposition are a combination of building market relevant solutions supported by strong new business execution teams and customer management processes designed to sustain long-term relationships.

The Group's strategy is to supplement this core proposition with complementary acquisitions. The acquisition of Perfect Commerce, LLC ("Perfect") at the beginning of the period was highly complementary and yet transformational in scale with the combination creating a new group and, with it, a new global player in the market. Prior to that, the Group's acquisition track record was focused on relatively small-scale complementary bolt-on solutions and consolidation within the UK market. The Group's acquisition strategy continued shortly after the end of the reporting period with the completion of the acquisition of Esize Holdings B.V. ("Esize"). This acquisition serves to consolidate the Dutch market and provide a mature growth platform for Northern Europe.

The Board's priority, during 2018, has been concentrated on maintaining new business momentum and customer service whilst executing on its integration plan. The integration plan included the creation of a single-branded group and the arrangement of regional commercial and customer facing operational teams supported by a centrally managed service team providing product, technological infrastructure and corporate services. This organisational structure is designed to maintain a high level of service to customers in order to maximise retention and also to realise substantial cost savings through the removal of duplicated and unproductive costs as the two businesses are merged. The execution of the plan has been substantially completed and the Board looks forward to returning the Group's full attention to the delivery of its core proposition.

Growth strategy

The Group's growth strategy remains unchanged and is as follows:

- Drive growth in its businesses through the delivery of best in class procurement solutions to new customers;
- Retain existing customers through high levels of support and service offerings and, with an energetic approach to the up-selling of the Group's extensive range of solutions, an opportunity to create even broader and deeper customer relationships;
- Utilise the Group's acquired networking technology to open up a vast new opportunity, through the provision of value added services to its customers' supply chains; and
- Undertake selective M&A activity with a focus on complementary customer bases, solutions and technologies.

The acquisition of Perfect was transformational and the resultant integration programme has fundamentally changed the organisational structures of both businesses, yielding territory led commercial and operational growth teams and a leverageable centralised infrastructure of technology and corporate services to support those teams.

As a result of the integration programme, the Group realised £5.1m of annualised cost savings net of re-investment, which was in line with the Board's expectations and which was one of the key elements of the strategic rationale for the business combination. An analysis of the nature of these cost savings is provided within the Chief Financial Officer's report.

Through this period, the Group's reported revenues increased by 106% to £52.2m (2017: £25.4m) and the Group's long-term revenue growth performance accelerated with a three-year cumulative average growth rate of 45% (2017: 36%). A financial analysis of revenue growth is set out within the Chief Financial Officer's report.

A primary indicator of value creation and also of forward years' organic growth (where organic growth is measured in terms of growth in reported revenue) is the rate and value of new deal intake and upselling activity. Due to the Group's business model having shifted substantially toward a fully subscription-based model, new and upsell deals signed during the year contribute relatively little to that year's reported revenue and, hence, its organic growth performance but more toward the subsequent year because revenue is recognised evenly over the long-term contract rather than up front. This model is, however, critical to the Group for long-term value.

Note: The definition of segment is described in detail in the Chief Financial Officer's report	Year ended 31 July 2018		Year ended 31 July 2017	
	TCV of new name deals	**TCV of new name deals**	**TCV of new name deals**	**Number of new name deals**
UK segment	£5.2m	45	£4.1m	54
EU segment	£0.8m	7	-	-
US segment	[1]£2.7m	[1]12	-	-

Note 1: For 2018, the US segment includes 7 new name deals (with an TCV of £0.8m) from the Group's US based reverse auctions business which was included within the UK segment during the prior year.

Note: The definition of segment is described in detail in the Chief Financial Officer's report	Year ended 31 July 2018		Year ended 31 July 2017	
	TCV of upsell deals	**Number of upsell deals**	**TCV of upsell deals**	**Number of upsell deals**
UK segment	£2.5m	99	£2.8m	110
EU segment	£0.9m	14	-	-
US segment	-	-	-	-

Note 1: For 2018, the US segment includes 7 new name deals (with an TCV of £0.8m) from the Group's US based reverse auctions business which was included within the UK segment during the prior year.

The Group secured 64 new names (2017: 54) of which 55 (2017: 44) were subscription deals. The aggregate total contract value ('TCV') sold was £8.7m (2017: £4.1m) of which £2.0m (2017: £1.2m) was recognised during the year. Deal volumes and average deal value returned to normalised levels after a relatively slow performance in the prior year (as was described at the time).

The number of upsell deals sold to existing customers remained at the strong levels experienced in the prior year with 113 (2017: 110) and the TCV sold was £3.4m (2017: £2.8m).

The Board is satisfied with the level and value of new names and upsell deals during the year and is confident that this can be sustained and optimistic that it may be advanced, specifically in the US, German and French markets. This follows the Group's investment in the marketing and sales capacity and the recent development of its go-to-market strategy in those markets.

Whilst the volume and value of new business and upsells are good indicators of market traction and growth, the retention of existing customers remains of vital importance to short-term revenue and long-term value protection. Therefore, it was disappointing to have been relatively unsuccessful in this element of performance during the year. This was illustrated by the loss of two of the Group's largest customers during December 2017 which the Board believes was a result of the exceptional circumstances related to the specific customer relationships and the solution sets deployed. The Board considers that these issues are not generally replicated within the wider customer group and that, consequently, retention rates will continue at more normalised levels. Further, where those or similar issues are present, the Board considers that the Group's customer relationships are strong enough to be able to identify them in sufficient time so that they can be addressed or, if not, revenue loss can be forecast sufficiently in advance to be managed out in an orderly fashion.

The Group has incurred significant non-core net expenditure and cash flows through its M&A activity and through the process of realising the cost savings arising from the integration programme. This makes visibility of underlying profitability and cash flows more challenging to present and necessitates a deep analysis of the cost base incurred and the associated cash flows during the year.

Following this analysis, the Group Adjusted EBITDA was £17.3m (2017: £7.9m), in line with expectations. As identified at the time of the acquisition of Perfect, the Group has realised approximately £5.1m of annualised cost savings from its integration programme and was able to leverage the fixed element of its cost base to deliver improved profitability margins with Group Adjusted EBITDA margin increasing to 33% (2017: 31%). Further, the Group Adjusted Free Cash Flow was £8.5m (2017: £3.2m). The Board considers this financial performance to be extremely strong and one that is sustainable.

The analysis of the non-core net expenditure and the definition of Group Adjusted EBITDA and Group Adjusted Free Cash Flow and other alternative performance measures are included within the Chief Financial Officer's report and Additional information.

Perpetual and subscription licence and services models

The Group continues to offer the choice of business model between perpetual and subscription licences, delivered on its Cloud technology platform or on premise, as well as associated services.

The mix of business is now weighted heavily toward subscription licences with only £0.2m of the £8.7m new deal TCV coming from new perpetual licences and £0.5m from £3.4m from upselling perpetual licences. This profile is highly advantageous to the Group's long-term value creation objectives.

Buyer and supplier solutions

The Group's position as a leading spend management and B2B e-commerce solution provider has been further enhanced by the continued addition of new functionality and features, the continually evolving UI/UX, the introduction of mobile applications and the increasing requirements around security and data protection.

These additions are largely customer driven and our customer engagement process is critical to the Group's solution roadmap.

A further element of the strategic rationale for the acquisition of Perfect included its business networking technology, a potentially vital element of the Group's strategy to deliver digital transformation technologies to its customers. The Group had, hitherto, struggled to create its own technology in this area. The Board is focussed on realising the value from the commercial and technical opportunities of these specific capabilities within the enlarged Group.

Ongoing investment has enabled the Group to move ahead of the competition by offering a truly "end-to-end" suite of software. The Group is in a very strong competitive position and will continue to invest to maintain that position.

Markets

The Group offers true multi-company, multi-currency and multi-language capabilities and this remains an essential differentiator as the Group increases its presence across more sectors worldwide.

During 2018 deals were sold to customers operating across several continents and many different sectors.

The Group competes on various levels; local vendors, Enterprise Resource Planning ("ERP") vendors and international procurement vendors and this mix makes for an extremely competitive environment. The "end-to-end" message and tight integration techniques mitigate this and positions the Group as a cost-effective solution against both big ticket, consultancy led ERP vendors, international procurement vendors' solutions and potential multi-vendor software led solutions. This value proposition is particularly compelling for the mid-market sized commercial and public sector market segments, both of which the Group is focused on and performs well in.

The Group's go-to-market strategy is based on a targeted and efficient deployment of its marketing and sales resource within each market segment it operates in. Within those segments, the Group seeks to maximise its return by selecting verticals where its solutions fit well and are referenceable and, with thorough research and with experiential grounding, can attain a leading position as the default provider. This strategy is at varying levels of maturity within the Group's territories and the Board looks forward to the potential accelerated growth rates that could result.

M&A strategy and activity

The Group's M&A strategy is to acquire businesses that fit strict selection criteria based around the following principles:

- Consolidation of complementary customer bases and solutions - the procurement space is sufficiently fragmented to offer significant scope for this;
- Businesses with long-term customer relationships, ideally contracted and with a proven track record of retention and renewal;
- Technology led solutions and service offerings that are complementary to the Group's existing offering; and
- Technology that is compatible with the Group's existing technology.

Within this framework, the Group has made eight acquisitions between February 2014 and August 2018 and all are integrated as products or services within the Group's solution portfolio and have compatible technologies.

As described above, the acquisition of Perfect was transformational due to its size and was much more substantial than previous transactions. The resultant business, a new global player, is now an established organisational platform and is in an extremely strong operational position of being able to continue its M&A strategy as a market consolidator. Further, the Group has a deep understanding of its market which allows it to identify appropriate target businesses and to build relationships with a view to acquisition.

The Board is mindful that, despite the obvious potential accelerated growth that can be delivered, further M&A activity at this point could be too punitive from an equity dilution perspective and, although the Group has some further debt capacity, the Board is reluctant to increase gearing further at this time.

Perfect

The Group acquired Perfect, a provider of spend management and networking solutions, on 4 August 2017. Accordingly, Perfect has contributed to the performance of the Group for the whole of the financial year.

This acquisition has positioned Proactis to leverage Perfect's extensive international capabilities which sees it serve approximately 150 customers, with over 1.3 million users across more than 80 countries, 20 languages and 100 currencies. As part of the acquisition of Perfect, the Group acquired Hubwoo SA ('Hubwoo'), which brought substantial business networking capabilities through its proprietary technology, The Business Network ('TBN'), and which accelerates the Company's market position in the supply side. Previous to this, Proactis was pre-dominantly UK based with a limited US presence. However, now, the Board believes that the Group can become a leading provider of spend management solutions globally, from scaled operations in each of the main global markets of the United States, the United Kingdom and in mainland Europe.

The benefits of the combination include:

- An increased scale, geographic footprint, customer opportunity and solution set;
- Meaningful and multiple commercial and operational efficiencies with net annualised cost savings of approximately £5.1 million;
- Significant cross-sell / up-sell opportunities; and
- Strengthened supplier commerce opportunity through TBN.

The enhanced solution set arising through the combination and the increased reach into the new territories offers a solid platform to continue to execute the Group's growth strategy.

Supplier opportunity

The Group has a mid-term strategic objective to deliver value added services to a new customer group, the suppliers of its buy side customers.

The acquisition of Perfect (and, previously, Millstream) greatly enhanced the Group's commercial and operational understanding of this new customer group and also the opportunities to access it. The Group is determining its tactical plans to maximise its opportunities through:

- The acquisition of Perfect and, previously, Millstream is already delivering supplier side revenues and the complementary nature of the solution portfolio provides excellent cross-sell opportunities to be realised during the coming years. Small scale cross-selling activity has already begun with an additional solution being launched into the Millstream customer base designed to aide churn rates and to create incremental sales opportunities for Millstream's Tenders Direct customer base;
- Suppliers that are already connected to TBN and that are already paying for connections and transactions with their connected customers are being marketed to in order create more connections with the Proactis customer base;
- TBN has been selected as the Group's principal networking technology and the forward roadmap for application to the Proactis customer base is under development; and
- The Group intends to offer an accelerated payment service to suppliers to facilitate growth or working capital benefits in return for a small discount. This opportunity has been previously deferred because of the technology transition referred to in the previous paragraph. The Board considers that this is a significant opportunity and the Group is now in a position to pursue it vigorously with new resource being recruited and permanent re-allocation of existing capacity planned.

The technology and commercial model acquired with Perfect is much more advanced than Proactis' own equivalent technology and commercial model and the Board believes that the realisation of the supplier opportunity within the Proactis customer base will, as a result, be de-risked through the adoption of this technology and commercial model.

Esize

The Group acquired Esize, a provider of spend management solutions, on 6 August 2018. Accordingly, Esize has not contributed to the performance of the Group during the financial year.

Esize is a recognised territory leader in the Netherlands with some referenceability in Germany and Belgium. Its solutions cover the full procurement cycle for indirect spend and provides the Group with additional capabilities in the travel and expense management and contract labour markets. These two markets are adjacent to and of an equivalent size to the Group's core indirect product procurement proposition. The Board believes that they will become increasingly important to mid-market buyside customers going forward. It has approximately 60 customers across the private and public sectors and approximately 50 employees.

Esize has a SaaS based business model, which is consistent with the Group's and which delivers high levels of contracted annual recurring revenue with high retention rates. Esize's recent growth rates have been above 10% per annum and it has historically delivered comparable profitability margins to the Group.

The acquisition will also benefit the Group by creating a scaled operation in the Netherlands, where it will consolidate its existing operations.

Corporate Governance

As part of the corporate governance review that the Board undertook earlier this year, the Company was pleased to announce the appointment of Sophie Tomkins as Senior Independent Non-Executive Director.

Sophie has considerable public markets experience, gained through a 17-year career in the City. Sophie is a Non-Executive Director of Hotel Chocolat Group PLC, Cloudcall Group PLC and System1 Group PLC. Previous experience includes roles with Cazenove & Co, Collins Stewart and Fairfax. Sophie is a qualified Chartered Accountant and a fellow of the Chartered Institute for Securities and Investment. Sophie is the chair of the Remuneration Committee and is a member of the Audit Committee.

Following the appointment of Sophie, the Board consists of six directors of which three are executive and three are non-executive. The Board acknowledges that independence is a skill set that complements the overall balance of the Board and it intends to appoint a further independent non-executive director as Chair of the Audit Committee in due course, where the Board will consider age, skills, background, ethnicity and gender as part of this process in order to promote greater diversity. The Board is supported by two committees: audit and remuneration.

Brexit

The Group has significant operations and customers based within the EU, UK and US.

Whilst there is a current uncertainty as to what a post-Brexit political and commercial environment might look like, the Board considers that the Group is unlikely to be impacted significantly by Brexit. The Group largely does not import or export goods or services across the EU border, however that might be determined when considering the current debates. Further, its solutions are designed to enable its customers to trade across the EU border, as presently defined, or any other border for that matter and any change to the definition of the EU border is catered for within its workflow design.

Summary & Outlook

The activities during the year have culminated in the transformation of Proactis into a truly global leader in the market.

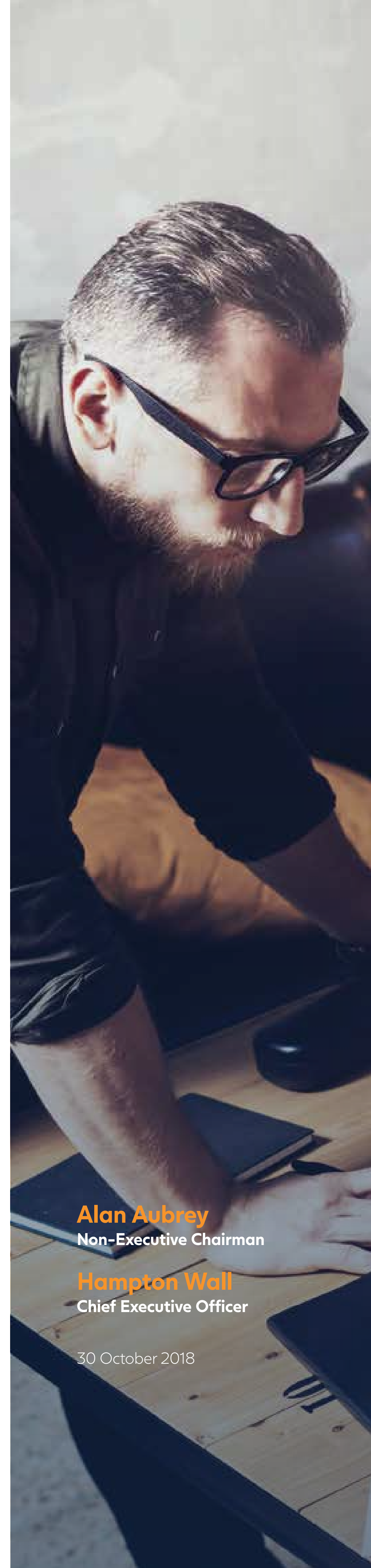
The Group has continued to execute its strategy and has grown substantially with a strong rate of new business wins demonstrating the market relevance of its solution set and strength of its go-to-market strategy. This level of performance signals positively for short-term organic revenue growth in the current year and the Group's investment in marketing and sales capacity, alongside its maturing go-to-market strategy for the US, German and French markets, offers great potential for enhanced value creation for the longer term. This has been achieved whilst undertaking a fundamental restructuring of the Group's operations which demonstrates the Group's ability to manage M&A.

The Board notes that the Group's solutions are being deployed more deeply and widely within the customer base through an impressive rate of upsell activity which, along with an improving retention performance, signals well for the future.

This revenue is being delivered efficiently and profitably and the Group has delivered strong underlying operating margins and an impressive and sustainable underlying cash realisation performance.

Over the coming year, the Group will look to accelerate organic growth as its go-to-market strategies in the US, Germany and France mature and as the Group starts to access and deliver value added services to a new customer group, the suppliers of its 1,100 buy side customers. The scope for growth in this part of the Group's business is extremely exciting.

The Board is pleased with the Group's present momentum and, whilst aware of its recent retention performance, is confident that the Group is in a strong position to capitalise on the opportunities open to it.



Alan Aubrey
Non-Executive Chairman

Hampton Wall
Chief Executive Officer

30 October 2018

"The activities during the year have culminated in the transformation of Proactis into a truly global leader in the market."

Chief Financial Officer's Report

Results for the year, performance analysis and key performance indicators

Growth

The Group's reported revenues increased by 106% to £52.2m (2017: £25.4m) and the Group's long-term revenue growth performance accelerated with a three-year cumulative average growth rate of 45% (2017: 36%).

It is necessary to consider a number of different key performance indicators in order to get a full understanding of the Group's growth performance because:

- the Groups' strategy is to grow by a combination of organic and inorganic means and therefore total reported revenue is a key performance indicator as the Group looks to continue to drive toward scale;
- the Group's core proposition is to deliver an organic growth business;
- organic growth is a function of three principle variables; new name deals, upsell deals and retention and the combination of these measures provide a balanced view on the growth drivers of the business; but
- there are often substantial timing differences between the signing of a (new name or upsell) deal and the subsequent recognition of revenue arising from it. These timing differences are routinely as long as 6-12 months; and
- revenue recognition policies for different licence types or revenue streams varies and can influence the impact of (new name and upsell) deals in any one accounting period.

The Board monitors the Group's growth performance through a combination of several key performance indicators as follows:

	Year ended 31 July 2018	Year ended 31 July 2017	Year ended 31 July 2016
TCV of new name deals	£8.7m	£4.1m	£6.8m
Number of new name deals	64	54	63
TCV of upsell deals	£3.4m	£2.8m	£2.4m
Number of upsell deals	113	110	95
Reported revenue	£52.2m	£25.4m	£19.4m
Reported revenue growth	106%	31%	13%
CAGR 3-year revenue growth	45%	36%	34%
Total deal value signed	£12.1m	£6.9m	£9.2m
Organic revenue growth[1]	Nil%	7%	7%

Note 1: Measured in terms of revenue recognised in the income statement and excluding the effects of foreign exchange differences and the full year effect of the acquisition of Millstream Associates Limited during November 2016.

The combination of these issues often means that revenue recognised in the income statement is largely a function of the (new name and upsell) deals signed in the previous year rather than the year in which the (new name and upsell) deals were actually signed. This is illustrated on page 20 with the relationship between organic growth in the current year and (new name and upsell) deal volumes and value signed in the prior year.

The Board also considers that retention of existing customers is a key performance indicator and the measure of this indicator is included routinely within its internal financial reporting dashboard. The Board acknowledges that this year's performance against this measure has fallen short of the normal levels of retention historically achieved, largely through the exceptional circumstances resulting in the loss of two large customers during December 2017 but reports that this measure has recovered to more normalised levels since then. The Board expects that this more normalised level of retention is sustainable for the foreseeable future.

The Group's revenues will, in future periods, be reported by market segment using the year ended 31 July 2018 as the base year.

Year ended 31 July 2018	Buyer revenue £m	Supplier revenue £m	Total £m
UK segment	16.2	4.2	20.4
EU segment	12.0	5.2	17.2
US segment	14.6	-	14.6
	42.8	9.4	52.2

Revenue visibility

The level of visibility over future revenue is crucially important to the Group as it can provide:

- An indicator to investors of the amount of revenue from new business required to be won in order to hit market expectations in future periods;
- An indicator to the Group's bank, HSBC Bank plc, in its deliberations as to the level of debt that the business can conservatively support and hence assist in the overall return to investors; and
- An indicator to the Group's customers, suppliers and associates of the overall strength of the Group.

This key performance indicator is the Group's estimate of the annualised run rate of subscription, managed service, support and hosting revenues currently contracted with the Group and is often referred to as Annual Recurring Revenue ('ARR') and can be analysed as follows:

As at 31 July 2018	Buyer revenue £m	Supplier revenue £m	Total £m
UK segment	14.0	4.2	18.2
EU segment	11.7	4.2	15.9
US segment	11.0	-	11.0
	36.7	8.4	45.1

Gross margin

The presentation of the Group's reported results does not include the sub-total of gross profit in order to better reflect the reality of the Group's operational performance. However, gross margin is a relevant measure of performance when considered as revenues less cost of third party revenue share or products.

