Annual Report & Accounts 2018

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Strategic Report

Our Business at a Glance

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

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

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

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

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

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

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

Financial highlights
for the year ended 31 July 2018:

- Revenues increased 16% to £39.8m (2017: £34.5m)
- Adjusted EBITDA* increased 11% to £9.4m (2017: £8.5m)
- Statutory Profit before Tax after exceptional items of £8.3m (2017: £4.6m)
- Cash balances of £22.3m (2017: £15.4m)
- Full year dividend increased 14% to 1.6p per share (2017: 1.4p)

*Reconciliation provided in note 31.

Strategic Report

Strategy and Business Model

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

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

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

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

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

	Strand of Strategy:	Achievements 2017/8:
1	**Organic** further sales from existing products to UK	• Ongoing delivery of a multi-million contract win for TRACS Enterprise with a major UK Train Operating Company • Renewal of a significant contract with a major global engineering company • High level of Software licence renewals achieved across the whole Group • Strong sales made to the Group's key UK customer • New revenue stream developed for Passenger Counts business
2	**Overseas Markets** showing good promise and remain relatively untapped	• Additional work secured from a key client in North America for the Group's Remote Condition Monitoring technology, and further sales targeted • Traffic Data business in Ireland continues positive trading • Software sale in New Zealand delivered
3	**Acquisitions**	• Completion of acquisitions of Travel Compensation Services Limited and Delay Repay Sniper Limited • Additional investments made into Vivacity Labs Limited and Nutshell Software Limited in the year • Numerous potential targets appraised in the year

Strategic Report

Chairman & Chief Executive Officer's Report

A welcome from Chris Cole, Non-Executive Chairman

I am pleased to report that once again Tracsis has achieved another successful year of trading with good organic growth across all areas of the Group, record levels of revenue and profitability and further progress on a range of operational and strategic goals across both divisions of the business. Tracsis also completed two successful acquisitions of well run and profitable enterprises (TCS and DRS) which continues the established theme of considered, accretive M&A in line with our stated growth strategy.

The culmination of this progress has translated into strong financial performance, and a business that is well positioned to take advantage of interesting and dynamic traffic and transport markets that are changing at a significant pace. On behalf of the Board, my sincere thanks go to all Tracsis employees for their continued hard work and dedication and I look forward to the coming year.

Introduction

The year ended 31 July 2018 was a further year of growth, with Group revenues close to £40m, an overall increase of 16%, with organic revenue growth, excluding acquisitions, of some 14% which was particularly pleasing. The impact of M&A activity was negligible given the specific timing of the Travel Compensation Services (TCS) and Delay Repay Sniper (DRS) transactions and we expect these enterprises to make a good contribution with a full year of trading and the chance to integrate and leverage their operations and technology across the wider Group. The Group's financial position at year end remained strong, with cash balances in excess of £22m and no debt.

Business overview

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

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

   The Group has a long pedigree in developing industrial strength application software that facilitates a variety of resource/asset optimisation that removes extraneous cost, increases network uptime and robustness and improves overall service delivery. Our software offering is primarily used by transport operators but also by infrastructure providers and maintainers. The Group also has a separate Remote Condition Monitoring (RCM) offering – hardware and software – that allows for real-time reporting on the status and health of critical infrastructure assets that can identify problems before they lead to failure and aid with preventative maintenance. Utilising our expertise in the sector, the Group's professional services division provides consultancy and specialist advice across the operational and strategic planning horizons and play a key role in advising owning Groups, operators and a range of regulatory bodies. The recent acquisition of TCS and DRS has expanded our technology offering and moves Tracsis into a new and disruptive element of the passenger transport market that we believe will experience significant growth in the near term.

   The current focus of the Rail Technology & Services division is one of product expansion and improvement, customer upsell/cross-sell and the move to cloud based services. Our UK customer base continues to provide the best opportunities for organic growth by building on existing relationships and capabilities.

2. **Traffic & Data Services**: Data capture, analysis, categorisation and interpretation of traffic and pedestrian movement. Tracsis provides a means to help our clients understand demand for their services and in turn this allows for informed decision making and capital expenditure to ultimately aid with the planning, building and eventual day-to-day operations of a transport environment.
   Over a number of years, the Group has developed what is now the largest traffic and transport data capture and analytics business in the UK. Latterly this has been bolstered through the acquisition of SEP and the investment made into Citi Logik and Vivacity Labs. This division has now expanded its addressable markets from roads, rail and highways to include the pedestrian rich environments of major sporting and outdoor events and is now focusing on the advent of urban planning and traffic management for Smart Cities.

   The current focus of the Traffic & Data Services division is one of technology and process transition to undertake broader, more complex and ultimately more valuable projects for our clients. In moving this division to a stronger technology footing we expect to see a significant improvement in operating margin and good progress has been made in the past year in improving this metric.