The Group's business partners and its own direct sales effort sold contracts under both the subscription and perpetual business models. Whilst selling directly, the businesses acquired with Perfect include an element of non-authored products and, accordingly, the revenue from those businesses delivers comparatively high gross margins, as defined above. Consequently, gross margins have continued to improve through the mix shift toward direct selling of authored product. The combined effect of these factors was that the Group reported an improved gross margin (as defined above) over all of 89% (2017: 86%). The Board anticipates that this trend toward directly sold authored product will continue and that gross margin will, consequently, improve over time.

Staff costs and other operating expenses

The aggregate of staff costs and other operating expenses (excluding depreciation of property, plant and equipment and amortisation of intangible assets) increased during the year to £33.0m (2017: £20.9m) with Perfect contributing £18.6m (2017: £Nil). Each of the two years ending 31 July 2018 has included significant items of income or expenditure associated primarily with the Group's acquisition activity and the resultant integration programme (together, "non-core net expenditure").

The Board has estimated the impact of this non-core net expenditure on the aggregate of staff costs and other operating expenses as follows:

	Year ended 31 July 2018 £m	Year ended 31 July 2017 £m
Aggregate of staff costs and other operating expenses (reported)	33.0	20.9
Non-core net expenditure	(3.6)	(6.8)
Aggregate of staff costs and other operating expenses (excluding non-core net expenditure)	29.4	14.1

Non-core net expenditure (see note 5) can be analysed as follows:

	Year ended 31 July 2018 £m	Year ended 31 July 2017 £m
Expenses of acquisition related activities	0.7	4.3
Costs of restructuring the Group's operations – staff	1.6	0.7
Costs of restructuring the Group's operations – other	1.6	-
Legal and professional fees	0.4	-
Fair value movement on forward contract on acquisition of Perfect	(0.7)	1.8
	3.6	6.8

Approximately £1.2m of this non-core net expenditure was incurred in realising the £5.1m of annualised cost savings net of re-investment.

An analysis of these annualised cost savings net of re-investment is as follows:

	£m
Senior management	0.5
Off-shore customer support	0.1
IT operations	0.9
Finance and corporate administration	0.7
Sales and account management	1.0
Other operations	1.9
Annualised cost savings net of re-investment	5.1

These annualised cost savings net of re-investment were made throughout the course of the year ended 31 July 2018 and the Board estimates that the benefit during the year was as follows:

	£m
Senior management	0.4
Off-shore customer support	0.1
IT operations	0.7
Finance and corporate administration	0.6
Sales and account management	0.5
Other operations	1.4
Estimated benefit of annualised cost savings net of re-investment during the year	3.7

Capitalised development costs and costs of software for own use were £5.7m (2017: £2.8m). The income statement includes a total charge for the amortisation of capitalised development costs and costs of software for own use of £4.7m (2017: £2.4m).

Depreciation of property, plant and equipment

The charge to depreciation of property, plant and equipment increased to £0.5m (2017: £0.2m) due to the depreciation of property, plant and equipment acquired with Perfect. The total cost of property, plant and equipment acquired with Perfect was £0.6m and the depreciation charge for the year ending 31 July 2018 on that property, plant and equipment was £0.3m.

Amortisation of intangible assets

The charge to amortisation of intangible assets increased to £7.9m (2017: £3.3m) due to the amortisation of separately identifiable intangible assets acquired with Perfect. The total of separately identifiable intangible asset value recognised was £26.4m and the amortisation charge for the year ending 31 July 2018 on those assets was £4.5m. Included within the total asset value recognised was £3.0m related to a fair value uplift for the software acquired using a relief from royalty method and the associated increased amortisation charge during the year was £1.0m. The fair value uplift has the effect of incrementally increasing the cost of software capitalised over and above the Group's normal accounting methods and the Board considers that the associated amortisation charge is non-core expenditure (see Additional information).

Interest

The Group incurred a net interest charge of £1.1m (2017: £0.1m) of which £1.0m (2017: £0.1m) was bank interest resulting from the Group's increased level of gearing following the acquisition of Perfect. The other element relates to the convertible loan notes issued to continuing management of Perfect and which will cease on 1 January 2019 following conversion.

The Group's £45m debt facility, which was extended shortly after the year end following the acquisition of Esize, was provided by HSBC bank plc ('HSBC') and included a £15.0 million term loan, repayable over five years with a coupon rate of 1.95 per cent. over LIBOR, and a £30.0 million revolving credit facility, repayable after five years with a ratcheted coupon rate no lower than 1.75 per cent. over LIBOR and no higher than 2.5 per cent. over LIBOR.

Taxation

The Group has reported a net credit in its income statement of £1.6m (2017: net charge £0.02m) resulting primarily from a change in estimate of forward income tax rates and the resultant reduced deferred tax liabilities (see note 9).

The Group's charge to current year income tax was £0.9m which was an effective rate of 7% against chargeable profit before tax of £12.8m. This is well below the weighted average income tax rate for the jurisdictions that the Group operates in because of the utilisation of tax losses and allowances within the Group which the Board considers will provide long-term benefit.

Accordingly, the Group has continued to recognise certain deferred tax assets related to tax losses that were not previously recognised of £1.3m (2017: £0.5m) and this has largely offset the current year income tax charge.

Reported profit and Group Adjusted profit performance

The Board considers that each of the two years ended 31 July 2018 have been significantly impacted by non-core net expenditure incurred primarily as part the Group's acquisition activity and the resultant integration programmes. A summary of the various profit measures is set out below.

	Year ended 31 July 2018		Year ended 31 July 2017	
	Reported	[1]Adjusted	Reported	Adjusted
Earnings before interest, tax, depreciation and amortisation ('EBITDA')	£13.6m	£17.3m	£0.9m	£7.9m
Operating profit/(loss)	£4.9m	£13.1m	(£2.6m)	£4.3m
Profit/(loss) before tax	£3.7m	£12.0m	(£2.7m)	£4.2m
Profit/(loss) after tax	£5.4m	£9.9m	(£2.8m)	£4.2m
Earnings/(loss) per share (see note 10)	5.4p	10.6p	(5.9p)	9.0p

Note 1: See Additional Information.

Cash flow

The Group reported net cash from operating activities of £8.4m (2017: £4.7m) which is higher than the reported operating profit of the Group of £4.9m (2017: loss £2.6m). Cash flows for the year ended 31 July 2018 were affected by costs that were charged in the income statement during the year ended 31 July 2017 and accrued at 31 July 2017 but paid during the year ended 31 July 2018. The cash flow for the year ended 31 July 2018 was also impacted by non-core net expenditure charged to the income statement during the year ended 31 July 2018 related principally to the integration programme.

An analysis of the Group Adjusted Free Cash Flow is as follows:	Year ended 31 July 2018 £m	Year ended 31 July 2017 £m
Reported net cash flow from operating activities	**8.4**	4.7
- Non-core net expenditure incurred in prior year but paid in current year	**3.6**	-
- Non-core net expenditure charged and paid within the same year	**3.3**	1.4
Adjusted net cash flow from operating activities	**15.3**	6.1
- Purchase of plant and equipment and intangible assets	**(1.1)**	(0.1)
- Development expenditure capitalised	**(5.7)**	(2.8)
Adjusted Group Net Free Cash Flow	**8.5**	3.2

The Group paid a cash dividend of £1.3m (2017: £0.6m) to its equity investors.

Acquisition of Perfect

The Group acquired Perfect on 4 August 2017 for a gross consideration of $132.5m including additional consideration of $5.0m which was paid following the delivery of certain commercial milestones. The net consideration was $126.2m with Perfect having cash of $6.3m on its balance sheet at the date of acquisition.

The cash consideration for the acquisition was funded by the combination of a placing of new Ordinary shares raising approximately £67.9 million (net of expenses), from debt of £29.9m, drawn from its then £45m debt facility provided by HSBC and from and by the issue £3.8m ($5.0m) of convertible loan notes to two members of the continuing management team.

Hubwoo SA ("Hubwoo")

As part of the acquisition of Perfect, the Group acquired a controlling interest in Hubwoo, a French company listed on the Euronext market in France. On completion of the acquisition of Perfect, the Group became the indirect holder of approximately 79 per cent of the share capital and voting rights of Hubwoo which triggered a mandatory tender offer for those remaining Hubwoo shares that were not owned.

During February 2018, the Group undertook its mandatory tender offer at a price of 20 Euro cents per share and acquired a further 10 per cent of the share capital and voting rights of Hubwoo, making approximately 89 per cent in total. The total cost of the acquisition of the shares was approximately €2.6m (£2.3m) and the associated costs of the transaction were €0.2m (£0.2m).

Acquisition of Proactis Benelux BV ("BV")

The Group acquired BV on 24 October 2017 for a gross consideration of £1.9m including an estimated contingent consideration of £1.5m. The net cash consideration was £1.6m with BV having cash or cash equivalents of £0.3m on its balance sheet at the date of acquisition.

The cash consideration was funded from the Group's existing facilities.

Acquisition of Esize

The Group acquired Esize on 6 August 2018 for an aggregate consideration of €14.2m with an additional consideration of up to €1.0m depending on certain post-acquisition deliverables. The net consideration was €14.0m with Esize having cash of €0.2m on its balance sheet at the date of acquisition.

In order to facilitate the acquisition of Esize, the Group extended its bank facilities with HSBC creating a new £50m debt facility including a £15.0m term loan, repayable over four remaining years with a coupon rate of 1.95% over LIBOR, and a £35m revolving credit facility, repayable after four remaining years with a ratcheted coupon rate of at least 1.75% over LIBOR and no higher than 2.5% over LIBOR.

The consideration for the acquisition was funded from the Group's own cash resources and from debt of €9.6m drawn from the extended £50m debt facility provided by HSBC, from and by the issue of a €3.0m of convertible loan notes and by the issue of 1,292,491 new Ordinary shares.

Net bank debt

The Group reported net bank debt of £29.3m at 31 July 2018, comprising cash balances of £9.6m and gross bank debt of £38.9m of which £3.0m is payable within one year.

The analysis of net bank debt above excludes the $5.0m (approximately £3.8m) convertible loan notes issued to the continuing members of the management team of Perfect because the Group has received notices from those individuals to convert, unconditionally, into an aggregate of 2,360,728 new Ordinary shares between 1 January 2019 and 10 January 2019.

It also excludes the impact of the increase in net bank debt resulting from the acquisition of Esize immediately following the year end which increased net bank debt by approximately £8.6m (€9.6m).

Earnings per share

Basic earnings per share was 5.4p (2017: loss per share 5.9p). The Group reports an adjusted earnings per share measure (see note 10) of 10.6p (2017: 9.0p) to take account of non-core net expenditure and other factors.

Dividend policy

Subject to approval at the General Meeting of Shareholders to be held on 19 December 2018, a final dividend of 1.5p (2017: 1.4p) per ordinary share is proposed and will be paid on 22 January 2019 to shareholders on the register at 28 December 2018. The corresponding ex-dividend date is 27 December 2018.

Treasury Policy

Subject to approval at the General Meeting of Shareholders The Group manages its cash position in a manner designed to minimise interest payable on its structured finance facilities. Surplus cash funds are used to reduce debt.

Tim Sykes

Chief Financial Officer

30 October 2018

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 July 2018.

Company activity and review

The principal activity of the Group is the development and sale of business software, installation and related services.

A review of the Group's operations and future prospects is covered in the Strategic Report and the Chief Financial Officer's Report. Specifically, this includes sections on strategy and markets and the Chief Financial Officer's Report considers key risks and key performance indicators..

Financial results

Details of the Group's financial results and position are set out in the Consolidated Income Statement, other primary statements and in the Notes to the Financial Statements on pages 62 to 95.

The Directors have reviewed the results for the years ended 31 July 2018 and 31 July 2017, including the annual report and accounts, preliminary results statement and the report from the external auditor. In reviewing the statements and determining whether they were fair, balanced and understandable, the Directors considered the work and recommendations of management as well as the report from the external auditor.

Enhanced business review

The Companies Act 2006 requires that the Directors present an enhanced business review. These enhancements are provided within the Strategic Report and the Chief Financial Officer's Report.

Dividend policy

Subject to approval at the General Meeting of Shareholders to be held on 19 December 2018 and subject to the Company having sufficient distributable reserves at the time, a final dividend of 1.5p (2017: 1.4p) per Ordinary share is proposed and will be paid on 22 January 2019 to shareholders on the register at 28 December 2018. The corresponding ex-dividend date is 27 December 2018. The Board considers, based on its budgets and forecasts, that the level of distributable reserves at the proposed date of payment of the proposed dividend will be adequate.

The payment of future dividends is subject to availability of distributable reserves whilst maintaining an appropriate level of dividend cover and having regard to the need to retain sufficient funds to finance the development of the Group's activities.

Directors

The Directors who served on the Board and on Board Committees as at the date of this report are set out on page 6.

Sophie Tomkins was appointed as a Director on 29 October 2018 and in accordance with the Articles of Association, offers herself for re-appointment.

Under the Articles of Association of the Company, one third of the Directors are subject to retirement by rotation or, if their number is not three or a multiple of three, the number nearest to but not less than one third, shall retire. Each retiring director is eligible for re-election. Each Director must retire at the third Annual General Meeting following his last appointment or re-appointment. The Directors retiring by rotation at the forthcoming Annual General Meeting are Rodney Potts and Sean McDonough. Both of these Directors, being eligible, offers themselves for re-appointment.

In relation to the re-appointment of each of Rodney Potts and Sean McDonough, the Board is satisfied that each of these Directors continues to be effective and to demonstrate commitment to the Company.

Information on Directors' remuneration and share option rights is given in the Directors' Remuneration Report on pages 32 to 37.

Substantial shareholders

At 19 October 2018, shareholders with a beneficial holding of more than 3% of the Company's issued share capital were as follows:

	Number of shares	% of issued share capital
Artemis Fund Managers Limited	14,054,662	14.9%
Liontrust Investment Partners LLP	9,221,400	9.8%
Rodney Potts	8,995,427	9.6%
FIL Investment International	7,844,125	8.3%
GVQ Investment Management	6,729,954	7.1%
Didner & George Fonder AB	6,500,000	6.9%
Investec Wealth & Investment Limited	5,872,955	6.2%
GAM London	2,880,081	3.0%

Directors' shareholdings

The beneficial interests of the Directors in the issued share capital of the Company at 31 July 2018 was as follows:

	Number of shares	% of issued share capital
Non-executive Directors		
Alan Aubrey	1,131,820	1.2%
Rodney Potts	8,995,427	9.6%
Executive Directors		
Hampton Wall	12,000	0.0%
Sean McDonough	621,666	0.7%
Tim Sykes	332,736	0.4%

Hampton Wall is also the beneficial holder of a convertible loan note of $3.75m which, including accumulated interest, will be converted into 1,770,546 Ordinary shares (1.9% of the enlarged issued share capital, based on the issued share capital at 31 July 2018) between 1 January 2019 and 10 January 2019.

At 30 October 2018, the respective holdings of the Directors had not changed from those at 31 July 2018 except that, on 27 September 2018, Tim Sykes exercised his option over 75,000 shares.

None of the Directors had any interest in the share capital of any subsidiary company. Further details of options held by the Directors are set out in the Directors' Remuneration Report on pages 32 to 37.

The middle market price of the Company's ordinary shares on 31 July 2018 was 100.0p and the range from 1 August 2017 to 31 July 2018 was 100.0p to 206.0p with an average price of 162.6p.

Research and development

The Group capitalised £5,211,000 during the year (2017: £2,764,000) on development of software products and on software for own use.

Donations

The charitable donations in the year were £4,494 (2017: £5,466). There were no political donations.

Post balance sheet event

On 6 August 2018, the Group acquired the entire issued share capital of Esize Holdings BV for an aggregate consideration of €14.2m with additional contingent consideration of up to €1.0m payable subject to certain sales performance criteria being met. The acquisition was funded by way of a combination of 1,292,491 new Ordinary shares (which is equivalent to €1.6m at the closing mid-market share price on 6 August 2018), a convertible loan note of €3.0m and €9.6m of cash from the Group's existing cash resources and a draw down from the Group's extended £50m debt facility provided by HSBC Bank plc.

Employee involvement

It is the Group's policy to involve employees in its progress, development and performance. Applications for employment by disabled persons are fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. The Group is a committed equal opportunities employer and has engaged employees with broad backgrounds and skills. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who is fortunate enough not to suffer from a disability. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues.

Financial instruments

An indication of the financial risk management objectives and policies and the exposure of the group to price risk, credit risk, liquidity risk and cash flow risk is provided in Note 22 to the financial statements.

Qualifying third party indemnity

The Group has provided an indemnity for the benefit of its current Directors which is a qualifying third-party indemnity provision for the purpose of the Companies Act 2006.

Supplier payment policy and practice

The Group does not operate a standard code in respect of payments to suppliers. The Group agrees terms of payment with suppliers at the start of business and then makes payments in accordance with contractual and other legal obligations.

The ratio, expressed in days, between the amount invoiced to the Group by its suppliers during the year to 31 July 2018 and the amount owed to its trade creditors at 31 July 2018, was 36 days (2017: 28 days).

Key risks

Although the Directors seek to minimise the impact of risk factors, the Group is subject to a number of risks which are as follows:

- **Loss of key personnel:** Loss of key management could have adverse consequences for the Group. While the Group has entered into service agreements with each of its executive directors, the retention of their services or those of other key personnel cannot be guaranteed.
- **Competition:** Competitors may be able to develop products and services that are more attractive to customers than the Group's products and services. In order to be successful in the future, the Group will need to continue to finance research and development activities and continue to respond promptly and effectively to the challenges of technological change in the software industry and competitors' innovations. An inability to devote sufficient resources to product development activities in order to achieve this may lead to a material adverse effect on the Group's business. The Group continues to invest substantially in the development of its technology and other solutions to enable it to meet the challenge of fast changing market demand and ever-increasing levels of technological advancement and is being successful through the rate of sale of new names and number of upsell transactions with existing customers.

Acquisitions: The Group has stated that it will acquire suitable companies which fit certain criteria and recognises that there is a risk of operational disturbance during the course of integrating acquired companies into the Group's existing operations. The Group mitigates this risk by way of due diligence and detailed planning. Acquisitions may also be made where the desired synergy benefits may fail to materialise, may take longer than anticipated or may be lower than anticipated or where the acquired business' results or cash flows may not match the Group's expectations.

International operations: The Group may be subject to a variety of risks and challenges in managing organisations operating in various countries, including those related to:

- challenges caused by distance, language and cultural differences;
- human resource processes and procedures;
- general economic conditions in each country or region;
- fluctuations in currency exchange rates;
- frequent regulatory changes in legal systems;
- political unrest, terrorism and the potential for other hostilities;
- overlapping tax regimes;
- the Group's ability to repatriate funds held by its international subsidiaries at favourable tax rates or at all; and
- difficulties in transferring funds to or from certain countries.

If the Board are unable to manage the foregoing international aspects of the Group's business and ensure that global processes are sufficiently well developed and robust, its operating results and overall business may be significantly and adversely affected.

Integration risk: The integration of Perfect will continue to require time and effort on the part of the Group's management. If such integration difficulties are significant, this could adversely affect the business, financial condition, results of operations or prospects of the Group. The process of integrating operations could, amongst other things, divert management's attention away from the activities of one or more of the existing operations, as well as interrupt business momentum, and could result in a loss of key personnel. Although regulatory and operational decision making will often be undertaken by each of the businesses locally, coordinating its decision making across all of the businesses in the Group will present challenges within the Group's management team. There is a risk that the challenges associated with managing the Group will distract or overstretch the management team or that the integration of the underlying businesses is delayed or takes materially longer than management anticipate and that consequently the underlying businesses may not perform in line with management or Shareholder expectations.

Privacy or data protection failures: The Group's operations are subject to a number of laws relating to privacy and data protection, including the UK's Data Protection Act 2018, Regulation (EU) 2016/679 and the US-EU Privacy Shield Frameworks as well as other relevant data protection and privacy laws and regulations. Such laws and regulations govern the Group's ability to collect and use personal information. These data protection and privacy-related laws and regulations are becoming increasingly restrictive and complex and may result in greater regulatory oversight and increased levels of enforcement and sanctions. This increasingly restrictive and complex legal framework has resulted in a greater compliance burden for businesses with customers in Europe, such as the Group's, and could further increase compliance costs for the Group going forward. In addition, evolving and changing definitions of personal data and personal information within the European Union, the United States, and elsewhere, especially relating to classification of Internet Protocol ("IP") addresses, machine identification, location data, and other information, may limit or inhibit the Group's ability to operate or expand its business, including limiting strategic partnerships that may involve the sharing of data. Even the perception of privacy concerns, whether or not valid, may harm the Group's reputation and inhibit adoption of the Group's products by current and future end customers.

The Group relies on third party contractors and its own employees to collect personal data and to maintain its databases and therefore the Group is exposed to the risk that such data could be wrongfully appropriated, lost or disclosed, damaged or processed in breach of data protection requirements.

If the Group is found not to comply with the data protection laws and regulations, this may result in investigative or enforcement action (including criminal proceedings and significant pecuniary penalties) by the Information Commissioner's Office in the UK or similar regulatory authorities in other jurisdictions in which the Group operates. This in turn could damage its reputation, lead to negative publicity and result in the loss of the goodwill of its existing customers and deter new customers, all of which would have a material adverse effect on the Group's business, results of operations and financial condition.

Government policy: There may be changes in future government policy in relation to eProcurement which may have a material adverse effect on the Group's business, such as Brexit, eGov, gCloud and legislation conflicts between the various jurisdictions that the Group operate in.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he or she ought to have taken to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Re-appointment of auditors

A resolution for the re-appointment of KPMG LLP as auditors and the fixing of their remuneration will be put to the forthcoming Annual General Meeting to be held on 19 December 2018.