Chairman & Chief Executive Officer's Report continued

The Group's mission is to help our clients solve complex, high value, data driven problems for which there is typically little by way of an alternative offering. Tracsis chooses to operate within the traffic and transport markets due to the abundance of complex problems where our expertise and products have clear and demonstrable benefit. These markets also exhibit several attractive traits for the Group – high barriers to entry due to domain knowledge, large and disparate data sets, well informed customers that understand the value/costs in the problems we solve, and a large pool of interesting M&A opportunities that can be difficult for external parties to access or understand without sector expertise.

The Directors believe that the traffic, transport and pedestrian rich environments are particularly well positioned for consistent, long term, and sustainable growth and that the Group will capitalise on this via an expanding portfolio of products and services that have a common theme of 'smart' planning and 'intelligent' mobility whilst delivering the savings and improvements our customers have grown to expect.

Financial summary

The Group achieved revenues of £39.8m which was an increase of 16% on the previous year (2017: £34.5m). It is important to note that the vast majority of this increase was organic, with limited revenue from M&A given the specific timing of the TCS and DRS acquisitions.

Adjusted EBITDA* of £9.4m was an increase of 11% on the previous year (2017: £8.5m), with Adjusted Profit** of £8.7m being 13% higher than the previous year (2017: £7.7m). Statutory Profit before Tax was £8.3m (2017: £4.6m), although this includes an exceptional £2.65m credit relating to contingent consideration in respect of the Ontrac acquisition which arose due to specific target milestones not being met, though it is important to note that Ontrac performed very well all the same. Statutory Profit before Tax net of this exceptional credit was £5.6m which shows a comparable improvement on the prior year of some 22%. All of the financial metrics show good growth on the previous year and a solid organic performance.

At 31 July 2018, the Group's cash balances had increased to £22.3m (2017: £15.4m), and cash generation continues to be strong. Overall cash balances increased by £6.9m in the financial year, after the acquisition of TCS and DRS (£1.7m cash outflow), the investments in Vivacity Labs and Nutshell amounting to £0.7m, and paying contingent consideration of £0.3m (in respect of the SEP year two earn out). Post period end, an amount of £2.1m was paid in respect of the Ontrac year two earn out which represented good trading and profitability. The business therefore generated net cash of c. £10m which once again demonstrates strong conversion of profits to cash. The Group continues to be debt free.

As mentioned above, the statutory results include an exceptional credit of £2.65m in respect of the finalisation of the Ontrac contingent consideration, as required by IFRS3. This credit came about due to the inclusion of profit related performance targets within the deal structure for Ontrac. Whilst this business has performed very well in the past two years, the full contingent consideration was not maximised which gave rise to the credit. Needless to say, this is a non-cash exceptional credit and should be viewed as a non recurring item that is not part of underlying performance.

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

Rail Technology & Services

Summary segment results:

Revenue	£19.0m	(2017: £16.0m)	+19%	
EBITDA *	£6.8m	(2017: £6.5m)	+5%	
Profit before Tax	£6.6m	(2017: £6.3m)	+4%	*(excluding £2.65m exceptional credit)*

Software

Software sales, excluding Ontrac, were £7.7m (2017: £6.4m), which was a significant increase (20%) on the previous year, mainly due to the Group starting work on delivering a major multiyear contract with one of the largest Train Operating Companies in the UK for our TRACS Enterprise solution. Delivery of this programme has been challenging and rewarding, with good progress being made, and the implementation will continue throughout the rest of current financial year. In preparation for the delivery of larger technology engagements of this type in future, we have taken active steps to significantly expand our development team which following a period of extensive recruitment is now close to full strength. Going forwards we will continue to market TRACS Enterprise to the rest of the UK market and are confident of making progress in the months and years to come. Outside this major contract, all aspects of the software portfolio once again performed well, with excellent renewal rates for the TRACS, Compass, and Retail & Operations product suites.

Chairman & Chief Executive Officer's Report continued

Ontrac

Ontrac once again performed very well in the period and contributed revenue of £5.9m (2017: £5.3m), with the business completing a number of bespoke development projects for its key client, as well as benefitting from the high levels of recurring revenue that comes from its software licences and hosting services. The business continues to specialise in the digitisation, visualisation and streamlining of asset information and works closely with infrastructure clients and the railway supply chain on a number of key initiatives where shared information can result in significant improvements in data quality whilst removing extraneous processes and costs. Ontrac's Rail Hub and eTrac products remain highly relevant to the UK rail market and the business continues to market these initiatives along with other innovations to their customer base.