By order of the Board

Tim Sykes
Secretary

30 October 2018

Directors' Remuneration Report

General policy

The remuneration of the executive directors is determined by the Remuneration Committee ("the Committee") in accordance with the remuneration policy set by the Board upon recommendation from the Committee. The Committee, which consists solely of the non-executive directors of the Company (whose biographical details are given on page 6), determines the detailed terms of service of the executive directors, including basic salary, incentives and benefits and the terms upon which their service may be terminated. Non-executive directors have no personal financial interest in the Company, except the holding of shares in the cases of Alan Aubrey and Rodney Potts, no potential conflict of interest arising from cross directorships and no day-to-day involvement in the running of the Company. Details of shareholdings are given on page 27.

Proactis' remuneration policy for executive directors is designed to attract, retain and motivate executives of the highest calibre to ensure the Group is managed successfully to the benefit of shareholders. The policy is to pay base salary at median levels with a performance related bonus each year. Share ownership is encouraged and all of the executive directors are interested in the share capital or share options over the share capital of the Company. In setting remuneration levels the Committee takes into consideration remuneration within the Group and the remuneration practices in other companies of a similar size in the markets and locations in which Proactis operates. Proactis is a dynamic, growing company which operates in a specialised field and positions are benchmarked against comparable roles in AIM companies. AIM is considered to be the most appropriate market against which to benchmark executive pay given the business strategy of Proactis.

Executive Directors – Short term incentives

Basic salary

Basic salary is based on a number of factors including market rates together with the individual director's experience, responsibilities and performance. Individual salaries of directors are subject to review annually and the results of that review are effective from 1 October each year.

Benefits in kind

The Company provides benefits in kind comprising a car allowance, life assurance and private healthcare insurance.

Pensions

The Company makes payments into defined contribution Personal Pension Plans on behalf of the executive directors. These payments were at a rate of 10% of basic salary.

Performance related bonus

The Company operates a Bonus Plan (the "Bonus Plan") and a Long-Term Incentive Plan (the "LTIP") under which the directors and employees of the Group may be granted rights to receive a bonus; a proportion of that bonus being satisfied through the issue of shares ("Bonus Awards"), or under the LTIP, a right to receive shares ("LTIP Awards"). The Bonus Plan and the LTIP are administered by the Remuneration Committee).

The Bonus Plan and LTIP have features as set out below:

	Bonus Plan	LTIP
Eligibility	The Bonus Plan and LTIP are open to any employee or director of the Group regardless of the amount of time such employee or director devotes to the Group.	
Material interest	There are no restrictions on a person participating if he has an existing interest in shares.	
Individual participation limits	There are no individual limits on any one participant in the Bonus Plan or LTIP. No Bonus Award or LTIP Award will be granted under the Bonus Plan or LTIP on any date if, as a result, the total number of shares issued or issuable pursuant to awards or options granted in the previous ten years under all share option schemes of the Company would exceed 10 per cent. of the shares in issue at that date.	
Award price	A participant under a Bonus Award or an LTIP Award will ordinarily be required to pay the nominal value per share.	
Lapse of awards	A Bonus Award and LTIP Award will lapse if the participant leaves employment or the Bonus Award or LTIP Aware fail to vest in accordance with the performance targets.	
Performance targets	The Remuneration Committee may impose conditions as to the performance of the Group which must normally be satisfied before Bonus Awards can vest. It is expected that any Bonus Awards to be granted will include a performance target linked to a combination of Share price performance and EBITDA. Having made Bonus Awards and set a performance target, the Remuneration Committee may vary the performance conditions provided that the Remuneration Committee reasonably considers that an event has occurred which means that it is appropriate to make the amendment and the altered performance condition is not materially less difficult to satisfy.	The Remuneration Committee are able to impose conditions as to the performance of the Group which must normally be satisfied before LTIP Awards can vest. It is expected that any LTIP Awards to be granted will include a performance condition linked to compound growth in the value of the shares measured over a period of three years. Having made LTIP Awards and set a performance target, the Remuneration Committee may vary the performance conditions provided that the Remuneration Committee reasonably considers that an event has occurred which means that it is appropriate to make the amendment and the altered performance condition is not materially less difficult to satisfy.
Income tax and national insurance contributions	The Bonus Plan and LTIP contain provisions that ensure that any income tax and employee's national insurance contributions that arise as a result of any Bonus Award or LTIP Award will be payable by the participant.	
Shares issued	Shares awarded under the Bonus Plan will rank pari passu with the Company's existing issued shares (save that they will not qualify for any dividends or other distributions by reference to a record date prior to the vesting of shares pursuant to a Bonus Award). Shares issued pursuant to a Bonus Award must be held by the participant for a minimum period of two years.	Shares awarded under the LTIP will rank pari passu with the Company's existing issued shares (save that they will not qualify for any dividends or other distributions by reference to a record date prior to the date of vesting of shares pursuant to an LTIP Award).

Directors' Remuneration Report (continued)

The Bonus Plan and LTIP have features as set out below (continued).

	Bonus Plan	LTIP
Takeovers	In the event of a takeover, any unvested Bonus Awards or LTIP Awards shall vest (but only to the extent determined by the Remuneration Committee) unless: (i) where the performance period related to the Bonus Awards or LTIP Awards have not yet expired, the Remuneration Committee exercises its discretion to determine that any participant is not a good leaver, Bonus Awards or LTIP Awards held by any such participant shall lapse as a result of a takeover; or (ii) the Remuneration Committee agrees with the acquiring company that a Bonus Award or LTIP Award should be replaced with an equivalent award over shares in the acquiring company.	
Variation of share capital	In the event of a variation of share capital or a demerger, rights issue or other similar event, then the number of shares subject to a subsisting Bonus Award or LTIP Award may be adjusted.	
Pension rights	None of the benefits which may be received under the Bonus Plan or LTIP shall be pensionable.	
Awards in respect of future periods	Bonus Awards have been granted based on a maximum of 125 per cent. of annual salary to the Chief Executive Officer and 100 per cent. of annual salary to the Chief Operating Officer and Chief Financial Officer. These Bonus Awards will be satisfied 50 per cent. in cash form and the remaining 50 per cent. in the form of shares. The Bonus Awards are subject to performance targets based on share price performance and EBITDA.	LTIP Awards have been granted based on a maximum value of 125 per cent. of annual salary to the Chief Executive Officer and 100 per cent. of annual salary to the Chief Operating Officer and Chief Financial Officer. These LTIP Awards are subject to performance targets linked to share price performance and measured over a three year performance period.

Executive Directors' service agreements

The Board's policy on setting notice periods for directors is that these should not exceed one year. All directors have service agreements for a fixed period of one year terminable on twelve months' notice.

The details of the service contracts of the executive directors are shown below.

	Date of service contract	Initial term of contract	Notice period following initial term
Hampton Wall	4 August 2017	None	1 year
Sean McDonough	26 May 2006	1 year	1 year
Tim Sykes	10 December 2015	None	1 year

Non-executive directors

The Board determines the fees paid to non-executive directors, the aggregate limit for which is laid down in the Articles of Association. The fees, which are reviewed annually, are set in line with prevailing market conditions and at a level which will attract individuals with the necessary experience and ability to make a significant contribution to the Group's affairs. Non-executive directors are not involved in any discussion or decision about their own remuneration. The same applies to the Chairman of the Board whose remuneration is determined by the Board on the recommendation of the Committee.

The non-executive directors do not participate in any of the Company's pension schemes or bonus arrangements nor do they have service agreements. They were all appointed for an initial term of one year by letter of appointment dated 26 May 2006, except Sophie Tomkins who was appointed without an initial term, and are entitled to three months' notice following that initial term.

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 Company's Directors to the benefit of the Group, it is the Company's policy to approve such appointments provided there is no conflict of interest and the commitment required is not excessive. The Director concerned can retain the fees relating to any such appointment.

Total remuneration (audited information)

The remuneration of each of the directors of the Company for the year ended 31 July 2018 is set out below. These values are included within the audited accounts.

	Basic salary £000	Fees received by 3rd parties for services £000	Performance related bonus £000	Pension £000	Benefits in kind £000	**Total 2018 £000**	Total 2017 £000
Alan Aubrey	60	-	-	-	-	**60**	30
Rodney Potts	-	40	-	-	-	**40**	30
Hampton Wall	331	-	-	13	18	**362**	-
Sean McDonough	200	-	100	20	14	**334**	238
Tim Sykes	250	-	150	25	13	**438**	237
Rod Jones	-	-	-	-	-	**-**	633
	841	40	250	58	45	**1,234**	1,168

The performance related bonus' are paid during October 2017 and related to the successful completion of the acquisition of Perfect.

During the year Sean McDonough exercised share options with a gain of £304,000.

Directors' Remuneration Report (continued)

Details of directors' interests in share options in the Executive Share Option Schemes

	At 31 July 2017	Granted	Exercised	Lapsed	At 31 July 2018	Exercise price pence	Market price at date of exercise pence	Date from which exercisable	Expiry date
Hampton Wall[1]	-	123,106	-	(123,106)	-	10.00p	-		Note 5
	-	246,212	-	-	246,212	10.00p	-		Note 6
Sean McDonough	300,000	-	(300,000)	-	-	18.75p	120.00p		Note 2
	635,960	-	-	-	635,960	36.50p	-		Note 3
	210,000	-	-	-	210,000	114.50p	-		Note 4
	-	60,606	-	(60,606)	-	10.00p	-		Note 5
	-	121,212	-	-	121,212	10.00p	-		Note 6
Tim Sykes	75,000	-	-	-	75,000	18.75p	-		Note 2
	635,960	-	-	-	635,960	36.50p	-		Note 3
	210,000	-	-	-	210,000	114.50p	-		Note 4
	-	75,757	-	(75,757)	-	10.00p	-		Note 5
	-	151,515	-	-	151,515	10.00p	-		Note 6
	-	451,842	-	-	451,842	43.00p	-		Note 7

Note 1 – This Director was appointed on 4 August 2017.

Note 2 – Each of these options were granted on 29 September 2008 and vested as to one third on each anniversary of the date of grant of the option for each of the three years following the date of grant of the option, conditional upon the share price performance of the Company being better than the AIM all share index. Both of these options have now been exercised.

Note 3 – Each of these options were granted on 14 January 2014 and vest as to one third on the occurrence of each of the following events:

- First tranche: the average closing mid-market share price of the Company being 60p;
- Second tranche: the average closing mid-market share price of the Company being 75p; and
- Third tranche: the average closing mid-market share price of the Company being 90p.

In the case of Tim Sykes, the third tranche has a second condition related to the proportion of his time spent providing services to the Company.

Note 4 – Each of these options was granted on 12 February 2016 and vest as to one third on each anniversary of the date of grant of the option for each of the three years following the date of grant of the option. Each option must be exercised by 12 February 2026.

Note 5 – These options were granted pursuant to the Bonus Plan described above. The performance criteria in respect of share price was not met and, accordingly, the options have lapsed.

Note 6 – These options were granted pursuant to the LTIP described above. Subject to the associated performance criteria being met, the options must be exercised before 7 July 2027.

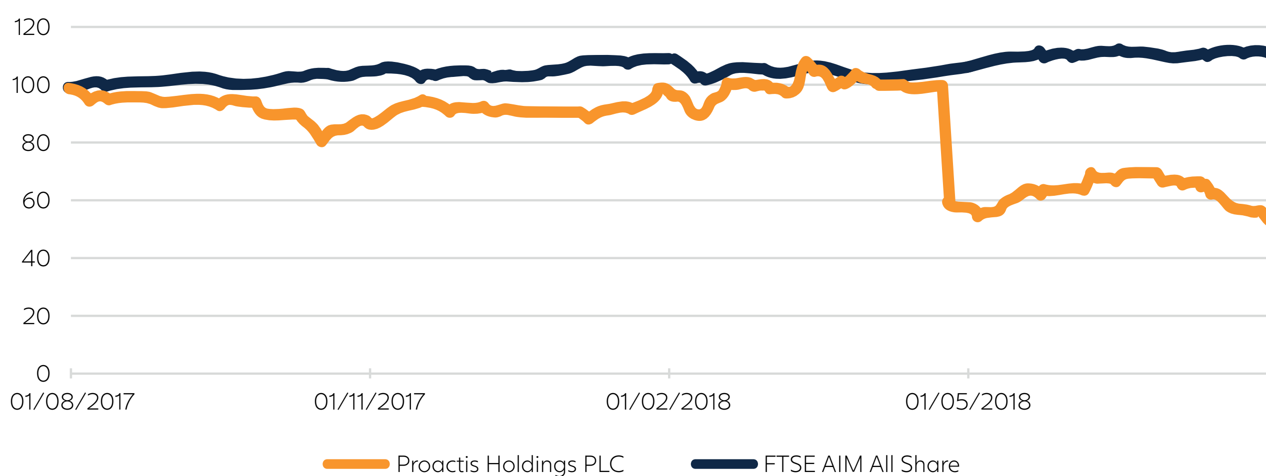
Note 7 – These options were a replacement issue at the same value and number as the original grant which had lapsed. These options were unexercised due to the Director being in a closed period.

The aggregate gain made by current directors on the exercise of share options was £303,750 (2017: £1,216,458) and the aggregate value of the shares was £360,000.

Performance graph

The following graph shows the Company's share price (rebased) compared with the performance of the FTSE AIM all share (rebased) for the year to 31 July 2018.

PHD v AIM All Share Rebased to 100



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

On behalf of the Board

Rodney Potts

Chair of the Remuneration Committee

30 October 2018

Corporate Governance

All members of the board believe strongly in the value and importance of good corporate governance and in their accountability to all of Proactis' stakeholders, including shareholders, staff, customers, partners and other suppliers.

In the statement below, the Board explains its approach to governance, and how the board and its committees operate.

The corporate governance framework which Proactis operates, including board leadership and effectiveness, board remuneration, and internal control is based upon practices which the board believes are proportional to the size, risks, complexity and operations of the business and is reflective of the Group's values. The Board has decided to adhere to the Quoted Companies Alliance's Corporate Governance Code ("QCA Code") for small and mid-size quoted companies (revised in April 2018 to meet the new requirements of AIM Rule 26).

The QCA Code is constructed around ten broad principles and a set of disclosures. The QCA itself has stated what it considers to be appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures. The Board has considered how it applies each principle and the extent to which the board judges these to be appropriate in the circumstances. The Board provides a summary of those areas where the Group does not fully comply and an explanation of the approach taken in relation to each below.

Following the transformational acquisition of Perfect Commerce, LLC on 4 August 2017, the acquisition of Proactis Benelux BV on 24 October 2017 and the acquisition of Esize Holdings BV on 6 August 2018, which added significantly to the size and diversity of the Group's operations and its workforce as well as its geographical reach, a substantial shift was required in the way the Group is managed in order to align all employees to a common purpose, behaviour and objectives.

This has been addressed primarily through the creation of an organisational structure that enables the promotion of the Group's values to all staff through the Executive Leadership Team ("ELT") whilst delivering the Group's integration plan.

The first phase of the integration plan is complete but the generic process is ongoing and iterative and in the last twelve months has seen, amongst others, the following corporate governance developments:

- A global operational re-organisation of the business to create a territory led customer focused Group supported by a centralised platform of services designed to deliver product, technical infrastructure and marketing and other corporate services to consistent standards that can be relied upon by the Group and its customers;
- Establishment of an ELT that can efficiently and effectively communicate through the business to drive the Group's strategy but also to establish robust operational and financial systems and processes for the identification of risk as well as subsequent deployment of policy and management of that risk as determined by the Board, that are consistently applied throughout the Group;
- Launch of the new Proactis brand identity during June 2018 which defines the Group's market positioning and deliverables and also provides direction for our people;
- Commencement of a corporate entity level re-organisation designed to rationalise the number of trading entities in the Group enabling a simplification of the contractual process with the Group's customers, its partners and its staff; and
- A recruitment programme to bring new, diverse and independent challenge to the Board.

The Board will continue to develop its governance procedures and processes in the coming year.

Board composition and compliance

The QCA Code requires that the boards of AIM companies have an appropriate balance between Executive and Non-Executive Directors of which at least two should be independent. During the period under review Proactis has not complied with this requirement as it does not have any independent Non-Executive Directors, both Alan Aubrey (Chairman) and Rodney Potts (Non-Executive Director) not being considered independent. However, Proactis has appointed, on 30 October 2018, an independent Non-Executive Director as Chair of the Remuneration Committee and has the intention, subsequently, to recruit a further independent Non-Executive Director as Chair of the Audit Committee.

The Board considers that the size of the Group does not justify the establishment of a formal nominations committee, and consequently all of the directors have played an active part in the search for an independent Non-Executive Director and this will continue to be the case in the Board's search for a further independent Non-Executive Director. The Board used an external recruitment consultant as part of this search exercise and the Board has emphasised the importance of diversity, to address the gender balance of the Board, as part of this process.

Board evaluation

For many years the Board has supported the QCA Code's principle to review regularly the effectiveness of the Board's performance as a unit, as well as that of its committees and individual directors. Whilst reviews have been of an informal nature historically, this has served the Company well and, ultimately, has led to the Board's decision to re-introduce to the Board an independent Non-Executive Director as Chair of the Remuneration Committee and who's duties will include a more formal process of review which may include the use of external facilitators in future evaluations.

The following pages set out Proactis' compliance with the ten principles of the QCA Code.

1

Principal 1: Establish a strategy and business model which promote long-term value for shareholders

The purpose of the Group is to deliver organisations the benefits of digital transformation applied to the area of indirect spend. The Group's strategy is to grow organically by providing its customers with fast and efficient access to world-leading technology and complementary services delivered to current day operational and security standards that enable those customers to trade digitally and to access efficiency, effectiveness and compliance gains. The business model is to build long-term contractual relationships with its customers that enable the Group to confidently invest in its technology over the long-term to deliver an ever-improving value proposition. This business model is designed to deliver a growing, profitable and valuable business with strong operating cash flow dynamics to drive ongoing product development to maintain its competitive advantages over other providers.

The Board supplements this strategy through a targeted M&A programme designed to accelerate growth whilst not diluting its own valuation qualities.

The key challenges that the Group faces include:

- **Delivering competitive advantage in product and technology** – regulatory drivers or good practice in the standards of procurement and data security processes adopted by large organisations is ever increasing and, when allied to the rapid pace of technological change, presents product design and technological challenges to providers. The Board believes that only the largest providers will, ultimately, be able to sustain the cost of development required to maintain the pace of change. The Group is in a strong position to leverage its investment in product and technology across its global operational reach.
- **M&A process** – the Group has undertaken a substantial programme of M&A over recent years which has delivered substantial growth beyond the market rate and has delivered a full product suite. Whilst not a necessity going forward, the Board intends to continue its programme of M&A if it is possible to identify good quality M&A opportunities and then to execute transactions and integration processes that deliver shareholder value.
- **Recruiting and retaining skilled staff** – the Group's ability to execute its strategy is dependent on the skills and abilities of its staff. The Board undertakes ongoing initiatives to promote good staff engagement including ensuring that remuneration packages are competitive in the market.

The Board believes that the Group has the right strategy in place to deliver strong growth in revenue over the medium to long term. Further, the Board expects operating margins to improve further as the fixed element of the Group's overhead base is leveraged which will further drive strong operating cash flows providing the Group with scope to maintain its leading position in product development. This will enable the Group to deliver sustainable shareholder value.

Principle 2: Seek to understand and meet shareholder needs and expectations

Investor relations are managed by the CEO with support from other executives from time to time, notably the CFO. During the period under review the below activities were pursued to develop a good understanding of the needs and expectations of all constituents of the Group's shareholder base. Please see table below.

The Group is committed to communicating openly with its shareholders to ensure that its strategy and performance are clearly understood. The Board communicates with shareholders through the Annual Report and Accounts, full-year and half-year announcements, trading updates, the annual general meeting ("AGM") and through numerous open office days where it encourages shareholders' participation in face-to-face meetings. In addition to the structured roadshows following the release of full year and interim results, each of which was expanded to include a greater number of existing and potential new investors, the Board has promoted its AGM as a forum to present to and meet with investors, delivered its first capital markets event during September 2018 and presents at investor exhibitions and conferences. A range of corporate information (including all Proactis' announcements) is also available to shareholders, investors and the public on the Group's website.

Private shareholders:

The AGM is the principal forum for dialogue with private shareholders, and the Board encourages all shareholders to attend and participate. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. The chairs of the Board and all committees, together with all other directors, whenever possible attend the AGM and are available to answer questions raised by shareholders. Shareholders vote on each resolution by way of a poll.

The Board was aware that the introduction of the Markets in Financial Instruments Directive II (MiFID II) regulations at the start of 2018 would create potential issues for investors gaining access to research on public companies. In advance of the MiFID II regulations coming into force, the Board commissioned Progressive Equity Research to produce and provide private investors with independent research on the Group. This research can be downloaded from Proactis' website as can the research written by finnCap, the Group's house broker and NOMAD.

Institutional shareholders:

The Board seeks to build a mutual understanding of objectives with institutional shareholders. The CEO and CFO make presentations to institutional shareholders and analysts immediately following the release of the full-year and half-year results. The Group communicates with institutional investors frequently through a combination of formal meetings, participation at investor conferences, roadshows and informal briefings with management. The majority of meetings with shareholders and potential investors are arranged by the broking team within the Group's nominated advisor, finnCap Limited. Following meetings, anonymised feedback is provided to the Board from all fund managers met, from which a greater understanding of sentiment, expectation and intention can be assessed.

In addition, the Group reviews analysts' notes to achieve a wide understanding of investors' views. This information is considered by the Board and has contributed to the preparation of the Group's investor relations strategy.

The Group has engaged with Progressive Equity Research and has commissioned the preparation of research that is accessible to all shareholders from the Group's website at Proactis.com.