Ontrac performed well during the two year earn out period following acquisition by Tracsis in 2015 and additional performance related contingent consideration of £2.1m was paid to Ontrac shareholders post period end. Going forwards, Ontrac trading will now be included within the software element of the Rail Technology & Services division although we intend to maintain the Ontrac brand which is a well-known and reputable brand within its target market.

Remote Condition Monitoring (RCM)

Revenues of £3.0m were 15% higher than the previous year (2017: £2.6m), due to a combination of positive trading with the Group's main UK rail infrastructure client, additional business generated from other UK supply chain customers and further sales made within North America. As intimated previously, we now have business development resources within the US and we have seen a lot of activity in the past year which has led to several pilots and trial engagements. Whilst it is true to say this activity has not yet translated into meaningful revenue, we continue to believe there is a significant latent opportunity with overseas RCM and our plans remain unchanged for the coming year. Within the UK, our busbar pilot remains ongoing, and we continue to work with our major client for this exciting project which has huge growth potential in the future if successful.

Consultancy and Professional Services

Consultancy and professional services revenue was £1.9m (2017: £1.7m) which was a good performance helped by high levels of franchise bid work. Tracsis supported a bidder for the West Coast Partnership, Southeastern, and also Wales & Borders rail operations. In addition, we picked up good work from other government bodies, a variety of other train operating companies (TOCs), and several multi-disciplinary engineering companies.

Acquisitions: Travel Compensation Services (TCS) and Delay Repay Sniper (DRS)

In the six months post acquisition, TCS and DRS contributed £0.5m of revenue (2017: £nil). The business continues to work on a number of significant, high profile tenders which if successful, will lead to further growth in the future. The business has come a long way in a short space of time, and the area in which it operates is ripe for technology disruption with the solution that TCS provides offering a compelling return on investment for operators to dramatically reduce their delay repay processing costs. The Directors are keen to grow this part of the Group and integration has begun and is well underway. Most recently, TCS launched its new compensation service for the corporate business travel market which we believe is a further growth area outside of TOC and passenger engagement.

<u>Traffic & Data Services</u>

Summary segment results:

Revenue	£20.8m	(2017: £18.5m)	+13%
EBITDA *	£2.6m	(2017: £2.0m)	+28%
Profit before Tax	£2.0m	(2017: £1.4m)	+46%

Traffic Data and Passenger Counts

Revenues of £14.5m were delivered in the year (2017: £12.8m), which reflect good organic growth in the year. Our traffic data business delivered multiple large and diverse projects including a significant and challenging project for Transport for London looking at City wide cycle assets (given rising demand and inherent safety concerns), and also renewed and expanded a major contract with a global engineering consultancy. General trading elsewhere remained solid, and margins were improved by the structural and technological changes that were started in the previous financial year and remain ongoing. The result of our efforts led to significant cost reductions, a refocussed management team, and a streamlined business unit that has produced a strong performance in the year.

With regard to passenger counting, we also developed a piece of analysis software that allows for automatic train loading data (i.e. passenger counts) to be taken directly from trains currently in service. This information is highly relevant to TOCs when making revenue protection and performance decisions and requires a high degree of accuracy given the vagaries of timetable changes, delays and unit swaps which can lead to erroneous information being used. The Board is pleased to be are up and running with this software service within a short space of time, and also with the meaningful revenue achieved in the year under review.

Chairman & Chief Executive Officer's Report continued

Our traffic data offering continues to benefit from a sizeable market share within its relevant sector with a good and varied service offering to allow significant and diverse projects to be delivered. The strategy for this part of our business is unchanged – to transition what was historically a 'project led, service business' to a 'product led, technology business'. In doing so the Group believes it can achieve enhanced operational efficiencies via increased use of technology and process improvements to improve both gross and net margin. Tracsis remains excited by the opportunity new technology poses and our investment into the Vivacity Labs 'Felicity' platform is showing real promise in terms of increasing our data analysis ability and transitioning to a more technology led approach.

SEP

SEP achieved revenues of £6.3m (2017: £5.7m) which was pleasing, and the business has made good progress in transitioning from an owner managed business to a division of a public company. The delivery during the peak summer months was strong as always, and this year also saw the continuation of clients using our Tracsis Live Traffic software, which provides event operators with a real time insight into traffic and pedestrian dynamics that comprises ANPR technology, together with application software developed internally by the Group's development team The Group continues to work closely with one of the largest clubs in the English Premier League and looks forward to replicating our success within this market in the year ahead as we target other stadiums and fixed venue events.

Overall, it was pleasing to see margins within the T&DS Division increasing compared to the previous year, which was a key objective set out at the start of the financial year.

Dividends

In February 2012, the Board implemented a progressive dividend policy and the Group intends to maintain this going forwards. An interim dividend of 0.7p per share for 2016/17 was paid in April 2018. A final dividend of 0.9p per share in respect of 2017/18 is proposed, to take the full year dividend to 1.6p. This represents a 14% increase on the previous year's dividend of 1.4p per share.

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

The dividend will be paid on 15 February 2019 to shareholders on the register on 1 February 2019.

Acquisitions

The Board was delighted to have completed the acquisitions of TCS and DRS during the year. Both businesses operate within the Delay Repay (DR) space which is a passenger compensation regime that exists within multiple transport environments for delayed or cancelled services. Within the rail sector, DR has existed for many years and is an obligation of most franchise operations. In recent years however, a combination of rising fares, poor service performance and government policy/intervention has raised the profile of DR which has in turn given rise to far greater volumes of passenger claims. This in turn has created several areas where Tracsis can get involved with the main one being assisting TOCs automatically process valid DR claims through an intelligent software engine that process claims at a far higher accuracy, with greater speed and lower cost than a human counterpart (similar in concept to the rest of Tracsis' software suite).

TCS and DRS were acquired with a deal structure that reflects the significant growth opportunities that exist within their markets, and hence have a large amount of contingent consideration potentially payable should the businesses grow significantly from their current levels. An amount, reflecting the current performance of each business was paid upfront, with the balance payable subject to various stretch targets being achieved. In the six months post acquisition, TCS and DRS delivered revenue of £0.5m, and a PBT of £0.1m (pre exceptional deal costs and amortisation).

Numerous other acquisition opportunities were appraised during the year and the pipeline of opportunities remains as strong as always. The Group's appetite for making further accretive acquisitions that meet with our stated investment criteria remains unchanged and we expect to complete further transactions in due course.

Investments

During the previous year, the Group announced that it had made a strategic investment of up to £1.3m into Vivacity Labs Limited ("Vivacity"), a provider of smart, hyperlocal data for smart cities and intelligent transport systems, in return for a 28.1% equity stake. To the end of July 2018, Tracsis has invested £1.0m of this total amount, in return for 23.3% of the equity, including an investment of £0.6m that was made in the current financial year. Tracsis held a warrant to subscribe for a further 4.8% of the enlarged share capital for an additional £0.3m which was exercised post period end.

Chairman & Chief Executive Officer's Report continued

The Traffic & Data Services Division also entered into an Agreement to begin to adopt the Vivacity machine learning technology, which has the potential to significantly enhance our traffic analysis capability whilst also reducing the associated overhead costs of video processing. This work is still at a relatively early stage but is showing significant promise and will be a key focus for the Traffic Data team in the coming year.

The Group continues to hold an investment in Citi Logik Limited and at year-end held 17.24%. Citi Logik was successful in securing further monies from Innovate UK during the year and has won multiple First of a Kind (FOAK) projects to demonstrate mobile network data analytics (i.e. utilising consumer mobile phone data to model traffic and pedestrian movements in near real time).

Summary and Outlook

In summary, 2017-18 was another good year for Tracsis on multiple fronts, with strong organic growth and financial performance coupled with operational progress and capped off by an exciting acquisition. The Group continues to mature and evolve both in terms of people, processes and technologies and remains well positioned for the future.

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

As always our thanks go to our staff, customers and other partners, and we look forward to sharing further success with them in the years ahead.

Chris Cole, Chairman

John McArthur, Chief Executive Officer

8th November 2018

Strategic Report

Risk Management

Key risks

The board carefully considers the risks facing the Group and endeavour to minimise the impact of those risks. The key risks are as follows:

Description/Potential impact:	Area of Group impacted:	Mitigation:	Change in the year:
Rail industry structure changes			
The present structure and organisation of the rail industry in the UK may be changed in the future, or by a future government, impacting the Group. The Group continues to derive a significant amount of its results from the UK rail industry.	1. Rail Technology & Services	Several of the Group's products and services are expected to be still in demand regardless of the structure of the industry they have a clear and demonstrable value proposition (though some more than others) and return on investment case. The Group expects that demand for certain solutions will remain regardless of ownership structure. However, in certain circumstances, there is very little mitigation against politically driven changes or other structural changes.	Increased given the recent rail industry challenges that have been well publicised in the press and the political headlines that the rail industry has received.
Competition			
The success of the Group may lead to increased competition, in particular in Traffic & Data Services where our products and services may be more easily replicated. The Group has a variety of product and service offerings and some are more exposed to more competition than others.	1. Traffic & Data Services 2. Rail Technology & Services	The Group pays close attention to pricing and customer satisfaction for areas most subject to strong competition and endeavours to make sure it is competitively priced where appropriate. Where possible, the Group tries to ensure its products and services have a clear value proposition and return on investment such that the products and services are embedded within its customer base to reduce the exposure to new entrants. The Group restructured its Traffic & Data Services Division in the previous year and saw the benefits of this during the year under review.	No change in the year to the risk of overall competition across the Group.
Reduced government spending			
The Group continues to derive revenues directly and indirectly from government commitment to invest and modernise transport infrastructure, and would be significantly impacted if these public funding streams were reduced.	1. Traffic & Data Services 2. Rail Technology & Services	As the Group continues to grow and diversify its revenue streams, the exposure to government spending should reduce but will always be a risk for the Traffic & Data Services Division due to the nature of its customer base. For the Rail Technology & Services Division, the Group attempts to ensure that its offerings have a clear return on investment and value proposition, to ensure demand will remain strong.	Increased in the year given the increased proximity to 'Brexit' and the uncertainties this may potentially bring.