Date	Description	Participants
July 2017	Presentations to institutional investors regarding fundraising	CEO, CFO
August 2017	EGM	Full Board
October 2017	Preliminary results roadshow	CEO, CFO
November 2017	New investor roadshow	CEO. CFO
December 2017	AGM	Full Board
February 2018	Trading update	CEO, CFO
April 2018	Interim results roadshow	CEO, CFO
July to August 2018	Open office shareholder visits	CFO
September 2018	Capital markets day	CEO, Executives

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Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success

Stakeholder	Reason for engagement	How we engage	Recent impacts
Customers	The Group's success is dependent upon fulfilling customer requirements and its competitive advantage is maintained through understanding the forward needs of its customers and delivering solutions for those needs in the Group's product roadmap.	The Group seeks feedback on its solutions in order to understand and measure its performance through a Customer Advisory Board and through its Customer Account Management processes. It takes forward requests for new solutions and enhancements to existing solutions.	These processes have led to the Group being a recognised leader in certain commercial verticals and public sector. The short-term product roadmap is shaped largely from customer led requests with the long-term product roadmap being more "general market informed" but with detailed reference to internal and external research prior to any investment decision.
Staff	The Group's ability to fulfil customer requirements and develop and enhance its technologies relies on having talented and motivated staff. Motivation is possible where staff are engaged and where there is a congruence of objectives with those of the business. Good two-way communication is an essential element of aligning objectives.	The Group's interaction with its staff is managed centrally and delivered locally to be sensitive to local custom and law. The ELT and other media are used to communicate through the organisation with an open invitation to staff to ask questions of management that are not answered in the briefings.	During the year, the Group has created policies designed to secure the business from the risk of key employee loss. It has aligned principles on contractual benefits where sensible and economic. The Board has taken the decision to publish gender pay information (at least internally) as part of its determination to provide equal opportunities and pay to all its staff.

Stakeholder	Reason for engagement	How we engage	Recent impacts
Business partners	Business partners are an essential element of the Group's go-to-market strategy, providing the Group with a long standing stream of new business and recurring revenues.	The Group employs Business Partner Managers who are key staff members, enabling our Business Partners to be successful through a mutually supportive relationship where the Business Partners have access to all elements of the Group's operations.	The Group has created a partner development programme, initiated in the UK (which is the only territory with present expertise in this channel to market), and designed to create a broader profile of Business Partners with the objective of creating collaborative relationships to drive incremental business into the Group.
Shareholders	The Group must be supported by its shareholders if it is to execute its strategy fully.	See Principle 2, above. The Board believes That the Group has successfully engaged with its shareholders in the past but that it needs to improve this further over to regain confidence.	The Group has engaged with its shareholders regularly during the year to try to keep them informed of issues that the Group has faced but has also taken counsel from them in order to inform some of the content and presentational aspects of the Group's communications to enable shareholders to gain better insight into the Group's performance.
Communities	It is important to be perceived as a reputable business that makes a positive contribution to local economies and is attractive as an employer and partner.	Multiple activities to support fundraising for local charities and good causes have been undertaken. Participation in apprenticeship and other schemes to support and provide opportunities to young people are being considered.	The Group is planning the initiation of an apprenticeship scheme.
Regulatory bodies	The Group is required to comply with law and many regulatory standards from many regulatory bodies in many territories including but not limited to general corporate law, technology operating standards and corporate governance regulation.	The Board has a framework in place designed to capture changes in regulation and operating standards across all of its territories including the membership of trade bodies, the use of outside counsel and expert advisory services and the employment of skilled staff with responsibility to remain current in their understanding of regulatory change.	The EU regulations around GDPR have been a significant driver of activity during the year as law came into being during the year which was the culmination of much activity in the years prior to this law change. The FCA is shaping the design of the Group's Accelerated Payment Facility which it is intending to bring to market in due course.

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Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Board retains a risk register for the Group that identifies key risks in the areas of corporate strategy, finance, customers, staff, technology and operations. This is reviewed at least annually as part of the Group's strategic planning process. It is expected that new risks arising will be identified through the management framework designed by the Board and those risks will be communicated to the Board where necessary with precautionary or remedial action taken as appropriate. The ELT consists of experienced personnel in the enterprise class application software environment and in business more generally.

The Board's responsibility in relation to Internal Control is described on page 51.

Within the scope of the annual audit, financial risks specifically are evaluated in detail, including in relation to foreign currency, interest rates, liquidity and credit.

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Principle 5: Maintain the board as a well-functioning and balanced team led by the Chair

The members of the Board have a collective responsibility and legal obligation to promote the interests of the Group and are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the chair of the Board.

The Board consists of six directors of which three are executives and three are non-executives, The Board does not consider two of the non-executives to be independent on the basis of their tenure and Rodney Potts holds a significant shareholding in the Company. Whilst these two non-executives are not independent the Board considers that their contributions are invaluable as they have intimate knowledge of the business and sector, complemented by Alan Aubrey's significant public company experience. The Board also considers that, whilst not formally independent, they both demonstrate independence of character and judgement and this is evidenced through active challenge at Board meetings. The Board acknowledges that independence is also a skill set that complements the overall balance of the Board and it has appointed one independent non-executive director as Chair of the Remuneration Committee and intends to appoint a further independent non-executive director as Chair of the Audit Committee in due course, where the Board will consider age, skills, background, ethnicity and gender as part of this process in order to promote greater diversity. The Board is supported by two committees: audit and remuneration. The Board does not consider that it is of a size at present to require a separate nominations committee, and all members of the Board are involved in the appointment of new directors.

Under the Articles of Association of the Company, one third of the Directors is subject to retirement by rotation or, if their number is not three or a multiple of three, the number nearest to but not less than one third, shall retire. Each retiring director is eligible for re-election. Each Director must retire at the third Annual General Meeting following their last appointment or re-appointment.

Non-executive directors are required to attend 8-10 board and board committee meetings per year and to be available at other times as required for face-to-face and telephone meetings with the executive team and investors. All executive directors are contracted on a full-time basis.

The Board has a schedule of matters for regular business and each Board committee has compiled a schedule of work to ensure that all areas for which the Board has responsibility are addressed and reviewed during the course of the year. The Chair is responsible for ensuring that, to inform decision-making, directors receive accurate, sufficient and timely information. The Company Secretary compiles the Board and Committee papers which are circulated to directors prior to meetings and provides minutes of each meeting. Every director is aware of the right to have any concerns minuted and to seek independent advice at the Group's expense where appropriate.

The Board papers are driven by the Schedule of Matters which is reviewed monthly by the Executive Directors to identify reportable issues. Routine reports are provided on progress against the Group's strategic objectives, financial performance, investor relations, organisational transition and operational non-compliance.

The table below shows the number of Board, Audit Committee and Remuneration Committee meetings held during the year from the date of the approval of the last set of financial statements to the date of approval of these financial statements and the attendance of each director.

	Board meetings		Committee meetings			
			Audit		Remuneration	
	Possible	Attended	Possible	Attended	Possible	Attended
Non – executive Directors						
Alan Aubrey	9	9	1	1	1	1
Rodney Potts	9	9	1	1	1	1
Executive Directors						
Hampton Wall[1]	9	9	–	–	–	–
Sean McDonough	9	9	–	–	–	–
Tim Sykes	9	9	–	–	–	–

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Principle 6: Ensure that, between them, the directors have the necessary up-to-date experience, skills and capabilities

All six members of the Board bring relevant sector experience in technology and all, except for the Chief Executive Officer, have significant public markets experience. Three members are chartered accountants. The Board has diversity representation which it is looking to increase through its appointment of an additional independent non-executive director in due course but believes that its blend of relevant experience, skills and personal qualities and capabilities is sufficient to enable it to successfully execute its strategy. Directors attend seminars and other regulatory and trade events to ensure that their knowledge remains current.

Brief biographies are included on the Group's website and within this Annual Report & Accounts where details related to remuneration and tenure are also provided.

No significant matters of a corporate governance nature arose during the period covered by the 2018 Annual Report, nor subsequently to the date of this statement, on which it was considered necessary for the Board or any of its committees to seek external advice, although the Board consults with its Nominated Adviser and other professional advisers on routine matters arising in the ordinary course of its business.

The current CFO is also the Company Secretary. The Board considers that, at present, both roles can be undertaken successfully by the CFO but this situation is monitored by the CEO with a view to a separation of the roles ultimately being required as the Group continues to expand its operations.

Principle 7: Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

The Board evaluation process is led by the Chair and is continuous. As the Group has grown, the Board has identified the need to recruit additional independent Non-Executive Directors to facilitate more rigorous corporate governance in order that Proactis remains attractive as an investment proposition for institutional investors. As part of the acquisition of Perfect that completed on 4 August 2017, the Board committed to a review of the composition of the independent non-executive element of the Board, in order to assist with the next stage of the enlarged Group's growth. This exercise is now complete and resulted in the commencement of a search process with the intention to recruit two further independent non-executive directors. The first independent Non-Executive Director has been appointed and will Chair the Remuneration Committee and will work closely with the Chair of the Board to review the effectiveness of the Board evaluation process, including the consideration of whether external facilitators might be used.

The evaluation process considers effectiveness in a number of areas including general supervision and oversight, business risks and trends, succession and related matters, communications, ethics and compliance, corporate governance and individual contribution.

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Principle 8: Promote a corporate culture that is based on ethical values and behaviours

The Group's long-term growth is underpinned by its ability to develop long-term relationships with its customers through the provision of world-leading technology and complementary services over an extended period of time which can only be achieved with through the display of the highest ethical values and behaviours. These ethical values and behaviours as demonstrated by the Group's relationships with its customers and is mirrored with its dealings with its staff, its business partners, its shareholders and other stakeholders.

The continued execution of the Group's M&A strategy makes it more difficult to define one culture as the Group is an aggregation of many cultures. The transformational acquisition of Perfect Commerce LLC, in August 2017 and the fundamental restructuring of the operations of the Group since that time leaves the Group, presently, coming toward the end of a period of significant change. The Group's culture is being redefined through its brand and its people as it emerges as a single entity across multiple territories. The Board plays a full part in the redefinition of that culture through its behaviours and its actions and the executive team is responsible for mirroring those behaviours and actions within the business. This has included the following activities:

- The bringing together of the multiple brand names in the market to one single brand name, Proactis;
- The definition of the brand itself, creating an expectation of what a customer, or any other stakeholder, should expect from Proactis;
- The recruitment process includes an assessment of the candidate's ability to live to the brand;
- The initiation of structured appraisal processes on a consistent basis, where possible, for all team members;
- The coordination of the territory based Human Resources functions across the Group to create a consistency of content within the appraisal, where possible; and
- The promotion of the concept of transparency and openness by the controlled removal of all internal management offices as part of a rolling office refit programme. This process will take several years to complete but has already has positive behavioural outcomes.

Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the board

The **Board** provides strategic leadership for the Group and operates within the scope of a robust corporate governance framework. Its purpose is to ensure the delivery of long-term shareholder value, which involves defining the Group's strategic objectives, reviewing the plans designed to deliver those strategic objectives and the monitoring of performance against those plans. The Board is also responsible for internal control. The Board retains a formal Schedule of Matters that is referred to each month during the process of the preparation of Board papers. It also has approved terms of reference for its audit and remuneration committees to which certain responsibilities are delegated. The Chair of each committee reports to the Board on the activities of that Committee.

The **Audit Committee** monitors the integrity of financial statements, oversees risk management and control, monitors the effectiveness of the internal audit function and reviews external auditor independence.

The Audit Committee, which is chaired by Alan Aubrey also includes Rodney Potts and Sophie Tomkins and is established by and is responsible to the Board. It has written terms of reference. Its main responsibilities are:

- to monitor and be satisfied with the truth and fairness of the Company's financial statements before submission to the Board for approval, ensuring their compliance with the appropriate accounting standards and the law;
- to monitor and review the effectiveness of the Company's system of internal control;
- to make recommendations to the Board in relation to the appointment of the external auditors and their remuneration, following appointment by the shareholders in general meeting, and to review and be satisfied with the auditors' independence, objectivity and effectiveness on an ongoing basis; and
- to implement the policy relating to any non-audit services performed by the external auditors.

The Committee is authorised by the Board to seek and obtain any information it requires from any officer or employee of the Company and to obtain external legal or other independent professional advice as is deemed necessary by it.

Meetings of the Committee are held normally once a year to coincide with the external audit and observations arising from the auditor's work in relation to internal control and to review the financial statements. The external auditor meets with the Audit Committee with management being present at least once a year. The Committee carries out a full review of the year-end financial statements and of the audit, using as a basis the Report to the Audit Committee prepared by the external auditor and taking into account any significant accounting policies, any changes to them and any significant estimates or judgments. Questions are asked of management of any significant or unusual transactions where the accounting treatment could be open to different interpretations.

The Committee receives reports from management on any shortfall in the system of internal controls as and when such matters are identified. It also receives from the external auditor a report of matters arising during the course of the audit which the auditor deems to be of significance for the Committee's attention. The statement on internal controls and the management of risk, which is included in the annual report, is approved by the Committee.

The external auditor is required to give the Committee information about policies and processes for maintaining its independence and compliance regarding the rotation of audit partners and staff. The Committee considers all relationships between the external auditor and the Company to ensure that they do not compromise the auditor's judgement or independence, particularly with the provision of non-audit services.

The **Remuneration Committee** sets and reviews the compensation of executive directors including the setting of targets and performance frameworks for cash and share-based awards.

The Remuneration Committee, which is chaired by Sophie Tomkins also includes Alan Aubrey and Rodney Potts and meets when required but at least once a year with the Chief Executive Officer in attendance as appropriate. It has written terms of reference. The Committee agrees the framework for executive directors' remuneration with the Board.

The Nomination Committee is required to ensure that the balance of Directors on the Board remains appropriate as the Group develops to ensure that the business can compete effectively in the marketplace and to identify and nominate candidates to fill Board vacancies as and when they arise.

The **Nomination Committee**, which is formed at the Board's discretion, is required to evaluate the balance of skills, knowledge and experience and diversity of the Board to ensure an optimum mix whilst considering succession planning for directors and senior managers to ensure that there is a pipeline high calibre candidates and that succession is managed smoothly. The Nomination Committee was not formed during the year.

The **Executive Board**, consisting of the executive directors, operates as a management committee, chaired by the CEO, which reviews operational matters and performance of the business, and is responsible for significant management decisions while delegating other operational matters to individual managers within the business.

The **Chairman** has overall responsibility for corporate governance and in promoting high standards throughout the Group. He leads and chairs the Board, ensuring that committees are properly structured and operate with appropriate terms of reference, ensures that performance of individual directors, the Board and its committees are reviewed on a regular basis, leads in the development of strategy and setting objectives, and oversees communication between the Group and its shareholders.

The **CEO** provides coherent leadership and management of the Group, leads the development of objectives, strategies and performance standards as agreed by the Board, monitors, reviews and manages key risks and strategies with the Board, ensures that the assets of the Group are maintained and safeguarded, leads on investor relations activities to ensure communications and the Group's standing with shareholders and financial institutions is maintained, and ensures that the Board is aware of the views and opinions of employees on relevant matters.

The **Executive Directors** are responsible for implementing and delivering the strategy and operational decisions agreed by the board, making operational and financial decisions required in the day-to-day operation of the Group, providing executive leadership to the Group's management team to enable them to deliver the Group's business whilst promoting positive behaviours and sponsoring talent.

The **Independent Non-Executive Directors** contribute independent thinking and judgement through the application of their external experience and knowledge, scrutinise the performance of management, provide constructive challenge to the executive directors and ensure that the Group is operating within the governance and risk framework approved by the board.

The **Company Secretary** is responsible for providing clear and timely information flow to the Board and its committees and supports the Board on matters of corporate governance and risk.

The matters reserved for the board are:

- Strategy and management;
- Structure and capital;
- Financial reporting and controls;
- Internal controls;
- Material contracts;
- Communication;
- Board membership and other appointments;
- Remuneration;
- Delegation of authority;
- Corporate governance matters;
- Policies; and
- Other matters including political donations, appointment of principal professional advisers, matters of litigation, insurance, pension scheme rules and the Schedule of Matters itself.

The board has approved the adoption of the QCA Code as its governance framework against which this statement has been prepared and will monitor the suitability of this code on an annual basis and revise its governance framework as appropriate as the Group evolves.

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Principle 10: Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

Voting results are published after each general meeting through regulatory newswire and voting is generally passed by a poll. Going forward, the Board intends to publish its proxy voting results so as to disclose voting results in a more transparent way.

In addition to the investor relations activities described above, the following audit and remuneration committee reports are provided.

Audit Committee Report

During the year, the Audit Committee has continued to focus on the effectiveness of the controls throughout the Group. The committee met once, and the external auditor and CFO were invited to attend that meeting. Consideration was given to the auditor's reports which provided opportunities to review the accounting policies, internal control and the financial information contained in both the annual and interim reports.

Remuneration Committee Report

The remit of the Remuneration Committee is to determine the framework, policy and level of remuneration, and to make recommendations to the Board on the remuneration of executive directors. In addition, the committee oversees the creation and implementation of all-employee share plans. The committee met once.

In setting remuneration packages, the Committee ensured that individual compensation levels and total board compensation were comparable with those of other AIM-listed companies and were consistent with the sector that Proactis operates in. This process was underpinned by the use of an external consultancy that provided a report with its recommendations of the structure and quantum of the remuneration packages. The Remuneration Committee recommended to the Board and the Board has implemented those recommendations. A summary of the structure and quantum of the remuneration packages is set out in the Directors' Remuneration Report.

Statement of Directors' Responsibilities

In respect of the Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Annual Report, Strategic Report, the Directors' 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 that law they have elected 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 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.

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.

Independent auditor's report

to the members of Proactis Holdings PLC

1. Our opinion is unmodified

We have audited the financial statements of Proactis Holdings PLC ("the Company") for the year ended 31 July 2018 which comprise the Consolidated income statement, Consolidated statement of profit or loss and other comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated cash flow statement, Company Balance Sheet, Company statement of changes in equity, Company cash flow statement and the related notes, including the accounting policies in notes 1 and 30.

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 2018 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 (IFRSs as adopted by the EU);
- 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.

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

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

Acquisition accounting	Subjective valuation	Our procedures included:
Recurring risk, increased in significance since FY17. £29.155 million (FY17: £4.554 million) of separately identifiable intangible assets. £1.500 million of contingent consideration arising from the Proactis Benelux BV acquisition. Refer to page 64 (accounting policy) and pages 91 & 92 (financial disclosures).	The Group acquired both Perfect Commerce, LLC and Proactis Benelux BV during the year, both of which were material acquisitions to the Group. The determination of separately identifiable intangible assets arising on business combinations is inherently judgemental and valuation of these assets is complex and sensitive to underlying assumptions around future cash flows and discount rates. With regard to the Proactis Benelux BV acquisition, the fair value of contingent consideration arising on acquisition is complex and sensitive to underlying assumptions around the likelihood and value of incremental revenues in the earn out period.	**Methodology choice:** assessing, using our own valuation specialist, the results of the intangible asset valuation reports by checking that the valuations were in accordance with relevant accounting standards and acceptable valuation practice. **Evaluating assumptions:** challenging the key assumptions used in determining the valuation of intangible assets acquired, in particular customer attrition rates, expected useful lives and discount rates, by comparing them to externally derived data and our knowledge of the business and the industry. Our own valuation specialists assisted us in the assessment of an acceptable range of discount rates. **Our sector experience:** assessing whether the assumptions used in calculating contingent consideration, in particular the likelihood of each significant revenue item to be earnt, reflect our knowledge of the business and our inquiries with management. This included comparing the projected revenue to third party documents, where possible. **Assessing transparency:** considering the adequacy of the Group's disclosures in respect of determining the fair value of contingent consideration payable.

Recoverability of carrying value of goodwill and other intangible assets (Group), and investment and intercompany receivables in Perfect Commerce, LLC (Parent company only)	Forecast based valuation	Our procedures included:
New risk £151.412 million of goodwill and other intangible assets. Refer to page 64 (accounting policy) and page 79 (financial disclosures). £97.821 million of Perfect Commerce LLC investment and £1.013 million of intercompany receivable Refer to page 99 (accounting policy) and page 99 (financial disclosures).	Goodwill and other intangible assets (Group) and the Perfect Commerce, LLC investment and intercompany receivables (Parent company) are significant and at risk of irrecoverability due to their size in comparison to the market capitalisation of the Group as a whole. The estimated recoverable amounts are subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.	**Historical comparisons:** analysing the Group's previous projections against actual outcomes to assess historical reliability of the forecasting. **Our sector experience:** evaluating whether assumptions used, in particular those relating to forecast growth rates, reflect our knowledge of the business and industry, including known or probable changes in the business environment. **Sensitivity analysis:** performing breakeven analysis on the key assumptions above. **Benchmarking assumptions:** challenging, using our own valuation specialist, the key inputs used in the Group's calculation of the discount rates by comparing them to externally derived data, including available sources for comparable companies. **Assessing transparency:** assessing whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill and intangible assets.

We continue to perform procedures over the capitalisation of development costs. However, following the acquisition of Perfect Commerce, LLC within the year, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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 £254,000 (2017: £193,000), determined with reference to a benchmark of Group profit before taxation adjusted to add back certain costs directly attributable to the Group's acquisitions and subsequent integration (including legal and professional fees, severance payments, office closure costs and the gain on settlement of the forward contract, totalling £1.5m), of which it represents 5% (2017: 5%).

Materiality for the parent company financial statements as a whole was set at £100,000 (2017: £130,500), determined with reference to a benchmark of company total assets, of which it represents 0.1% (2017: 0.3%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £12,700 (2017: £9,650), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 38 (2017: 15) reporting components, we subjected 16 (2017: 11) to full scope audits for group purposes. These audits covered 92% (2017: 94%) of total Group revenue, 80% (2017: 100%) of Group profit (2017: loss) before taxation, and 91% (2017: 93%) of total Group assets. Component materiality levels were set individually for all components having regard to the mix of size and risk profile of the Group across the components, and ranged from £1,000 to £180,000 (2017: £1,000 to £130,500).

The work on two of the sixteen components (2017: one of the eleven components) was performed by component auditors and the rest by the Group team. The Group team performed procedures on the items excluded from profit before tax.

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.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

The Group team visited 1 (2017: 0) component locations in France to assess the audit risk and strategy. Telephone conference meetings were also held with this component auditor. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4. We have nothing to report on going concern

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

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

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

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

Strategic Report and Directors' Report

Based solely on our work on the other information:

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

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

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 51, 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.

Johnathan Pass
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

30 October 2018

Consolidated Income Statement

For the year ended 31 July 2018

	Notes	2018 £000	2017 £000
Revenue		**52,221**	25,404
Cost of sales		**(5,963)**	(3,545)
Staff costs	3	**(21,670)**	(10,960)
Other operating expenses		**(11,332)**	(9,969)
Depreciation of property, plant and equipment	11	**(511)**	(216)
Amortisation of intangible assets	12	**(7,886)**	(3,322)
Operating profit/(loss)	6	**4,859**	(2,608)
Finance income	7	**-**	2
Finance expenses	8	**(1,110)**	(142)
Profit/(loss) before taxation		**3,749**	(2,748)
Income tax credit/(charge)	9	**1,602**	(23)
Profit/(loss) for the year		**5,351**	(2,771)
Profit/(loss) attributable to:			
Owners of the Company		**5,042**	(2,771)
Non-controlling interests		**309**	-
		5,351	(2,771)
Earnings/(loss) per ordinary share:			
- Basic	10	**5.4p**	(5.9p)
- Diluted	10	**5.3p**	(5.7p)

All of the Group's operations are continuing.

The following notes form an integral part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 July 2018

	2018 £000	2017 £000
Profit/(loss) for the period	**5,351**	(2,771)
Other comprehensive income		
Items that will never be reclassified to profit or loss		
Share based payment charges	-	125
Deferred tax on share options	-	240
Items that are or may be reclassified to profit or loss		
Foreign operations – foreign currency translation differences	**27**	(91)
Other comprehensive gain net of tax	**27**	274
Total comprehensive income/(loss)	**5,378**	(2,497)
Total comprehensive income/(loss) attributable to:		
Owners of the Company	**5,069**	(2,497)
Non-controlling interests	**309**	-
	5,378	(2,497)

The following notes form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 July 2018

	Notes	**2018 £000**	2017 £000
Non-current assets			
Property, plant & equipment	11	**1,499**	381
Intangible assets	12	**151,412**	38,628
Deferred tax asset	17	**1,360**	500
		154,271	39,509
Current assets			
Trade and other receivables	13	**21,664**	5,880
Cash and cash equivalents	14	**9,561**	4,277
		31,225	10,157
Total assets		**185,496**	49,666
Current liabilities			
Trade and other payables	15	**18,023**	8,104
Obligations under finance leases	20	**77**	14
Deferred income	16	**18,705**	10,880
Income taxes		**507**	555
Loans and borrowings	20	**2,985**	1,400
		40,297	20,953
Non-current liabilities			
Deferred income	16	**653**	577
Deferred tax liabilities	17	**8,742**	1,778
Loans and borrowings	20	**39,766**	3,760
Obligations under finance leases	20	**40**	54
Provisions	21	**783**	-
		49,984	6,169
Total liabilities		**90,281**	27,122
Net assets		**95,215**	22,544

Consolidated Balance Sheet continued

As at 31 July 2018

	Notes	2018 £000	2017 £000
Equity			
Called up share capital	18	**9,324**	5,024
Share premium account	19	**81,464**	17,631
Merger reserve	19	**556**	556
Capital reserve	19	**449**	449
Equity reserve	19	**80**	-
Foreign exchange reserve	19	**(1,137)**	(1,164)
Retained earnings		**2,875**	48
Equity attributable to equity holders of the Company		**93,611**	22,544
Non-controlling interest		**1,604**	-
Total equity		**95,215**	22,544

The following notes form an integral part of these financial statements.

The financial statements on pages 56 to 95 were approved by the Board of Directors on 30 October 2018 and signed on its behalf by:

George Hampton Wall
Chief Executive Officer

30 October 2018

Tim Sykes
Chief Financial Officer

30 October 2018

Consolidated Statement of changes in Equity

For the year ended 31 July 2018

	Share capital £000	Share premium £000	Merger reserve £000	Capital reserve £000	Foreign exchange reserve £000	Equity component of convertible notes £000	Retained earnings £000	Total £000	Non-controlling interest £000	Total equity £000
At 31 July 2016	3,983	5,962	556	449	(1,073)	-	3,095	12,972	-	12,972
Shares issued during the period	1,041	11,669	-	-	-	-	(3)	12,707	-	12,707
Arising during the period	-	-	-	-	(91)	-	-	(91)	-	(91)
Result for the period	-	-	-	-	-	-	(2,771)	(2,771)	-	(2,771)
Dividend payment of 1.3p per share	-	-	-	-	-	-	(638)	(638)	-	(638)
Share based payment charges	-	-	-	-	-	-	125	125	-	125
Deferred tax on share options	-	-	-	-	-	-	240	240	-	240
At 31 July 2017	5,024	17,631	556	449	(1,164)	-	48	22,544	-	22,544
Shares issued during the period	4,243	63,636	-	-	-	-	-	67,879	-	67,879
Share options exercised	57	197	-	-	-	-	-	254	-	254
Issue of convertible notes	-	-	-	-	-	80	-	80	-	80
Arising during the period	-	-	-	-	27	-	-	27	-	27
Acquisition of subsidiary with NCI	-	-	-	-	-	-	-	-	2,566	2,566
Transactions with NCI	-	-	-	-	-	-	(1,042)	(1,042)	(1,271)	(2,313)
Result for the period	-	-	-	-	-	-	5,042	5,042	309	5,351
Dividend payment of 1.4p per share	-	-	-	-	-	-	(1,299)	(1,299)	-	(1,299)
Share based payment charges	-	-	-	-	-	-	366	366	-	366
Deferred tax on share options	-	-	-	-	-	-	(240)	(240)	-	(240)
At 31 July 2018	**9,324**	**81,464**	**556**	**449**	**(1,137)**	**80**	**2,875**	**93,611**	**1,604**	**95,215**

Details of the nature of each component of equity are given in Note 19.

The following notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 July 2018

	Notes	**2018 £000**	2017 £000
Operating activities			
Profit/(loss) for the year		**5,351**	(2,771)
Amortisation of intangible assets		**7,886**	3,322
Depreciation		**511**	216
Net finance expense		**1,110**	140
Forward contract provision		**(806)**	1,832
Income tax (credit)/charge		**(1,602)**	23
Share based payment charges		**366**	125
Operating cash flow before changes in working capital		**12,816**	2,887
Movement in trade and other receivables		**859**	148
Movement in trade and other payables and deferred income		**(4,015)**	2,513
Operating cash flow from operations		**9,660**	5,548
Finance income		**-**	2
Finance expense		**(804)**	(142)
Income tax paid		**(492)**	(743)
Net cash flow from operating activities		**8,364**	4,665
Investing activities			
Purchase of plant and equipment		**(1,106)**	(82)
Payments to acquire subsidiary undertakings, net of cash acquired	27	**(93,731)**	(14,327)
Development expenditure capitalised		**(5,702)**	(2,765)
Net cash flow from investing activities		**(100,539)**	(17,174)
Financing activities			
Payment of dividend		**(1,299)**	(638)
Proceeds from issue of shares		**68,133**	12,707
Receipts from bank borrowings		**43,660**	4,200
Transaction costs related to loans and borrowings		**(288)**	-
Acquisition of NCI		**(2,313)**	-
Repayment of bank borrowings		**(9,942)**	(3,089)
Finance lease payments		**(151)**	(1)
Net cash flow from financing activities		**97,800**	13,179
Effect of exchange rate movements on cash and cash equivalents		**(341)**	12
Net increase in cash and cash equivalents		**5,625**	670
Cash and cash equivalents at the beginning of the year		**4,277**	3,595
Cash and cash equivalents at the end of the year	14	**9,561**	4,277

Notes to the Consolidated Financial Statements

1. Accounting Policies

Significant accounting policies
Proactis Holdings PLC (the 'Company') is a public company incorporated and domiciled in the United Kingdom, with subsidiary undertakings in the United States, France, Germany, Netherlands, Ireland, Belgium, New Zealand, Luxembourg, Mauritius, India and Australia. The address of its registered office is Riverview Court, Castle Gate, Wetherby, LS22 6LE.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The Company financial statements present information about the Company as a separate entity and not about its Group.

The Group is principally engaged in the development and sale of business software, installation and related services.

The following paragraphs summarise the significant accounting policies of the Group, which have been applied consistently in dealing with items which are considered material in relation to the Group's consolidated financial statements.

Basis of preparation
The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union, IFRIC interpretations and the Companies Act 2006 as applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

The Company has elected to prepare its Company financial statements in accordance with FRS 101 "Reduced Disclosure Framework" ("FRS 101").

The financial statements are presented in pounds sterling, which is the functional currency of the parent company and the presentational currency of the Group, and in round thousands.

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 affects only 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 the next year are discussed in Note 25.

The Group's business activities, together with the factors likely to affect its future development, performance and positions are set out in the Strategic Report on page 8. Notwithstanding net current liabilities at 31 July 2018 of £9.1m (31 July 2017: net current assets of £14.8m), the Directors have prepared the financial statements on a going concern basis. Net current liabilities at 31 July 2018 include £18.7m of deferred income, which does not represent expected cash outflows. Excluding this, the Group has net current assets of £9.6m.

On 7 July 2017 the existing debt facilities at that time were refinanced and rolled over into a new facility of £45m, including a £15m term loan repayable over 5 years, and a £30m revolving credit facility repayable after five years. The revolving credit facility was increased by a further £5m in August 2018, ahead of the acquisition of Esize. Net bank debt at 31 July 2018 was £29.4m, comprising cash balances of £9.6m and gross bank debt of £39.0m. The financial covenants of this facility include cash flow cover, leverage and interest cover. The first compliance certificate required to be prepared is for the year ended 31 July 2018. The Group has prepared a sensitised cash flow model for the 12 month period ending 31 July 2019 and beyond to 2021, which shows increasing cash flows into the future as the business grows. The cash flow model indicates that there is sufficient headroom against all covenants for a period of not less than 12 months from the date of approval of these financial statements, with no material uncertainties noted over cash inflows over this period.

The Directors have concluded that the Group has adequate resources to enable it to meet its liabilities for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements.

New standards, amendments to standards or interpretations

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated.

Notes to the Consolidated Financial Statements continued

Standards in effect in 2018

- Amendments to IAS 40: Transfers of Investment Property
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

None of these had a material impact on these financial statements.

No new standards becoming effective and applied in the current year have had a material impact on the financial statements.

IFRS in issue but not applied in the current financial statements

The following IFRS and IFRIC Interpretations have been issued but have not been applied by the Company in preparing these financial statements as they are not as yet effective. The Company intends to adopt these Standards and Interpretations when they become effective, rather than adopt them early.

- IFRS 9 Financial Instruments (effective date 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective date 1 January 2018)
- IFRS 16 Leases (effective date 1 January 2019)
- IFRS 17 Insurance Contracts (effective date to be confirmed)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective date to be confirmed)
- IFRIC 23 Uncertainty over Income Tax Treatments (effective date to be confirmed)
- Annual Improvements to IFRS Standards 2014-2016 Cycle (effective date to be confirmed)
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective date to be confirmed).
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective date to be confirmed).
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective date to be confirmed)

It is expected that IFRS 9 will impact both the measurement and disclosure of financial instruments. IFRS 16 will impact the classification of operating leases. Beyond this, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 and IFRS 16 until a detailed review has been completed.

IFRS 15 will have an impact on revenue recognition and related disclosures. The impact assessment work performed to date indicates no change to the existing revenue recognition policy as a result of adopting this standard for the majority of the Proactis revenue streams and products. The only revenue stream that is deemed to be impacted by adopting IFRS15 are subscription licences that are installed on client premises which account for only 40 subscription licences at 31 July 2018. At this point in time the impact assessment work performed by the Company indicates an in year impact of £50,000 for the year ended 31 July 2018. Impact on future revenue streams is dependent on future business and contracts. Calculations at 31 July 2018 indicate that contracted income of approximately £1m that would be recognised within the income statement in future periods under existing policies would now not be recognised under IFRS15.

A number of IFRS and IFRIC interpretations are also currently in issue which are not relevant for the Company's activities and which have not therefore been adopted in preparing these financial statements.

The Group continues to monitor the potential impact of other new standards and interpretations which may be endorsed by the European Union and require adoption by the Group in future reporting periods.

The following principal accounting policies have been applied consistently to all periods presented in these Group financial statements.

Basis of consolidation

Subsidiaries are entities controlled by the Company. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and its ability to affect those returns through its power to direct the activities of the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains and losses on translation are recognised in the statement of comprehensive income.

Notes to the Consolidated Financial Statements continued

The assets and liabilities of foreign operations are translated to the Group's presentational currency (Sterling), at foreign exchange rates ruling at the balance sheet date. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the foreign exchange reserve.

Property, plant and equipment

Property, plant and equipment are held at cost less accumulated depreciation and impairment charges.

Depreciation is provided at the following annual rates in order to write off the cost less estimated residual value of property, plant and equipment over their estimated useful lives as follows:

Computer equipment	– 10 to 50%
Office fixtures and fittings	– 10 to 25%

Intangible assets – Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Acquired intangible assets – business combinations

Intangible assets that are acquired as a result of a business combination but that can be separately measured at fair value on a reliable basis are separately recognised on acquisition at their fair value. Amortisation is charged on a straight-line basis to the consolidated statement of comprehensive income over their expected useful economic lives. For the Group's intangible assets this has been assessed to be between 3 and 25 years (2017: between 3 and 25 years) depending on the individual asset.

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment when events or a change in circumstances indicate that the carrying amount may not be recoverable.

Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, the Group can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Internally generated intangible assets are amortised over their useful economic life, over a period not exceeding five years (2017: five years). Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment

The carrying amount of the Group's non-financial assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the consolidated statement of comprehensive income.

An impairment loss is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. For the purposes of assessing impairments, assets are grouped at the lowest levels for which there are identifiable cash flows.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets of the unit (group of units) on a pro-rata basis.

Notes to the Consolidated Financial Statements continued

Trade and other receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Financial assets
The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired:

Fair value through profit or loss: These assets are carried in the balance sheet at fair value with changes in the fair value recognised in the consolidated statement of comprehensive income.

Loans and receivables: These assets are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (trade debtors). They are carried at amortised cost using the effective interest method.

Cash and cash equivalents: These assets comprise cash balances held by the Group.

Financial liabilities
Financial liabilities are comprised of trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Derivative financial instruments
Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

The Group derives revenue from the sale of software as a perpetual licence, the provision of software as a service and also complimentary managed services, consultancy, support and hosting services.

Sale of software as a perpetual licence: the Group recognises the revenue capable of being allocated to perpetual software licences, at the time of an initial sale or subsequently as an upsell, when all the following conditions have been satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the licence;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Provision of Software as a Service: revenue from provision of Software as a Service under contracts, at the time of an initial sale or subsequently as an upsell, with extended terms which combine software and support service elements are recognised evenly over the period to which the services relate. Customers pay a fee quarterly (generally) for a defined contractual term, normally three or five years, and the contracts provide the customer with current software products, rights to receive unspecified future software products and rights to support services during the term of the contract. This policy reflects the continuous nature of the transfer of value to the customer. Revenue invoiced but not recognised in the income statement under this policy is classified as deferred income in the balance sheet.

Consultancy services: revenue capable of being allocated to consultancy services is recognised when the service is performed.

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

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

In the case where a single contract involves the combination of any or all of sale of software as a perpetual licence,

Notes to the Consolidated Financial Statements continued

provision of Software as a Service, consultancy services, support services and hosting services, the amount of consideration is derived from an assessment of the fair value of each of the individual constituent elements of the goods and services provided. The revenue allocated to each element is recognised as outlined above. The Group is able to reliably measure the fair value of each element of these contracts using a combination of factors including the contract price agreed with the client, through consideration of the relative value of each element of the contract and through the contract price charged for those elements in similar circumstances with other clients.

The Group utilises business partners to access certain markets as distributors. Where a business partner sells the Group's products or services, the sale is treated as revenue by the Group and the commission payable to the business partner is treated as a cost of sale.

Leases

Leases where the lessor retains substantially all of the risks and rewards of ownership are classified as operating leases. Payments made under operating lease rentals are charged to the income statement on a straight line basis over the term of the lease.

Leases where the lessee obtains substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Post-retirement benefits

The Group operates defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in an independently administered fund.

In France there is a requirement to make a lump sum pension payment if an employee reaches retirement age whilst employed. A retirement provision has been recalculated based on the employees in each of the two French entities at 31 July 2018.

The amount charged to the income statement represents the contributions payable to the defined contribution pension schemes in respect of the accounting period and the movement in the French pension provision.

Share based payments

The fair value of awards to employees that take the form of shares or rights to shares is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which an asset can be utilised.

Provisions

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Non-controlling interest ("NCI")

NCIs are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Notes to the Consolidated Financial Statements continued

2. Operating segments

Basis for segmentation
The Group determines and presents operating segments based on the information that internally is provided to the Board of Directors, which is considered to be the Group's Chief Operating Decision Maker, ("CODM").

IFRS 8 requires consideration of the CODM within the Group. In line with Group's internal reporting framework and management structure, the key strategic and operating decisions are made by the Board of Directors, which reviews internal monthly management reports, budget and forecast information as part of this. Accordingly, the Board of Directors is deemed to be the CODM.

Operating segments have been identified based on the internal reporting information and management structures within the Group and take into consideration the relative size of the operation. The Board has determined there are three reportable segments, based on geographical location of the segment management. As the Group continues to develop and expand, the number of reportable segments will be kept under review.

Each reportable segment derives its revenues from the sale of business software, installation and related services.

Information about reportable segments
Information related to each reportable segment is set out below. Segment revenue is analysed below, split as software as a service ("SaaS") revenue and services revenue.

Segment contribution is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries. Contribution is defined as revenue less direct costs.

2018	United Kingdom £000	Mainland Europe £000	United States £000	Total £000
SaaS revenue	**18,006**	**16,009**	**13,622**	**47,637**
Services revenue	**2,366**	**1,199**	**1,019**	**4,584**
Segment revenue	**20,372**	**17,208**	**14,641**	**52,221**
Direct costs	**(8,731)**	**(5,296)**	**(6,001)**	**(20,028)**
Segment contribution	**11,641**	**11,912**	**8,640**	**32,193**
2017 (Represented)				
SaaS revenue	17,163	-	6,003	23,166
Services revenue	2,082	-	156	2,238
Segment revenue	19,245	-	6,159	25,404
Direct costs	(9,918)	-	(2,655)	(12,573)
Segment contribution	9,327	-	3,504	12,831

Notes to the Consolidated Financial Statements continued

2. Operating segments (continued)

As a result of the acquisition of Perfect Commerce, LLC during the financial year, the Group has changed its internal organisation and the composition of its reportable segments. Accordingly, the Group has represented the operating segment information for the year ended 31 July 2017.

Reconciliations of information on reportable segments to IFRS measures

	2018 £000	2017 £000
Total contribution from reportable segments	**32,193**	12,831
Central costs (including non-core net expenditure)	**(18,571)**	(11,776)
Depreciation	**(511)**	(216)
Amortisation	**(7,886)**	(3,322)
Share based payments charges	**(366)**	(125)
Net interest cost	**(1,110)**	(140)
Consolidated profit/(loss) before tax	**3,749**	(2,748)

Geographic information

The geographic information analyses the Group's revenue and non-current assets by the Company's country of domicile and other countries. In presenting the geographic information, segment revenue has been based on the geographic location of customers and segment assets were based on the geographic location of the assets.

	2018 £000	2017 £000
Revenue		
UK	**20,372**	19,245
US	**14,641**	6,159
Mainland Europe	**17,208**	-
	52,221	25,404

There are no customers who represent more than 10% of revenue for the current or prior year.

	2018 £000	2017 £000
Non-current assets		
UK	**146,613**	38,984
US	**4,320**	25
France	**1,901**	-
Other countries	**77**	-
	152,911	39,009

Non-current assets exclude financial instruments and deferred tax assets.

Notes to the Consolidated Financial Statements continued

3. Employees and Directors' remuneration

	2018 £000	2017 £000
Staff costs:		
- Wages and salaries	**21,836**	11,533
- Social security costs	**2,528**	1,235
- Other pension costs	**919**	307
- Share based payments	**366**	125
	25,649	13,200
Amounts capitalised within Development costs and Software for own use (note 12)*	**(3,979)**	(2,240)
	21,670	10,960
Average number of employees (including directors) during the year		
- Sales and production	**388**	189
- Administrative	**45**	26
	433	215

*Note that capitalised development costs (see note 12) includes staff costs and other external costs incurred.

Details of Directors' remuneration subject to audit are provided in the Directors' Remuneration Report on pages 32 to 37.

4. Share based payments

At 31 July 2018, the Group had the following share based payment arrangements.

Share Option programmes (equity settled)

The Group operates two Inland Revenue approved executive incentive plans (EMI scheme and EMI rollover scheme), and an unapproved share option plan (unapproved scheme). In addition, on 7 July 2017 an Executive LTIP and bonus plan were put in place. The vesting of all awards is based on the achievement of certain market and non-market performance conditions.

Details of the option grants remaining unexercised at 31 July 2018 are given below.