Risk Management continued

Description/Potential impact:	Area of Group impacted:	Mitigation:	Change in the year:
Reliance on certain key customers			
The Group has a large number of customers but derives a significant amount of business from one key customer for a large part of its Rail Technology & Services offering. There can be no guarantee as to the timing or quantum of any potential future orders from this customer. Furthermore, the Group's Traffic & Data Services division operates under a number of Framework Agreements with one large one in particular from whom a significant amount of revenue is obtained.	1. Rail Technology & Services 2. Traffic & Data Services	As the Group continues to grow and evolve, the exposure to and reliance on any one customer will reduce. Although the Group will always be exposed to certain key customers, it manages this risk by engaging with the customers proactively to understand their needs and respond to them in terms of changes to products or service offerings to reinforce the relationship to ensure that its products and services are embedded with the customer as best as possible.	No major change in the year. Total revenues from the Group's largest customer were 14% of Group revenue (2017: 16%). Revenues in respect of the Group's Remote Condition Monitoring accounted for around 8% (2017: 8%) of total Group revenue. The Traffic & Data Services Division continued to account for over half of overall Group revenues and derived £3.2m (2017: £2.5m) from one particular customer.
Attraction and retention of key employees			
The Group continues to have a number of key individuals. Skills and expertise in our markets are specialist and hard to find or develop, and so further growth of the business may be restricted should key individuals leave the business or if the business is unable to attract and recruit new staff to deliver its growth plans.	All parts of the Group.	The Group believes it offers competitive remuneration packages, and also offers various share incentive schemes to staff in order to attract and retain high calibre employees. Such share schemes are designed such that employees are rewarded in the success of the Group, and are tied in for a period of time.	Increased in the year for parts of the Group given two periods of contingent consideration ended.
Delays to project delivery			
During the previous year, the Group was successful in securing a significant contract with a major UK Train Operating Company which has a number of deadlines for implementation, along with certain penalties should the programme not be implemented in accordance with the contractual requirements and timeframes.	1. Rail Technology & Services	The Group has deployed an extensive delivery team, following a major recruitment exercise, and has worked with the client to establish a project plan to ensure that the project has the best chance of successful delivery.	Increased in the year as delivery of this key contract progressed.

Risk Management continued

Description/Potential impact:	Area of Group impacted:	Mitigation:	Change in the year:
Technological changes			
The Group has a variety of product and service offerings which may be under threat should competitors develop rival technology or should more effective ways of doing things be discovered which make some of the Group's services redundant. This could potentially lead to reduced levels of business.	1. Traffic & Data Services 2. Rail Technology & Services	The Group continues to invest in research and development for its technology products to ensure that they remain up to date and also relevant to the customer base, as it also takes feedback from its clients about what they require from the products. This helps to ensure that they remain relevant. Some of the Group's offerings are protected by customer relationships, Framework Agreements, contractual agreements and also significant development costs, which provide protection even if new entrants may come along. The Group made a strategic investment in Vivacity Labs Limited during the previous year to seek to mitigate some of the risks posed by technology to the Traffic & Data Services Division.	No change in the year.
Customer pricing pressure			
Price pressure from customers may potentially result in margins being eroded over time if lower revenues are achieved than those which were achieved historically.	1. Traffic & Data Services 2. Rail Technology & Services	The Group believes it operates a relatively lean structure in order to protect against pricing pressure, and is constantly searching for ways to maintain its cost base operating efficiently. When reviewing tenders and enquiries, pricing is submitted accordingly on the most favourable commercial terms. The Group is committed to ensuring customer satisfaction and offering a compelling return on investment for its products with a clear value proposition, with the objective that the customer base will continue to take its products due to their quality and business case, with price being of less concern to them.	No change in the year.