Grant date	Number of employees entitled	Number of options granted	Performance conditions	Exercise price (p)	Expiry date
29 September 2008	1	75,000	Time served and share price performance	18.75	Note 1
28 September 2010	5	41,000	Time served and share price performance	34.00	Note 2
14 January 2014	2	1,271,920	Share price performance	36.50	Note 3
16 May 2014	1	50,000	Time served	52.50	Note 4
2 June 2014	1	50,000	Time served	49.00	Note 5
1 August 2014	2	100,000	Time served	56.00	Note 6
4 November 2015	4	141,667	Time served	127.50	Note 7
12 February 2016	3	470,000	Time served	114.50	Note 8
10 November 2016	1	50,000	Time served	125.00	Note 9
16 November 2016	5	116,667	Time served	135.00	Note 10
25 August 2017	3	518,939	Time served and share price performance	10.00	Note 11
28 August 2017	1	451,842	Time served	43.00	Note 12
16 October 2017	1	50,000	Time served	151.50	Note 13

Note 1: These options have vested and must be exercised on or before 28 September 2018.

Note 2: These options have vested and must be exercised on or before 27 September 2019.

Note 3: These options have vested and must be exercised on or before 13 January 2024.

Note 4: These options have vested and must be exercised on or before 7 February 2024.

Note 5: These options have vested and must be exercised on or before 2 June 2024.

Note 6: These options have vested and must be exercised on or before 1 August 2024.

Note 7: These options vest as to one third on the first anniversary of the date of grant, as to one third on the second anniversary of the date of grant and as to one third on the third anniversary of the date of grant. These options must be exercised on or before 3 November 2025.

Note 8: These options vest as to one third on the first anniversary of the date of grant, as to one third on the second anniversary of the date of grant and as to one third on the third anniversary of the date of grant. These options must be exercised on or before 11 February 2026.

Note 9: These options have vested and must be exercised on or before 9 November 2026.

Note 10: These options vest as to one third on the first anniversary of the date of grant, as to one third on the second anniversary of the date of grant and as to one third on the third anniversary of the date of grant. These options must be exercised on or before 15 November 2026.

Note 11: These options are granted under the conditions of the LTIP scheme and vest only if earnings per share and share price targets are met by reference to the three years ending 31 July 2020. If the options vest, they must be exercised on or before 25 August 2027, otherwise they will lapse.

Note 12: These options have vested and must be exercised on or before 28 August 2027

Note 13: These options vest as to one third on the first anniversary of the date of grant, as to one third on the second anniversary of the date of grant and as to one third on the third anniversary of the date of grant. These options must be exercised on or before 15 October 2027.

Notes to the Consolidated Financial Statements continued

4. Share based payments (continued)

Bonus plan (cash settled)

On 7 July 2017 an Executive bonus plan was put in place which will be settled 50% in cash. The vesting of all awards is based on the achievement of certain market and non-market performance conditions. The maximum number of awards granted under this scheme is 259,469. Market performance conditions were not satisfied and therefore all options have lapsed in the year.

Reconciliation of outstanding share options

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

	Weighted average exercise price 2018 (p)	**Number of options 2018 (number)**	Weighted average exercise price 2017 (p)	Number of options 2017 (number)
Outstanding at start of year	**53.3**	**2,939,588**	56.5	3,913,715
Granted during the year	**27.2**	**1,280,250**	132.1	170,000
Exercised during the year	**44.3**	**(573,334)**	52.9	(1,094,127)
Lapsed during the year	**10.0**	**(259,469)**	127.5	(50,000)
Outstanding at end of the year	**54.9**	**3,387,035**	53.3	2,939,588
Exercisable at end of the year	**54.6**	**2,531,429**	44.1	2,306,086

Options outstanding at 31 July 2018 have exercise prices in the range 10p to 135p.

During the current and prior period, the Group has not granted equity as consideration for goods or services received.

Notes to the Consolidated Financial Statements continued

4. Share based payments (continued)

Fair value assumptions of share based payments

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of fair value is measured using the Black-Scholes model and the Monte Carlo model. The following assumptions were used to determine fair value of the options:

	Black Scholes	Monte Carlo
Weighted average share price at grant date (pence)	53.8	10.0
Exercise price (pence)	53.8	10.0
Expected volatility (%)	39.6%	34.5%
Average option life (year)	6.7	2.7
Expected dividend (%)	1.0%	0.7%
Risk free interest rate (%)	1.0%	0.6%

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

Charge to the income statement

The charge to the income statement comprises:

	2018 £000	2017 £000
Share based payment charges	**366**	125

5. Alternative performance measure – Adjusted EBITDA

Management has presented the performance measure adjusted EBITDA because it monitors this performance measure at a consolidated level and it believes that this measure is relevant to an understanding of the Group's financial performance. Adjusted EBITDA is calculated by adjusting profit before taxation to exclude the impact of net finance costs, depreciation, amortisation, share based payment charges and non-core net expenditure. The non-core net expenditure includes significant items of income or expenditure associated primarily with the Group's acquisition activity and the resultant restructuring programmes (together, "non-core net expenditure").

Adjusted EBITDA is not a defined performance measure in IFRS. The Group's definition of Adjusted EBITDA may not be comparable with similarly titled performance measures and disclosures by other entities.

	2018 £000	2017 £000
Profit/(loss) before taxation	**3,749**	(2,748)
Adjustments for:		
Net finance costs	**1,110**	140
Depreciation	**511**	216
Amortisation	**7,886**	3,322
Share based payment charges	**366**	125
Non-core net expenditure:		
- Costs of restructuring the Group's operations - staff	**1,638**	658
- Costs of restructuring the Group's operations - other	**1,561**	15
- Expenses of acquisition related activities	**732**	4,291
- Legal and professional fees	**439**	-
- Fair value movement on forward contract for acquisition	**(735)**	1,832
Adjusted EBITDA	**17,257**	7,851

The fair value movement on the forward contract provision is included within other operating expenses in the consolidated income statement.

Notes to the Consolidated Financial Statements continued

6. Operating profit/(loss)

	2018 £000	2017 £000
Operating profit/(loss) is stated after charging :		
Depreciation of property, plant and equipment (see note 11)	**511**	216
Amortisation of software for own use and development costs (see note 12)	**4,684**	2,386
Amortisation of customer related intangible assets (see note 12)	**3,202**	936
Operating lease rentals :		
- Land and buildings	**1,104**	509
- Other equipment	**80**	17

	2018 £000	2017 £000
Auditor's remuneration:		
Audit of these financial statements	**196**	30
Amounts receivable by auditors and their associates in respect of:		
- Audit of financial statements of subsidiaries pursuant to legislation	**276**	45
- Other services relating to taxation compliance	**16**	16
- Transactional services	**-**	555
- Other tax services	**24**	60

7. Finance Income

	2018 £000	2017 £000
Bank interest receivable	**-**	2

8. Finance Expenses

	2018 £000	2017 £000
Bank interest	**956**	142
Other interest	**154**	-
	1,110	142

Notes to the Consolidated Financial Statements continued

9. Taxation

Reconciliation of effective tax rate

	2018 £000	2017 £000
Current tax		
Current year	**865**	442
Adjustment in respect of prior periods	**(424)**	160
Total current tax	**441**	602
Deferred tax		
Released during the current year	**(1,242)**	(191)
Recognised in current year	**(801)**	(388)
Total deferred tax	**(2,043)**	(579)
Total tax in income statement	**(1,602)**	23

	2018 £000	2017 £000
Profit/(loss) before tax for the period	**3,749**	(2,748)
Tax using the UK corporation tax rate of 19% (2017: 19.67%)	**712**	(541)
Effect of differential foreign tax rates	**(13)**	34
Adjustments in respect of prior periods – current tax	**(424)**	160
Disallowable net expenses	**64**	1,023
Relief from governmental tax incentives[1]	**(210)**	-
Losses used not previously recognised[2]	**(1,342)**	(462)
Effect of change in tax rates on deferred tax (see below)	**(1,430)**	(191)
Current year losses for which no deferred tax asset is recognised	**555**	-
Adjustments in respect of share-based payments	**296**	-
Adjustments in respect of prior periods – deferred tax	**190**	-
Total tax (credit)/charge	**(1,602)**	23

Note 1: This item includes the effect of tax reliefs in respect of qualifying governmental tax incentives.
Note 2: The Group has substantial operating losses in some of its subsidiary undertakings which have been utilised during the period. These are reviewed annually and a deferred tax asset based on the next five years profitability is recognised.

Reduction in the UK corporation tax rate from 20 per cent to 19 per cent (effective from 1 April 2017) and to 17 per cent (effective 1 April 2020) were substantively enacted on 16 March 2016. In future, this will reduce the Group's current tax charge accordingly. In accordance with accounting standards, the effect of these rate reductions on deferred tax balances has been reflected in these financial statements, dependent upon when temporary timing differences are likely to reverse.

Notes to the Consolidated Financial Statements continued

10. Basic and diluted earnings per ordinary share

The calculation of earnings per ordinary share is based on the profit or loss for the period attributable to ordinary shareholders and the weighted average number of equity voting shares in issue as follows.

	2018 £000	2017 £000
Profit/(loss) for the year attributable to owners of the Company (£000)	**5,042**	(2,771)
Post tax effect of non-core net expenditure (see note 5)	**3,417**	6,573
Post tax effect on customer related intangible assets	**3,240**	777
Post tax effect of share-based payment charges	**366**	125
Post tax effect of convertible loan note interest	**75**	-
Non-recurring tax factors	**(2,261)**	(493)
Post tax effect of adjusted earnings (£000)	**9,879**	4,211
Weighted average number of shares (number '000)	**92,893**	46,944
Dilutive effect of share options (number '000)	**2,243**	1,827
Fully diluted number of shares (number '000)	**95,136**	48,771
Basic earnings/(loss) per ordinary share (pence)	**5.4p**	(5.9p)
Adjusted earnings per ordinary share (pence)	**10.6p**	9.0p
Basic diluted earnings/(loss) per ordinary share (pence)	**5.3p**	(5.7p)
Adjusted diluted earnings per ordinary share (pence)	**10.4p**	8.6p

Notes to the Consolidated Financial Statements continued

11. Property, plant and equipment

	Computer equipment £000	Office fixtures & fittings £000	**Total £000**
Cost			
At 31 July 2016	723	283	**1,006**
Additions	48	103	**151**
On acquisitions	51	4	**55**
At 31 July 2017	822	390	**1,212**
Additions	744	362	**1,106**
On acquisitions	476	91	**567**
Effect of movements in exchange rates	(5)	-	**(5)**
Disposals	(51)	(191)	**(242)**
At 31 July 2018	1,986	652	**2,638**
Depreciation			
At 31 July 2016	436	179	**615**
Charge for the year	173	43	**216**
At 31 July 2017	609	222	**831**
Charge for the year	421	90	**511**
Disposals	(36)	(167)	**(203)**
At 31 July 2018	994	145	**1,139**
Net book value			
At 31 July 2017	213	168	381
At 31 July 2018	**992**	**507**	**1,499**

The Group leases computer equipment under a number of finance leases. At 31 July 2018, the net carrying amount of leased equipment was £152,000 (2017: £70,000).

Notes to the Consolidated Financial Statements continued

12. Intangible assets

	Goodwill £000	Customer related intangibles £000	Development costs £000	Software for own use £000	Total £000
Cost					
At 31 July 2016	7,852	11,926	9,281	2,588	**31,647**
Internally developed	-	-	2,284	481	**2,765**
On acquisitions	13,018	4,154	400	-	**17,572**
At 31 July 2017	20,870	16,080	11,965	3,069	**51,984**
Internally developed	-	-	4,842	369	**5,211**
On acquisitions	85,802	23,220	5,759	176	**114,957**
Additions	-	-	417	74	**491**
Effect of movements in exchange rates	-	-	11	-	**11**
At 31 July 2018	106,672	39,300	22,994	3,688	**172,654**
Amortisation and impairment					
At 31 July 2016	-	2,517	6,390	1,127	**10,034**
Amortisation for the year	-	936	1,754	632	**3,322**
At 31 July 2017	-	3,453	8,144	1,759	**13,356**
Amortisation for the year	-	3,202	4,002	682	**7,886**
At 31 July 2018	-	6,655	12,146	2,441	**21,242**
Carrying amounts					
At 31 July 2017	20,870	12,627	3,821	1,310	**38,628**
At 31 July 2018	**106,672**	**32,645**	**10,848**	**1,247**	**151,412**

The Goodwill and other intangible assets are allocated to the Group's segments as follows:

2018	United Kingdom £000	Mainland Europe £000	United States £000	Total £000
Goodwill	**44,508**	**23,652**	**38,512**	**106,672**
Other intangible assets	**16,307**	**12,373**	**16,060**	**44,740**
Total intangible assets	**60,815**	**36,025**	**54,572**	**151,412**
2017				
Goodwill	19,368	-	1,502	20,870
Other intangible assets	14,669	-	3,089	17,758
Total intangible assets	34,037	-	4,591	38,628

12. Intangible assets (continued)

The recoverable amount of each of these assets is assessed against its value in use according to the CGU to which they relate. The key assumptions for these value in use calculations are set out below. The value in use calculations are based upon detailed budgets and forecasts prepared over a 3 year period, followed by an extrapolation into perpetuity for the terminal value of expected cash flows at growth rates given below, discounted at the rates provided below. The growth rate reflects a prudent estimate of the long-term growth rate for each cash generating unit. The discount rates reflect the different risk profiles the Directors attach to each income stream. The directors have reviewed the recoverable amount of the CGUs and do not consider there to be any indication of impairment.

	2018 %	2017 %
Long term growth rate	**2.00**	2.50
Discount rate (pre-tax rate) Group CGU	**-**	10.42
Discount rate (pre-tax rate) EGS CGU	**-**	15.66
Discount rate (pre-tax rate) Intesource CGU	**-**	15.66
Discount rate (pre-tax rate) Intelligent Capture CGU	**-**	18.07
Discount rate (pre-tax rate) Due North CGU	**-**	18.07
Discount rate (pre-tax rate) Millstream CGU	**-**	18.07
Discount rate (pre-tax rate) UK CGU	**10.69**	-
Discount rate (pre-tax rate) US CGU	**13.29**	-
Discount rate (pre-tax rate) EU CGU	**13.33**	-
Budgeted revenue growth rate (average of next 3 years)	**3.51**	-
Budgeted staff costs growth rate (average of next 3 years)	**2.00**	-

Given the transformative impact of the acquisition of Perfect Commerce, LLC the Group has undergone a significant restructuring exercise in the year. This has led to new management structures and subsequently, new CGU's as noted in the table above. The assets and cashflows associated with the previous Intesource CGU have been moved to the US CGU. All the other historic CGU's now sit within the UK CGU. The acquisition of Perfect Commerce, LLC was funded by a mix of equity and a substantial element of senior bank debt provided by HSBC Bank plc. As a result, the Group's weighted average cost of capital has reduced supporting a lower discount rate.

The Directors' key assumptions relate to revenue growth, length of contract, gross and operating margins and discount rate. Sensitivity analysis has been performed and a reasonably possible change in the key assumptions would not cause the carrying amount to exceed the recoverable amount of each CGU.

The Directors determine the initial recognition of development costs and software for own use by reference to the amount of time spent by relevant staff on development, subject to the expectation that the development will be completed and there will either be an external market for the development or the asset will be used internally to assist in generating future economic benefits. The Directors currently consider that the full direct salary costs of the Group's development and technical teams and all of the costs of development resource bought in from third parties meet the criteria to be capitalised. This estimate has not changed during this or the previous financial year.

Amortisation and impairment

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

	2018 £000	2017 £000
Development costs	**4,002**	1,754
Customer related intangible assets	**3,202**	936
Software for own use	**682**	632
Administrative costs	**7,886**	3,322

Notes to the Consolidated Financial Statements continued

12. Intangible assets (continued)

Development costs, customer related intangibles and software for own use is amortised on a straight line basis over their useful life, which is the period during which they are expected to generate revenue. The estimated useful life of development costs and software for own use is three years (2017: 3 years) which resulted in an amortisation charge of £4,002,000 (2017: £1,754,000) and £682,000 (2017: £632,000) respectively. The Director's currently consider that three years is a suitably short estimate of the useful economic life of the development costs capitalised because of the fast rate of change of technological advancement and market demand and this estimate has not changed during this or the previous financial year. The estimated useful life of the customer related intangible assets of Perfect Commerce, LLC is in the range 9-13 years and that of other customer related intangible assets is in the range 10-25 years (2017: 10-25 years). This has resulted in a charge of £3,202,000 (2017: £936,000).

13. Trade and other receivables

	2018 £000	2017 £000
Trade receivables (net of impairment of £4,032,000, 2017: £248,000)	**16,804**	3,113
Prepayments	**1,935**	1,309
Accrued income	**1,777**	422
Deferred cost of sales	**1,148**	1,036
	21,664	5,880

Included within trade and other receivables is £Nil (2017: £Nil) expected to be recovered in more than 12 months.

Trade and other receivables denominated in currencies other than sterling comprise £11,628,000 (2017: £511,000) of trade receivables denominated in US dollars, £5,811,000 (2017: £128,000) denominated in Euros, £35,000 (2017: £Nil) in New Zealand dollars, £111,000 (2017: £Nil) in Canadian dollars, £21,000 (2017: £Nil) in Norwegian krone and £234,000 (2017: £81,000) denominated in Australian dollars. The fair values of trade and other receivables are the same as their book values.

The deferred cost of sales balance relates to reseller commission costs and is recognised in profit and loss at the same time as associated reseller commission revenues.

The movement on the Group's provisions against trade receivables are as follows:

	2018 £000	2017 £000
At the start of the year	**248**	55
On acquisitions	**3,692**	45
Utilised in the period against uncollectable amounts	**-**	(33)
Charged to the income statement	**92**	181
At the end of the year	**4,032**	248

13. Trade and other receivables (continued)

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

	2018 £000	2017 £000
Under 30 days overdue	**1,876**	1,351
Between 30 and 60 days overdue	**110**	326
Over 60 days overdue	**343**	124
	2,329	1,801

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

14. Cash and cash equivalents

	2018 £000	2017 £000
Cash and cash equivalents	**9,561**	4,277

Cash and cash equivalents denominated in foreign currencies other than sterling comprise £2,212,000 (2017: £651,000) in US dollars, £2,949,000 (2017: £52,000) in Euros and £149,000 (2017: £Nil) in New Zealand dollars.

15. Trade and other payables

	2018 £000	2017 £000
Trade payables	**10,218**	1,644
Other taxes and social security	**2,184**	783
Accruals and other creditors	**5,621**	5,677
	18,023	8,104

Trade and other payables denominated in currencies other than sterling comprise £9,324,000 (2017: £580,000) of trade payables in US dollars, £18,000 (2017: £1,000) in Australian dollars, £19,000 (2017: £Nil) in New Zealand dollars, £10,000 (2017: £Nil) in Philippine pesos and £241,000 (2017: £81,000) in Euros.

16. Deferred income

Deferred income arises from certain products and services sold by the Group. In return for a single upfront payment or series of upfront payments, the Group commits to a fixed term contract to provide those products and services to customers. In these circumstances, income is recognised evenly over the term of the contract.

Movement in the Group's deferred income liabilities during the current and prior year are as follows:

	2018 £000	2017 £000
Balance at the beginning of the period	**11,457**	9,496
On acquisitions	**7,546**	2,267
Income deferred to future periods	**18,618**	8,562
Release of income deferred from previous periods	**(18,218)**	(8,868)
Effect of movements in exchange rates	**(45)**	-
	19,358	11,457

The deferred income liabilities fall due as follows:

	2018 £000	2017 £000
Within one year	**18,705**	10,880
After more than one year	**653**	577
	19,358	11,457

Income recognised during the year is as follows:

	2018 £000	2017 £000
Income received	**52,621**	25,098
Income deferred to future periods	**(18,618)**	(8,562)
Release of income deferred from previous periods	**18,218**	8,868
Income recognised in the year	**52,221**	25,404

17. Deferred tax assets and liabilities

Deferred tax assets and liabilities are analysed below and are disclosed as non-current assets or liabilities in the balance sheet.

Deferred tax asset	**2018 £000**	2017 £000
Trading losses arising in foreign operations	**1,360**	500

Deferred tax liabilities	**2018 £000**	2017 £000
On customer related intangible assets, development costs and software for own use	**9,529**	3,070
Share options	**(237)**	(773)
Trading losses	**(550)**	(519)
	8,742	1,778

Movement in deferred tax for the year ended 31 July 2018

	As at 31 July 2017 £000	On acquisitions £000	Foreign exchange movements £000	Tax rate change £000	Income statement £000	**As at 31 July 2018 £000**
Deferred tax assets						
Trading losses arising in foreign operations	500	619	4	(175)	412	**1,360**

	As at 31 July 2017 £000	On acquisitions £000	Foreign exchange movements £000	Tax rate change £000	Income statement £000	**As at 31 July 2018 £000**
Deferred tax liabilities						
On customer related intangible assets, development costs and software for own use	3,070	8,531	-	(1,581)	(491)	**9,529**
Share options	(773)	-	240	(24)	320	**(237)**
Trading losses	(519)	-	-	-	(31)	**(550)**
	1,778	8,531	240	(1,605)	(202)	**8,742**

Deferred tax asset not recognised	**2018 £000**	2017 £000
Accessible tax losses - not recognised as future economic benefit is uncertain	**13,696**	985
Deductible temporary differences	**17,180**	-

Notes to the Consolidated Financial Statements continued

18. Share capital

	2018 £000	2017 £000
Allotted, called up and fully paid		
93,236,123 Ordinary shares of 10p each (2017: 50,238,546)	**9,324**	5,024

On various dates throughout the year, the Group issued a total of 42,997,577 Ordinary shares of 10p each at a weighted average price of 163.4p per share pursuant to the placing of new ordinary shares and exercising of options by past and present employees or directors.

The Group's objectives when managing 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 Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. During 2018, the Group's strategy, which was unchanged from 2017, was to minimise net debt.

Share option schemes
The Company operates three share option schemes; an EMI Rollover Scheme and an EMI Scheme (together 'the EMI schemes') and an Unapproved Option Scheme. At 31 July 2018, options had been granted (but not exercised) under the EMI schemes over a total of 1,208,649 Ordinary shares of the Company (1.3% of the issued share capital of the Company). At 31 July 2018, options had been granted (but not exercised) under the Unapproved Option Scheme over a total of 2,178,386 Ordinary shares of the Company (2.3% of the issued share capital of the Company).

19. Capital and reserves

Share premium
The Group has issued 42,997,577 (2017: 10,403,387) Ordinary shares of 10p each during the year at a weighted average price of 163.4p (2017: 125.8p) per share, creating a share premium of £65,954,000 (2017: £12,044,000). Costs totalling £2,121,000 (2017: £375,000) were offset against the share premium.

Merger reserve
The merger reserve of £556,000 (2017: £556,000) arose from the application of merger accounting principles to the financial statements on implementation of the capital reorganisation of the Group during the year ended 31 July 2006. The Directors considered that this treatment was required for the accounts to present a true and fair view of the Group's results and financial position.

Capital reserve
The capital reserve arose on issue of share options as part of the consideration for the purchase of Alito (UK) Limited. The reserve is not distributable.

Equity reserve
The equity reserve comprises the amount allocated to the equity component for the convertible notes issued by the Group in August 2017.

Foreign exchange reserve
The foreign exchange reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as any foreign currency differences arising from the retranslation of intercompany balances which are, in effect, a net investment in a foreign operation.

Notes to the Consolidated Financial Statements continued

20. Loans and borrowings

Non-current liabilities	2018 £000	2017 £000
Secured bank loans	**35,918**	3,760
Convertible notes	**3,848**	-
Finance lease liabilities	**40**	54
	39,806	3,814

The convertible loan notes have a coupon rate of 2%.

Non-current liabilities	2018 £000	2017 £000
Secured bank loans	**2,985**	1,400
Finance lease liabilities	**77**	14
	3,062	1,414

Information about the Group's exposure to interest rate, foreign currency and liquidity risks is included in Note 22.
The terms and conditions of the outstanding loans are as follows:

	Currency	Nominal interest rate	Year of maturity	2018 Face value £000	2018 Carrying amount £000	2017 Face value £000	2017 Carrying amount £000
Term facility	GBP	LIBOR +1.95%	2022	**12,750**	**12,750**	-	-
Revolving facility	GBP/EUR	LIBOR +1.75-2.5%	2022	**26,153**	**26,153**	-	-
Term loan	GBP	LIBOR +1.95%	2019	**-**	**-**	3,500	3,500
Revolving facility	GBP	LIBOR +1.75-2.5%	2020	**-**	**-**	1,660	1,660
Convertible notes	USD	2%	2022	**3,848**	**3,848**	-	-
Finance lease liabilities	GBP/EUR/USD			**117**	**117**	68	68
Total interest-bearing liabilities				**42,868**	**42,868**	5,228	5,228

The Term Loan and the Revolving Credit Facility are secured by way of a debenture over the assets of the Group and has certain performance criteria related to its ongoing availability.

Convertible notes	2018 £000
Proceeds from issue of convertible notes ($5,000,000)	**3,836**
Amount classified as equity	**(80)**
Accreted interest	**92**
Carrying amount of liability	**3,848**

The notes were issued on 4 August 2017. They are repayable in August 2022.

Notes to the Consolidated Financial Statements continued

20. Loans and borrowings (continued)

Finance lease liabilities are payable as follows:

	Future minimum lease payments		Interest		Present value of minimum lease payments	
	2018 £000	2017 £000	**2018 £000**	2017 £000	**2018 £000**	2017 £000
Less than one year	**83**	16	**6**	2	**77**	14
Between one and five years	**46**	62	**6**	8	**40**	54
More than five years	-	-	-	-	-	-
	129	78	**12**	10	**117**	68

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Loans and borrowings £000	Convertible notes £000	Finance lease liabilities £000	Total £000
Balance at 1 August 2017	5,160	-	68	5,228
On acquisitions	-	-	169	169
Proceeds from issue of convertible notes	-	3,756	-	3,756
Proceeds from loans and borrowings	43,660	-	-	43,660
Transaction costs related to loans and borrowings	(288)	-	-	(288)
Repayment of borrowings	(9,942)	-	-	(9,942)
Payment of finance lease liabilities	-	-	(151)	(151)
Effect of changes in foreign exchange rates	(18)	-	-	(18)
Capitalised borrowing costs	148	-	-	148
Interest expense	987	92	31	1,110
Interest paid	(804)	-	-	(804)
Balance at 31 July 2018	**38,903**	**3,848**	**117**	**42,868**

20. Loans and borrowings (continued)

Non-current	2018 £000	2017 £000
Secured bank loans	**35,918**	3,760
Convertible notes	**3,848**	-
Finance lease liabilities	**40**	54
Total non-current	**39,806**	3,814
Current		
Secured bank loans	**2,985**	1,400
Finance lease liabilities	**77**	14
Total current	**3,062**	1,414
Total borrowings	**42,868**	5,228
Less:		
Cash and cash equivalents	**9,561**	4,277
Net debt	**33,307**	951

21. Provisions

	Restructuring £000	Retirement provision £000	Total £000
Balance at 1 August 2017	-	-	-
On acquisitions	-	371	371
Provisions charged in the year	295	117	412
Balance at 31 July 2018	**295**	**488**	**783**

Restructuring
During the year, the Group committed to closing one of its regional offices. Following the announcement of the closure, the Group recognised a provision of £295,000 for onerous lease costs.

Retirement provision
The retirement provision relates to the employees within the two French subsidiary companies. In France there is a requirement to make a lump sum pension payment if an employee reaches retirement age whilst employed. This provision has been recalculated based on the employees in each entity at 31 July 2018.

Notes to the Consolidated Financial Statements continued

22. Financial risk management

Overview

The Group has exposure to the following risks

- Credit risk
- Interest rate risk
- Currency risk
- Liquidity risk

This note presents information about the Group's exposure to each of the above risks and the Group's objectives and processes for managing this risk. Further disclosures are included throughout these consolidated financial statements.

Financial instruments policy

Treasury and financial risk policies are set by the Board and have remained unchanged from the previous period. All instruments utilised by the Group are for financing purposes. The day-to-day financial management and treasury function is controlled centrally for all operations.

Financial assets and liabilities

The Group's financial instruments comprise cash and liquid resources, and various items such as trade receivables and trade payables that arise directly from its operations.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an on-going basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Interest rate risk

The Group manages its cash position in a manner designed to minimise interest payable on its structured finance facilities. Surplus cash funds are used to reduce debt. At the year-end date there was exposure to movements in interest rates and a 1% increase in interest rates would reduce profit before tax by approximately £400,000.

Liquidity risk management

The Group manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring both forecast as well as actual cash flows to enable matching of the maturity profiles of financial assets and liabilities. Sufficient cash is retained to service short-term financing needs.

Currency risk

The Group is exposed to fluctuations in exchange rates as the majority of its future revenues will be denominated in foreign currencies, comprising US dollars, Euros, Australian Dollars and New Zealand Dollars. The Group seeks to remove this risk by invoicing in Sterling but this is largely not possible. Where it is not possible, the Group may hedge such transactions through foreign exchange forward contracts. The Group also has a majority of its future costs denominated in the same currencies which provides a natural hedge. Separately, at the prior year end the Group entered into a deal contingent forward contract for US dollars in order to manage the foreign exchange risk in the acquisition of Perfect Commerce, LLC. There were no similar contracts in place at 31 July 2018.

Interest rate and currency profile

Financial assets	2018 £000	2017 £000
Trade receivables	**16,804**	3,113
Cash at bank	**9,561**	4,277
	26,365	7,390

Cash at bank attracted interest at floating rates, which were between 0.00% and 0.55% at the year-end (2017: 0.00% and 0.55%).

Financial liabilities	2018 £000	2017 £000
Trade payables	**10,218**	1,644
Other short term liabilities	**2,184**	783
Bank borrowings	**37,055**	5,160
Convertible loan note	**3,848**	-
	53,305	7,587

Notes to the Consolidated Financial Statements continued

22. Financial risk management (continued)

All of the financial assets and liabilities detailed above are recorded at amortised cost. Bank borrowings are in the form of a Term Loan repayable over a remaining four years at an interest rate of 1.95% per annum above LIBOR and a Revolving Credit Facility which is in place for a remaining four years at interest rates between 1.75% and 2.50% per annum above LIBOR. The Term Loan and the Revolving Credit Facility are secured by way of a debenture over the assets of the Group and has certain performance criteria related to its ongoing availability.

Maturity profile of financial liabilities	2018 £000	2017 £000
In one year or on demand	**15,387**	3,827
In one to two years	**2,985**	1,400
In two to five years	**34,933**	2,360
	53,305	7,587

Fair value of financial instruments
At 31 July 2018 the difference between the book value and the fair value of the Group's financial assets and liabilities measured at amortised cost was £Nil (2017: £Nil).

Sensitivity analysis
The Group is materially exposed to changes in interest rates and the Board estimates that a 1% change in LIBOR would result in a £400,000 reduction in profit before tax. The Group is also materially exposed to changes in the exchange rates, specifically the US Dollar and the Euro, and the Board estimates that a 5% weakening in Sterling would impact the Group's profit before tax by £14,000 and £373,000 respectively.

Notes to the Consolidated Financial Statements continued

23. Commitments

(a) Capital commitments

There were no capital commitments existing at 31 July 2018 or 31 July 2017.

(b) Operating leases commitments

Total future operating lease commitments at the balance sheet date are as follows:

	2018		2017	
	Land and buildings £000	**Other equipment £000**	Land and buildings £000	Other equipment £000
Within one year	**928**	**31**	550	33
Between one and two years	**395**	**24**	492	29
Between two and five years	**443**	**16**	583	70
After more than five years	**-**	**-**	36	-
	1,766	**71**	1,661	132

The Group leases 12 (2017: 9) office facilities under operating leases. During the year, £1,169,000 was recognised as an expense in the income statement in respect of operating leases (2017: £526,000).

Notes to the Consolidated Financial Statements continued

24. Pensions

The Group operates defined contribution pension schemes for its employees. In addition, in France there is a provision for a pension payment should an employee reach retirement age whilst employed.

The pension cost charge for the year represents contributions payable by the Group to the schemes, other personal pension plans and the French provision movement. The cost in the year amounted to £919,000 (2017: £307,000). There were outstanding contributions at 31 July 2018 of £116,000 (2017: £37,000) and a provision balance of £488,000 (2017: £nil).

25. Accounting estimates and judgements

The Directors discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these polices and estimates. The accounting policies are set out in Note 1.

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

Carrying value of intangible fixed assets
A number of commercial and financial assumptions and judgements have been made to support both the initial recognition and the current carrying values of the intangible asset categories of goodwill, customer related intangible assets, development costs and software for own use. These are described within note 12.

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

Fair values
The Group has undertaken a fair value assessment on each of the acquisitions during the year. This assessment includes a detailed analysis of the accounting policies and methods adopted by the acquired businesses and an estimate of the value of separately identifiable intangible assets, principally customer related intangible assets and capitalised development costs. This estimate requires the Directors to estimate the likely revenues from and costs of the delivery of future services to the customers of the acquired businesses at the date that the businesses were acquired.

Contingent consideration
A fair value estimate has been made in relation to the contingent consideration on the Proactis Benelux B.V. acquisition. The estimate requires the Directors to estimate the likelihood of future deals and the likely size of those deals.

26. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and have therefore not been disclosed.

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is provided in the audited part of the Directors' Remuneration Report on pages 32 to 37. In addition, the Group recognised a share-based payment charge under IFRS2 'Share-based payment' in respect of the Directors of £319,000 (2017: £84,000).

27. Aquisitions

Perfect Commerce, LLC
On 4 August 2017, the Group acquired 100% of the membership interests of Perfect Commerce, LLC. This included 78.95% of the voting equity interests of Hubwoo SA.

The acquisition of Perfect Commerce, LLC was undertaken to increase Proactis' global footprint, to enhance the Group's product set and for a strengthened supplier commerce opportunity through The Business Network.

For the 12 months ended 31 July 2018, Perfect Commerce, LLC and its subsidiaries contributed revenue of £26,418,000 and profit before tax of £2,167,000. This does not factor in the amortisation of intangible assets that will now be recognised in the Group accounts.

The following table summarises the acquisition date fair value of each major class of consideration transferred.

	£000
Cash	93,985
Convertible notes	3,836
Contingent consideration	3,836
Settlement of debt	(13,077)
Total consideration transferred	88,580

Notes to the Consolidated Financial Statements continued

27. Aquisitions (continued)

The Group agreed to pay the selling shareholders in December 2017 contingent consideration of $5,000,000 because certain qualifying conditions had been met. The Group has included £3,836,000 as contingent consideration which represents its fair value at the date of acquisition.

The Group has issued $5,000,000 in convertible loan notes with a redemption date of August 2022.

Perfect Commerce, LLC had outstanding debts of $17,044,000 with its previous owner at the time of acquisition. The Group has attributed £13,077,000 of the consideration transferred to the settlement of this debt.

The Group incurred acquisition-related costs of £3,055,000 on legal fees and due diligence costs. These costs were accrued at 31 July 2017.

The following table summarises the recognised amounts of assets acquired, and liabilities assumed at the date of acquisition.

	Fair value £000
Property, plant and equipment	564
Customer related intangible assets	23,220
Capitalised development costs	5,759
Other intangible assets	176
Deferred tax assets	619
Trade and other receivables	16,510
Cash	4,525
Finance lease liabilities	(169)
Trade and other payables	(27,861)
Deferred revenue	(7,464)
Deferred tax liabilities	(8,531)
Total identifiable net assets acquired	7,348

The fair value adjustments relate to the recognition of intangible assets in accordance with IFRSs.

Pre-acquisition carrying amounts were determined based on applicable IFRSs, immediately prior to the acquisition. The values of assets and liabilities recognised are estimated fair values.

Goodwill arising from the acquisition has been recognised as follows:

	£000
Consideration transferred	88,580
NCI, based on their proportionate interest in the recognised amounts of the net assets of the Hubwoo subgroup	2,566
Fair value of identifiable net assets	(7,348)
Goodwill	83,798

The goodwill is attributable to the skilled labour force of the acquired business, expected future growth and enhancement of market share, cross selling opportunities and economies of scale available to Perfect and Hubwoo within Proactis. These values were not recognised as a separate intangible asset on the basis that they could not be separated from the value generated from the business as a whole.

Proactis Benelux B.V.

On 24 October 2017, the Group acquired 100% of the voting equity interests of Proactis Benelux B.V.

Prior to the acquisition, Proactis Benelux B.V. was a contracted reseller of the Group's solutions. The Directors now consider that the Group's opportunity to grow its business and improve profitability in this territory are maximised through control and Board participation.

For the 9 months ended 31 July 2018, Proactis Benelux B.V. contributed revenue of £345,000 and a loss before tax of £150,000.

The following table summarises the acquisition date fair value of each major class of consideration transferred.

	£000
Cash	448
Contingent consideration	1,500
Total consideration transferred	1,948

27. Aquisitions (continued)

The Group has recognised £1,500,000 contingent consideration which represents its fair value at the date of acquisition. The contingent consideration is calculated based on the estimated value of contracts that may be agreed between Proactis Benelux B.V. and certain potential new customers and the likelihood of those potential new customers entering into those contracts. The fair value of this contingent consideration had not changed at 31 July 2018.

The Group incurred acquisition-related costs of £67,000 on legal fees and due diligence costs. These costs have been included in 'other operating expenses'.

The following table summarises the recognised amounts of assets acquired, and liabilities assumed at the date of acquisition.

	Fair value £000
Property, plant and equipment	3
Trade and other receivables	342
Cash	13
Borrowings	(18)
Trade and other payables	(314)
Deferred revenue	(82)
Total identifiable net liabilities acquired	(56)

Goodwill arising from the acquisition has been recognised as follows:

	£000
Consideration transferred	1,948
Fair value of identifiable net liabilities	56
Goodwill	2,004

The goodwill is attributable to the skilled labour force of the acquired business, expected future growth and enhancement of market share, cross selling opportunities and economies of scale available to Proactis Benelux B.V. within Proactis. These values were not recognised as a separate intangible asset on the basis that they could not be separated from the value generated from the business as a whole. None of the goodwill recognised is expected to be deductible for tax purposes.

Notes to the Consolidated Financial Statements continued

28. Non-controlling interest

Name	Principal place of business/ country of incorporation	Ownership interests held by NCI	
		2018 %	2017 %
Hubwoo SA	France	**11.5**	-

The following is summarised financial information for the Hubwoo subgroup, prepared in accordance with IFRS, modified for fair value adjustments on acquisition and differences in the Group's accounting policies. The information is before inter-company eliminations with other companies in the Group.

	2018 £000	2017 £000
Revenue	**14,949**	-
Profit after tax	**2,288**	-
Profit attributable to NCI	**309**	-
Current assets	**10,555**	-
Non-current assets	**14,677**	-
Current liabilities	**(7,139)**	-
Non-current liabilities	**(3,082)**	-
Net assets	**15,011**	-
Net assets attributable to NCI	**1,603**	-
Cash flows from operating activities	**3,139**	-
Cash flows from investing activities	**(1,973)**	-
Cash flows from financing activities	**(55)**	-
Net increase in cash and cash equivalents	**1,111**	-

On 12 March 2018, the Group acquired an additional 9.56% of the voting equity interests in Hubwoo SA. As a result, the Group's equity interest in Hubwoo SA increased from 78.95% to 88.51%. The carrying amount of the Hubwoo subgroup net assets in the Group's consolidated financial statements on the date of the acquisition was £13,291,000.

	£000
Carrying amount of NCI acquired (£13,291,000 x 9.56%)	1,271
Consideration paid to NCI	(2,313)
Decrease in equity attributable to owners of the Group	(1,042)

Notes to the Consolidated Financial Statements continued

29. Post balance sheet events

The Group acquired Esize Holdings B.V. on 6 August 2018 for consideration of €14,200,000 with an additional consideration of up to €1,000,000 depending on certain deliverables. Further information regarding this acquisition is noted in the Chief Financial Officers Report. Provisional fair values have not yet been established in regard to this acquisition.

On 24 September 2018, the Company announced that it had received unconditional and irrevocable notices from Hampton Wall, Chief Executive Officer and Tripp Shannon exercising the conversion rights over the 2.0 per cent. convertible unsecured loan notes due 2022 (the "Convertible Acquisition Loan Notes") issued as part consideration in connection with the acquisition of Perfect Commerce, LLC on 4 August 2017. The respective conversions of the Convertible Acquisition Loan Notes will take place after 1 January 2019 but on or before 10 January 2019. This will result in the issue of a total of 2,360,728 ordinary shares of 10 pence each ("Ordinary Shares") at that time and application will be made for the Ordinary Shares to be admitted to trading on AIM no later than 10 January 2019.

Company Balance Sheet

As at 31 July 2018

	Notes	**2018 £000**	2017 £000
Non current assets			
Investments	33	**129,998**	30,204
Deferred tax asset	34	**237**	773
		130,235	30,977
Current assets			
Debtors	34	**12,520**	8,065
Cash at bank and in hand		**1,090**	2,410
		13,610	10,475
Creditors – amounts falling due within one year	35	**(10,726)**	(14,650)
Net current assets/(liabilities)		**2,884**	(4,175)
Total assets less current liabilities		**133,119**	26,802
Creditors – amounts falling due after more than one year	36	**(39,766)**	(3,759)
Net assets		**93,353**	23,043
Capital and reserves			
Called up share capital	37	**9,324**	5,024
Share premium account	38	**81,464**	17,631
Capital reserve	38	**449**	449
Equity reserve	38	**80**	-
Profit and loss account	38	**2,036**	(61)
Shareholders' funds		**93,353**	23,043

The following notes form an integral part of these financial statements.

The balance sheet was approved by the Board of Directors on 30 October 2018 and signed on its behalf by:

George Hampton Wall
Chief Executive Officer

30 October 2018

Tim Sykes
Chief Financial Officer

30 October 2018

Company Statement of Changes in Equity

For the year ended 31 July 2018

	Share capital £000	Share premium £000	Capital reserve £000	Equity reserve £000	Retained earnings £000	Total £000
At 31 July 2016	3,983	5,962	449	-	2,297	12,691
Shares issued during the period	1,041	11,669	-	-	(3)	12,707
Dividend payment of 1.3p per share	-	-	-	-	(638)	(638)
Result for the period	-	-	-	-	(2,082)	(2,082)
Share based payment charges	-	-	-	-	125	125
Deferred tax on share options	-	-	-	-	240	240
At 31 July 2017	5,024	17,631	449	-	(61)	23,043
Shares issued during the period	4,243	63,636	-	-	-	67,879
Share options exercised	57	197	-	-	-	254
Issue of convertible notes	-	-	-	80	-	80
Dividend payment of 1.4p per share	-	-	-	-	(1,299)	(1,299)
Result for the period	-	-	-	-	3,270	3,270
Share based payment charges	-	-	-	-	366	366
Deferred tax on share options	-	-	-	-	(240)	(240)
At 31 July 2018	**9,324**	**81,464**	**449**	**80**	**2,036**	**93,353**

Details of the nature of each component of equity are given in Note 38.

The following notes form an integral part of these financial statements.