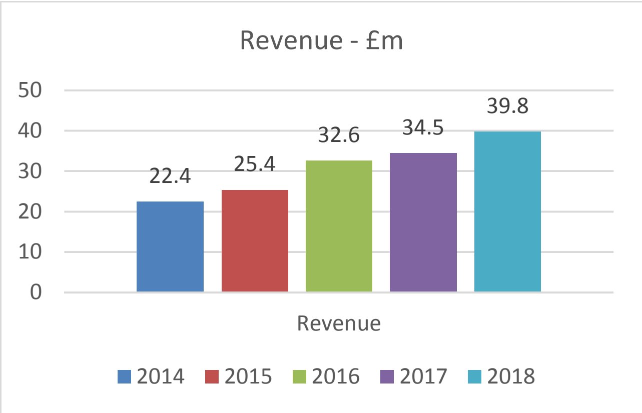
Risk Management continued

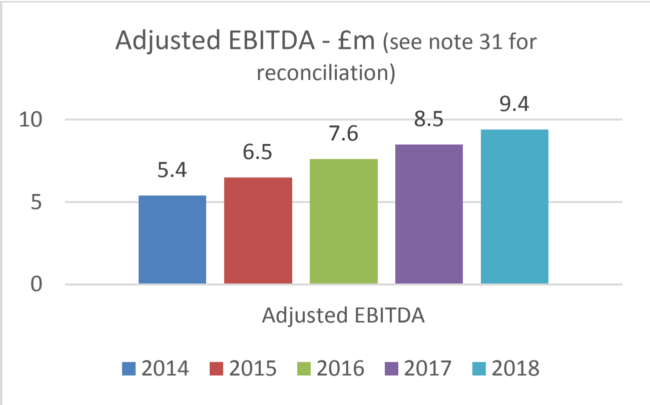
Description/Potential impact:	Area of Group impacted:	Mitigation:	Change in the year:
Health & Safety			
The Group has a large number of employees operating at a variety of sites around the country.	1. Traffic & Data Services 2. Rail Technology & Services	The Group employs a dedicated Health & Safety team for its Traffic & Data Services division, and where necessary elsewhere engages the services of a specialist Health & Safety Advisor. Business unit heads report on Health & safety matters to the Board at every board meeting. Across the Group, there are a number of policies, procedures and method statements to provide mitigation against health & safety risk.	No change in the year.
Brand reputation			
Any adverse publicity concerning the Group, or any of its subsidiary businesses may have an impact on future trading prospects if the Group's brand is adversely affected as a result of this.	All parts of the Group	The Board maintains regular dialogue with Operational staff and Heads of Department and so is made aware of any issues so that corrective action can be taken if necessary.	No change in the year.
Impact of EU Referendum			
The decision to leave the European Union may have a potential impact on the macroeconomic conditions in the UK, from which the Group derives the majority of its revenue and profit, which may impact on the Group's customers, in particular those revenues derived from the public sector should this lead to any reduction in government spending. The Group has customers in Ireland and Sweden.	All parts of the Group	Tracsis continues to operate within specific niche verticals of the traffic data and transport markets. The Group believes that its market offering and the sectors in which it operates provides it with good resilience to external influences although remains vigilant of these influences.	Increased in the year as the date for leaving the European Union gets closer.

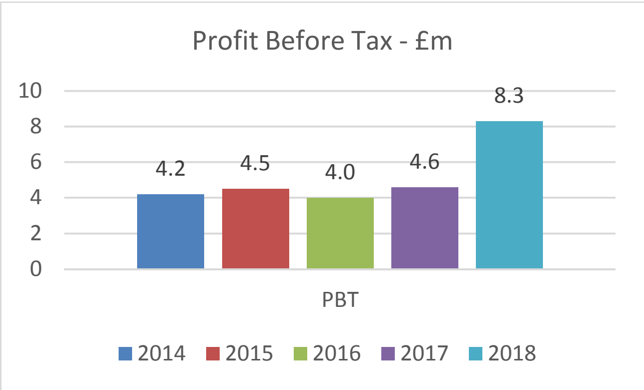
Strategic Report

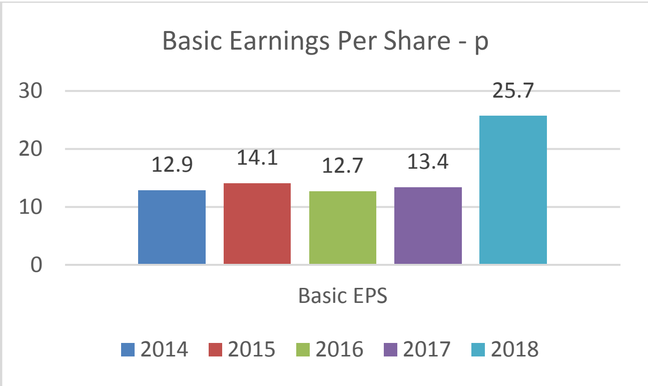
Key Performance Indicators

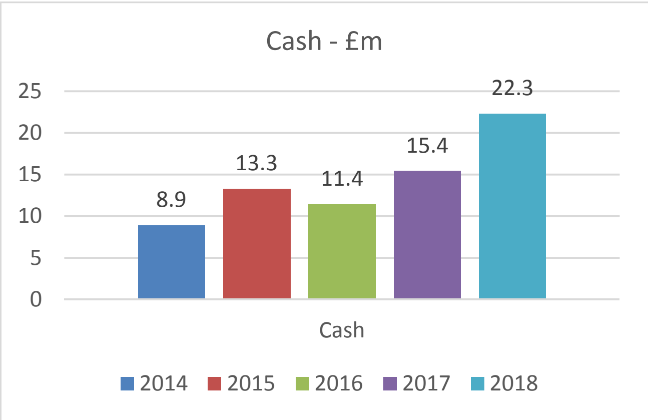
1. The Group's main Key Performance Indicators (KPIs) assessed at Group Level are as follows:
    a. Sales Revenue and various Profit metrics versus budget, forecast and prior year
    b. Sales prospects and forecasts versus budget and prior year
    c. Cash balances, debtors and working capital requirements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











Governance

Board of Directors

Executive Directors

John McArthur (43) Chief Executive Officer

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

Max Cawthra (40) Chief Financial Officer

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

Non-Executive Directors

Current:

Chris Cole (72) Independent Non-Executive Chairman

Chris is Non-Executive Chairman of WSP Global Inc. (listed on the Toronto Stock Exchange), the successor to WSP Group plc, and Non-Executive Chairman of Redcentric plc. Up until September 2018, he was also Non-Executive Chairman of Ashtead Group plc. Chris brings significant general business and public market experience to the Board from his current and previous roles.

Member of Audit Committee, Remuneration Committee and Nominations Committee.

Lisa Charles-Jones (47) Independent Non-Executive Director

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

Member of Audit Committee, Remuneration Committee and Nominations Committee.

Liz Richards (60) Independent Non-Executive Director

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

Member of Audit Committee, Remuneration Committee and Nominations Committee.

Mac Andrade (42) Independent Non-Executive Director (appointed 1 November 2018)

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

Member of Audit Committee, Remuneration Committee and Nominations Committee.

Other Directors serving in the year:

John Nelson (71) Independent Non-Executive Director

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

Governance

Directors' Report

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

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

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

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

The Group financial statements were authorised for issue by the Board of Directors on 8 November 2018.

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

Financial results

Details of the Group's financial results are set out in the Consolidated Statement of Comprehensive Income, other primary statements and in the Notes to the Consolidated Financial Statements on pages 29 to 67.

Dividends

The Directors have adopted a progressive dividend policy, subject to growth, profitability and cash position in the future. An interim dividend of 0.7p per share was paid in April 2018. The Directors propose a final dividend of 0.9p per share, subject to shareholder approval at the forthcoming Annual General Meeting. This will give a full year dividend of 1.6p per share (2017: 1.4p).

Directors

The directors who serve on the Board and on Board Committees during the year are set out on page 14. John Nelson resigned as a Director on 1 November 2018 and Mac Andrade was appointed as a Director on 1 November 2018.

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

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

Directors' shareholdings

Directors' beneficial interests in the shares of the Company, including family interests, at 31 July 2018 and 2017 were as follows:

	31 July 2018		**31 July 2017**	
	Number of shares	% of issued share capital	Number of shares	% of issued share capital
John McArthur	957,783	3.38%	1,062,783	3.80%
Max Cawthra	168,022	0.59%	188,022	0.67%
John Nelson (resigned 1 Nov 18)	125,824	0.44%	100,824	0.36%
Chris Cole	7,000	0.02%	7,000	0.02%
Lisa Charles-Jones	-	-	-	-
Liz Richards	-	-	-	-
Mac Andrade (appointed 1 Nov 18)	-	-	-	-

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

Directors' Report continued

Substantial shareholdings

At 7 November 2018, being the latest practicable date prior to the publication of this document, the Company has been advised of the following shareholdings of 3% or more in the issued share capital of Tracsis plc:

	Number of shares	% of issued shares
Liontrust Asset Management	3,050,909	10.7%
AXA Framlington	2,017,035	7.1%
Unicorn Asset Management	1,975,545	7.0%
Ennismore Fund Management	1,905,616	6.7%
Schroder Investment Management	1,573,684	5.5%
Downing LLP	1,318,304	4.6%
Investec Asset Management	1,113,846	3.9%
Tellworth Investments	1,014,526	3.6%
NFU Mutual	991,700	3.5%
John McArthur	957,783	3.4%

Payment of suppliers

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

Trade payable days for the Group at 31 July 2018 were 46 days (2017: 54 days).