Company Cash Flow Statement

For the year ended 31 July 2018

	2018 £000	2017 £000
Operating activities		
Profit/(loss) for the year	**3,270**	(2,082)
Net finance expense	**1,060**	141
Forward contract provision	**(1,832)**	1,832
Income tax charge/(credit)	**105**	(318)
Share based payment charges	**318**	125
Operating cash flow before changes in working capital	**2,921**	(302)
Movement in trade and other receivables	**(6,383)**	(1,894)
Movement in trade and other payables and deferred income	**(2,922)**	10,158
Operating cash flow from operations	**(6,384)**	7,962
Finance income	**-**	1
Finance expense	**(772)**	(142)
Income tax received/(paid)	**5**	(210)
Net cash flow from operating activities	**(7,151)**	7,611
Investing activities		
Payments to acquire subsidiary undertakings	**(94,433)**	(19,048)
Net cash flow from investing activities	**(94,433)**	(19,048)
Financing activities		
Payment of dividend	**(1,299)**	(638)
Proceeds from issue of shares	**68,133**	12,707
Receipts from bank borrowings	**43,660**	4,200
Repayment of bank borrowings	**(9,942)**	(3,089)
Transaction costs related to loans and borrowings	**(288)**	-
Net cash flow from financing activities	**100,264**	13,180
Net decrease in cash and cash equivalents	**(1,320)**	1,743
Cash and cash equivalents at the beginning of the year	**2,410**	667
Cash and cash equivalents at the end of the year	**1,090**	2,410

The following notes form an integral part of these financial statements.

Notes to the Company Balance Sheet

30. Company accounting policies

Basis of preparation

As used in the financial statements and related notes, the term 'Company' refers to Proactis Holdings PLC. The separate financial statements of the Company are presented as required by the Companies Act 2006.

These financial statements, for the year ended 31 July 2018, are the second the company has prepared in accordance with FRS 101 "Reduced Disclosure Framework" ("FRS 101"), as issued by the Financial Reporting Council. For periods up to and including the year ended 31 July 2016, the Company prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP).

Accordingly, the Company has prepared financial statements that comply with FRS 101 applicable as at 31 July 2018.

These financial statements have been prepared in pounds sterling (£), which is also the functional currency of the company.

Where relevant, equivalent disclosures have been given in the Group accounts of Proactis Holdings PLC. The Group accounts of Proactis Holdings PLC are available to the public and can be obtained as set out in note 1. Under section 408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account. The Parent Company had a profit of £3,270,000 for the year ended 31 July 2018 (2017: loss £2,082,000).

These financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.

Certain disclosures have been included in the consolidated notes section of these financial statements in pages 62 to 95. These include:

- disclosures in respect of share-based payments (see note 4);
- certain disclosures required by IFRS 7 Financial Instrument Disclosures on the basis that the consolidated financial statements include the equivalent disclosures (see note 22);
- disclosures in respect of capital management (see note 22); and
- disclosures in respect of the compensation of Key Management Personnel (see note 31).

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 profit and loss account in the year.

Cash and liquid resources

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at close to their carrying values or traded in an active market. Liquid resources comprise term deposits of more than seven days.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Share based payments

The Company accounting policies followed are the same as the Group's policy under IFRS2 'Share-based payment'. The policy is shown in the Group accounting policies in Note 1.

31. Employees

The only employees of the Company were the Directors.

Details of Directors' remuneration, share options and Directors' pension entitlements are disclosed in the Directors' Remuneration Report on pages 32 to 37.

32. Employee share options schemes

The Company has granted share options to employees under two Inland Revenue approved executive incentive plans (EMI scheme and EMI rollover scheme), and an unapproved share option plan (unapproved scheme).

The Company recognised total expenses of £319,000 (2017: £84,000) in relation to these equity settled share-based payment transactions.

Details of the schemes are given in Note 4.

33. Investments

	Shares in subsidiary undertakings £000
Cost	
At 31 July 2017	30,204
Increase investment in Proactis Overseas Ltd	97,821
Acquisition of Perfect Commerce UK Ltd	25
Acquisition of Proactis Benelux B.V.	1,948
At 31 July 2018	**129,998**

Notes to the Company Balance Sheet continued

The companies in which Proactis Holdings PLC's interest is more than 20% at 31 July 2018 are as follows:

	Country of incorporation	Principal activity	Class and percentage of shares held	Holding
Subsidiary undertakings				
Proactis Limited [a]	England and Wales	Software sales and development	Ordinary 100%	Direct
Requisoft Plc [a]	England and Wales	Dormant	Ordinary 100%	Indirect
Alito Limited [a]	England and Wales	Software sales	Ordinary 100%	Indirect
Proactis Inc [c]	USA	Software sales	Ordinary 100%	Indirect
Proactis Pty Limited [e]	Australia	Software sales	Ordinary 100%	Indirect
Alito (UK) Limited [a]	England and Wales	Dormant	Ordinary 100%	Direct
Proactis Overseas Limited [a]	England and Wales	Intermediate Holding Company	Ordinary 100%	Direct
Proactis Group Limited [a]	England and Wales	Dormant	Ordinary 100%	Indirect
Proactis Accelerated Payments Limited [a]	England and Wales	Dormant	Ordinary 100%	Indirect
PHD Developing Markets Limited [f]	Mauritius	Intermediate Holding Company	Ordinary 100%	Indirect
Proactis Total Procure Pvt Limited [g]	India	Dormant	Ordinary 50%	Indirect
EGS Group Limited [a]	England and Wales	Software sales	Ordinary 100%	Indirect
EGS Group Holdings Limited [a]	England and Wales	Software sales	Ordinary 100%	Indirect
FE Online Limited [a]	England and Wales	Dormant	Ordinary 100%	Indirect
Unity Marketplace Limited [a]	England and Wales	Dormant	Ordinary 100%	Indirect
Proactis US Holdings Inc [c]	USA	Intermediate Holding Company	Ordinary 100%	Indirect
Intesource Inc [c]	USA	Managed services	Ordinary 100%	Indirect
Intelligent Capture Limited [a]	England and Wales	Software sales	Ordinary 100%	Direct
Intelligent Capture Managed Services Limited [a]	England and Wales	Managed services	Ordinary 100%	Indirect
Image Integrators Limited [a]	England and Wales	Dormant	Ordinary 100%	Indirect
Due North Limited [a]	England and Wales	Software sales	Ordinary 100%	Direct
Millstream Associates Limited [b]	England and Wales	Managed services and software sales	Ordinary 100%	Direct
Perfect Commerce France SAS [d]	France	Software sales	Ordinary 100%	Indirect
Perfect Commerce SA [h]	Luxembourg	Intermediate holding company	Ordinary 100%	Indirect
Hubwoo SA [d]	France	Software sales and development	Ordinary 88.51%	Indirect
CC-Chemplorer Designated Activity Company (DAC) [i]	Ireland	Managed services	Ordinary 88.51%	Indirect
Hubwoo Germany GmbH [j]	Germany	Managed services and software sales	Ordinary 88.51%	Indirect
Hubwoo Belgium SA [k]	Belgium	Software sales	Ordinary 88.51%	Indirect
InterSources (UK) Limited [a]	UK	Software sales	Ordinary 88.51%	Indirect
Trade Ranger US Inc. [l]	USA	Intermediate holding company	Ordinary 88.51%	Indirect
Hubwoo USA, Inc. [l]	USA	Intermediate holding company	Ordinary 88.51%	Indirect
Trade-Ranger Management, LLC [l]	USA	Intermediate holding company	Ordinary 88.51%	Indirect
Trade-Ranger Holdings, LLC [l]	USA	Intermediate holding company	Ordinary 88.51%	Indirect
Hubwoo USA, LP [l]	USA	Software sales and development	Ordinary 88.51%	Indirect
Perfect Commerce Southeast Asia Ltd [m]	New Zealand	Intermediate holding company	Ordinary 100%	Indirect
Perfect Commerce Limited [m]	New Zealand	Software sales	Ordinary 100%	Indirect

Notes to the Company Balance Sheet continued

	Country of incorporation	Principal activity	Class and percentage of shares held	Holding
Conexa Pty. Ltd	Australia	Dormant	Ordinary 100%	Indirect
Proactis Euro Hedgeco Limited [a]	UK	Intermediate holding company	Ordinary 100%	Indirect
Proactis US Dollar Hedgeco Limited [a]	UK	Intermediate holding company	Ordinary 100%	Indirect
Perfect Commerce, LLC [n]	USA	Software sales and development	Ordinary 100%	Indirect
Commerce One BPO, LLC [n]	USA	Managed services	Ordinary 100%	Indirect
Commerce One, LLC [n]	USA	Software sales	Ordinary 100%	Indirect
Perfect Commerce Operations, Inc [n]	USA	Software sales	Ordinary 100%	Indirect
Perfect Commerce Global Purchasing, LLC [n]	USA	Managed services	Ordinary 100%	Indirect
C1 Cat, LLC [n]	USA	Dormant	Ordinary 100%	Indirect
Compro Business Services, LLC [n]	USA	Managed services	Ordinary 49%	Indirect
Proactis Benelux B.V. [o]	Netherlands	Software sales	Ordinary 100%	Direct
Perfect Commerce UK Limited [a]	UK	Software sales	Ordinary 100%	Direct

Alito Limited is a subsidiary of Alito (UK) Limited. Proactis US Dollar Hedgeco Limited, Proactis Pty Limited, PHD Developing Markets Limited, Proactis Euro Hedgeco Limited, Perfect Commerce Southeast Asia Limited, Perfect Commerce France SAS and Perfect Commerce SA are subsidiaries of Proactis Overseas Limited. Proactis Inc, Perfect Commerce LLC and Intesource Inc are subsidiaries of Proactis US Holdings Inc. Commerce One BPO, Commerce One LLC, Perfect Commerce Operations Inc, Perfect Commerce Global Purchasing LLC, C1 Cat LLC and Compro Business Services LLC are subsidiaries of Perfect Commerce LLC. Perfect Commerce Limited is a subsidiary of Perfect Commerce Southeast Asia Ltd. Conexa Pty. Ltd is a subsidiary of Perfect Commerce Limited. Hubwoo SA is a subsidiary of Perfect Commerce SA. CC-Chemplorer DAC, Hubwoo Belgium SA and Trade Ranger US Inc are subsidiaries of Hubwoo SA. Hubwoo Germany GmbH is a subsidiary of CC-Chemplorer DAC. InterSources (UK) Limited is a subsidiary of Hubwoo Belgium SA. Hubwoo USA Inc, Trade-ranger Management LLC and Trade-ranger Holdings LLC are subsidiaries of Trade Ranger US Inc. Hubwoo USA LP is a subsidiary of Trade-ranger Holdings LLC. Proactis Total Procure Pvt Limited is a subsidiary of PHD Developing Markets Limited. Intelligent Capture Managed Services Limited and Image Integrators Limited are subsidiaries for Intelligent Capture Limited. EGS Group Holdings Limited, Proactis Group Limited, Requisoft PLC and Proactis Accelerated Payments Limited are subsidiaries of Proactis Limited. Proactis US Holdings Inc is a subsidiary of Proactis US Dollar Hedgeco Limited. FE Online Limited, EGS Group Limited and Unity Marketplace Limited are subsidiaries of EGS Group Holdings Limited.

Regsitered offices of entities are as noted:

[a] Riverview Court, Castlegate, Wetherby, LS22 6LE England

[b] 10 Queens Road, Aberdeen, AB15 4ZT Scotland

[c] 2111 East Highland Avenue, Suite B-375, Phoenix, AZ 85016 USA

[d] 26-28 Quai Gallieni, 92150 Surenes, France

[e] Riverside Centre, Level 18, 123 Eagle Street, Brisbane, QLD 4000 Australia

[f] c/o Estera Management (Mauritius) Limited, 11th Floor Medine Mews, La Chaussee Street, Port Louis, Mauritius

[g] 111 Free Press House, Free Press Journal Road, 215 Nariman Point, Mumbai 400021, India

[h] 19, rue de Bitbourg, L-1273 Luxembourg

[i] 6th Floor, South Bank House, Barrow Street, Dublin 4 Ireland

[j] Bruher Strasse 9, -53119 Bonn Germany

[k] Rue Bodegham 91-93, Box 6, BE-1000, Bruxelles Belgium

[l] 10777 Westheimer, Suite 1010, Houston, TX 77042 USA

[m] Level 1, Australis Nathan Building, 37 Galway Street, Auckland, New Zealand

[n] One Compass Way, Suite 120, Newport News, VA, 23606, USA

[o] Vestigingsnr 000005630193, Leeuwenveldseweg 16 A, 1382LX, Weesp, Netherlands

Notes to the Company Balance Sheet continued

34. Debtors

	2018 £000	2017 £000
Prepayments and accrued income	**95**	27
Income taxes	**191**	5
Other taxes and social security	**15**	152
Amounts owed by subsidiary undertakings	**12,219**	7,881
	12,520	8,065

Amounts owed by subsidiary undertakings are interest free and repayable on demand.

The deferred tax asset included within non-current assets relates to deferred tax on share option charges.

The deferred tax asset balance is analysed below and is disclosed as a non-current asset in the balance sheet.

	2018 £000	2017 £000
Share options	**237**	773

Movement in deferred tax for the year ended 31 July 2018

	As at 31 July 2017 £000	Reserves movement £000	Income statement £000	As at 31 July 2018 £000
Deferred tax assets				
Share options	773	(240)	(296)	**237**

35. Creditors: Amounts falling due within one year

	2018 £000	2017 £000
Bank loans	**2,985**	1,400
Trade creditors	**54**	656
Accruals and deferred income	**604**	3,041
Amounts owed to subsidiary undertakings	**5,583**	7,721
Other creditors	**1,500**	1,832
	10,726	14,650

Amounts owed to subsidiary undertakings are interest free and repayable on demand.

Notes to the Company Balance Sheet continued

36. Creditors: Amounts falling due after more than one year

	2018 £000	2017 £000
Bank loans	**35,918**	3,759
Convertible loan note	**3,848**	-
	39,766	3,759

Bank loans are repayable as follows:

	2018 £000	2017 £000
Within one year	**2,985**	1,400
Between one and two years	**2,985**	1,400
Between two and five years	**32,933**	2,359
	38,903	5,159

Terms of the loan are disclosed in note 20.

37. Share capital

	2018 £000	2017 £000
Allotted, called up and fully paid		
93,236,123 Ordinary shares of 10p each (2017: 50,238,546)	**9,324**	5,024

38. Reserves

	Share premium account £000	Capital reserve £000	Equity reserve £000	Profit & loss account £000
At 31 July 2017	17,631	449	-	(61)
Shares issued during the period	63,833	-	-	-
Issue of convertible notes	-	-	80	-
Profit for the period	-	-	-	3,270
Dividend paid	-	-	-	(1,299)
Share based payment charges (see Note 4)	-	-	-	366
Deferred tax on share options	-	-	-	(240)
At 31 July 2018	**81,464**	**449**	**80**	**2,036**

Notes to the Company Balance Sheet continued

38. Reserves (continued)

Share premium
The Group has issued 42,997,577 (2017: 10,403,387) Ordinary shares of 10p each during the year at a weighted average price of 163.4p (2017: 125.8p) per share, creating a share premium of £65,954,000 (2017: £12,044,000). Costs totalling £2,121,000 (2017: £375,000) were offset against the share premium.

Capital reserve
The capital reserve arose on issue of share options as part of the deferred contingent consideration for the purchase of Alito (UK) Limited. The reserve is not distributable.

Equity reserve
The equity reserve comprises the amount allocated to the equity component for the convertible notes issued by the Group in August 2017.

39. Commitments

(a) Capital commitments

There were no capital commitments existing at 31 July 2018 or 31 July 2017.

(b) Operating leases commitments

Total future operating lease commitments at the balance sheet date are as follows:

	Land and buildings	
	2018 £000	2017 £000
Within one year	**77**	84
Between one and two years	**-**	75
Between two and five years	**-**	-
	77	159

During the year £90,000 (2017: £89,000) was recognised as an expense in the income statement of Proactis Ltd, in respect of operating leases.

40. Contingent liabilities

The Company has guaranteed the overdrafts of its subsidiaries, the amount outstanding at 31 July 2018 was £Nil (2017: £Nil).

41. Post balance sheet events

The Group acquired Esize Holdings B.V. on 6 August 2018 for consideration of €14,200,000 with an additional consideration of up to €1,000,000 depending on certain deliverables. Further information regarding this acquisition is noted in the Chief Financial Officers Report.

On 24 September 2018, the Company announced that it had received unconditional and irrevocable notices from Hampton Wall, Chief Executive Officer and Tripp Shannon exercising the conversion rights over the 2.0 per cent. convertible unsecured loan notes due 2022 (the "Convertible Acquisition Loan Notes") issued as part consideration in connection with the acquisition of Perfect Commerce, LLC on 4 August 2017. The respective conversions of the Convertible Acquisition Loan Notes will take place after 1 January 2019 but on or before 10 January 2019. This will result in the issue of a total of 2,360,728 ordinary shares of 10 pence each ("Ordinary Shares") at that time and application will be made for the Ordinary Shares to be admitted to trading on AIM no later than 10 January 2019.

Additional information

Reconciliation of alternative performance measures:

	Reported EBITDA £000	Adjusted EBITDA £000	Adjusted operating profit £000	Adjusted profit before tax £000
Profit after tax	5,351	5,351	5,351	5,351
Add back:				
Net release of deferred tax liabilities resulting from changes in estimates of the rate of income taxes (note 9)	(1,602)	(1,602)	(1,602)	(1,602)
Interest charge (note 8)	1,110	1,110	1,110	-
Share-based payment charges (note 4)	366	366	366	366
Amortisation (note 12)	7,886	7,886	-	-
Depreciation (note 11)	511	511	-	-
Non-core net expenditure (note 5)	-	3,635	3,635	3,635
Non-recurring interest charged on convertible loan notes issued in respect of the acquisition of Perfect Commerce, LLC (note 20)	-	-	-	92
Amortisation charged on fair value uplift of acquired capitalised development costs	-	-	1,004	1,004
Amortisation charged on customer related intangible assets (note 12)	-	-	3,202	3,202
	13,622	**17,257**	**13,066**	**12,048**

Additional information

	Definition	Explanation for use	Reconciliation to IFRS measures	Explanation of any change	
				New or existing APM	Basis of calculation
Adjusted EBITDA	Earnings before interest, tax depreciation and amortisation excluding significant items of income or expenditure associated primarily with the Group's acquisition activity and the resultant restructuring programmes.	The rationale for the inclusion of these APMs is to provide users of the accounts, including but not limited to investors and analysts, with information designed to assist them in understanding the performance of the business when adjusting for items of income or expenditure that are either significant and /or non-recurring. Because these items are reported within various statutory captions, it is necessary to provide adjusted measures at each of the statutory caption levels.	Refer to table on previous page	Existing	No change
Adjusted operating profit	Operating profit excluding significant items of income or expenditure associated primarily with the Group's acquisition activity and the resultant restructuring programmes.		Refer to table on previous page	New	Refer to table on previous page
Adjusted PBT	Profit before tax excluding significant items of income or expenditure associated primarily with the Group's acquisition activity and the resultant restructuring programmes.		Refer to table on previous page	New	Refer to table on previous page
Adjusted EPS	Earnings per share excluding significant items of income or expenditure associated primarily with the Group's acquisition activity and the resultant restructuring programmes.		See note 10	Existing	No change
Adjusted Free Cash Flow	Net cash flow from operating activities excluding significant items of income or expenditure associated primarily with the Group's acquisition activity and the resultant restructuring programmes less reported Purchase of plant and equipment and Development expenditure capitalised.		See Strategic Report	New	See Strategic Report
Non-core net expenditure	Significant items of income or expenditure associated primarily with the Group's acquisition activity and the resultant restructuring programmes.	The Group incurs significant items of income or expenditure as part of its acquisition activity and the resultant restructuring programmes which does not form part of the core income or expenditure of the associated businesses. It is necessary to report the results of the associated businesses by reporting the non-core net expenditure separately.	Not applicable, see Strategic Report	Existing	No change

Additional information

	Definition	Explanation for use	Reconciliation to IFRS measures	Explanation of any change	
				New or existing APM	Basis of calculation
Cost savings	Cost savings resulting from the restructuring progamme arising from the acquisition of Perfect Commerce, LLC.	As part of the acquisition of Perfect, the Group identified potential cost savings that might arise as a result of the integration plan and restructuring programme. These potential cost savings formed a substantial part of the rationale for the business combination from an investor perspective and it is necessary to report the Group's progress against that measure.	Not applicable, see Strategic Report	New	See Strategic Report
Total Contract Value ('TCV')	The aggregate value of contracts signed for additional functionality or significant service packages with new or existing customers during the year, specifically excluding renewals of contracts for existing functionality.	This is a key performance indicator of the business as it indicates the performance of the Group's marketing and sales capacity and the relevance of its products within its markets. The analysis of TCV between that signed with new customers versus that signed with existing customers is also additive and informative information.	Not applicable	New	Sum of TCV of new name deals and TCV of upsell deals
TCV of new name deals	The aggregate value of contracts signed for additional functionality or significant service packages with new customers during the year, specifically excluding renewals of contracts for existing functionality.		Not applicable	Existing	No change
TCV of upsell deals	The aggregate value of contracts signed for additional functionality or significant service packages with existing customers during the year, specifically excluding renewals of contracts for existing functionality.		Not applicable	Existing	No change

Additional information

	Definition	Explanation for use	Reconciliation to IFRS measures	Explanation of any change	
				New or existing APM	Basis of calculation
CAGR 3-year revenue growth	The compound annual growth rate of revenue over a 3 year period	This measure gives users a longer term view on the performance of the Group against its long term objective of creating a Group of scale	Not applicable	Existing	No change
ARR	The Group's estimate of the annualised run rate of subscription, managed service, support and hosting revenues contracted with the Group	This measure enables users to understand the level of cover that the Group has for revenue in future periods	Not applicable	Existing	No change
Gross margin	Revenue less cost of sale, divided by revenue	This measure enables users to understand the non-discretionary costs that are necessarily incurred in the delivery of its revenue	Revenue £52,221,000 Cost of sale (£5,963,000) Gross profit £46,258,000 Gross margin 88.6%	Existing	No change

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Secretary and Registered Office

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