Research and development

During the year the Group incurred £1,942,000 (2017: £1,214,000) of expenditure on research activity, which has been charged to the Income Statement.

Financial instruments

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

Employment policy

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

Environment

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

Significant Contracts

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

Directors' Report continued

Charitable donations

The Group made charitable donations to various charities amounting to £nil during the year (2017: £5,029). No political donations were made.

Auditor

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

Provision of information to auditor

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

Third party indemnity provisions

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

By order of the Board

Max Cawthra
Company Secretary

8 November 2018

Leeds Innovation Centre
103 Clarendon Road
Leeds
LS2 9DF

Governance

Directors' Remuneration Report

Unaudited information:

Tracsis plc, presents its remuneration report below.

Remuneration committee

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

Service contracts

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

	Date of contract	Commencement date	Unexpired term	Notice period
Executive Directors				
John McArthur	21.11.07	01.01.04	Indefinite	6 months
Max Cawthra	20.09.10	20.09.10	Indefinite	3 months
Non-Executive Directors				
John Nelson (resigned 1 Nov 18)	21.11.07	21.11.07	Indefinite	3 months
Chris Cole	28.04.14	28.04.14	Indefinite	3 months
Lisa Charles-Jones	25.08.16	25.08.16	Indefinite	3 months
Liz Richards	01.09.16	01.09.16	Indefinite	3 months
Mac Andrade (appointed 1 Nov 18)	01.11.18	01.11.18	Indefinite	3 months

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

Remuneration policy

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

Basic salary and bonus arrangements

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

External appointments

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

Directors' Remuneration Report continued

Pensions and benefits in kind

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

Directors' remuneration

Directors' remuneration for the year ended 31 July 2018 is set out below

	Basic salary £000	**Pension Conts £'000**	**Bonus £000**	**Benefits in kind £000**	**Total 2018 £000**	Total 2017 £000
Executive Directors						
John McArthur	196	40	140	-	**376**	231
Max Cawthra	148	7	90	-	**245**	151
	344	47	230	-	**621**	382
Non-Executive Directors						
John Nelson (resigned 1 Nov 18)	23	-	-	-	**23**	23
Chris Cole	50	-	-	-	**50**	50
Lisa Charles-Jones	28	-	-	-	**28**	25
Liz Richards	28	-	-	-	**28**	25
Charles Winward (resigned 17 Nov 16)	-	-	-	-	**-**	8
Mac Andrade (appointed 1 Nov 18)	-	-	-	-	**-**	-
	129	-	-	-	**129**	131

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

	At 1 August 2017	**Granted (Note b)**	**Lapsed (Note a)**	**Exercised**	**At 31 July 2018**	**Exercise price pence**	**Date from Which Exercisable**	**Expiry date**
Executive Directors								
John McArthur	81,227	44,342	(10,627)	-	114,942	0.4p	See note a/b	15 Dec 2025 / 6 Jan 2027 / 28 Feb 2028
Max Cawthra	54,152	-	(7,085)	-	47,067	0.4p	See note a/b	15 Dec 2025 / 6 Jan 2027
Non-Executive Directors								
John Nelson	25,000	-	-	(25,000)	-	-	-	-
Chris Cole	-	-	-	-	-	-	-	-
Lisa Charles-Jones	-	-	-	-	-	-	-	-
Liz Richards	-	-	-	-	-	-	-	-
Mac Andrade	-	-	-	-	-	-	-	-

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

Directors’ Remuneration Report continued

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

Note a

Original conditions:
'2015 LTIP'

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

For the year ended 31 July 2018, EPS (excluding the contingent consideration credit was 15.75p, which meant that part of the performance criteria that were linked to EPS were met, and TSR was between the median and upper quartile meaning that a part of the performance criteria that were linked to TSR were met. These items combined led to options vesting for John McArthur of 27,555 share options, with 10,627 lapsing, and options vesting for Max Cawthra of 18,370 options, with 7,085 lapsing. The options that have vested can be exercised from 15 December 2018 onwards, being three years from the grant date.

Note b

‘2016 LTIP’

- John McArthur granted maximum of 43,045 options, Max Cawthra granted a maximum of 28,697 options
- Full award is only payable should statutory diluted EPS for the year ending 31 July 2019 be 17.38p, and TSR versus the peer group is in the top quartile
- Should statutory diluted EPS for the year ending 31 July 2019 be less than 14.38p, and TSR versus the peer group is less than the median, no options will be awarded
- For scenarios between the above range, the options will be exercisable on a sliding scale basis in both instances
- Any options vesting will be able to be exercised from 6 January 2020 onwards, being three years from the grant date

‘2017 LTIP’

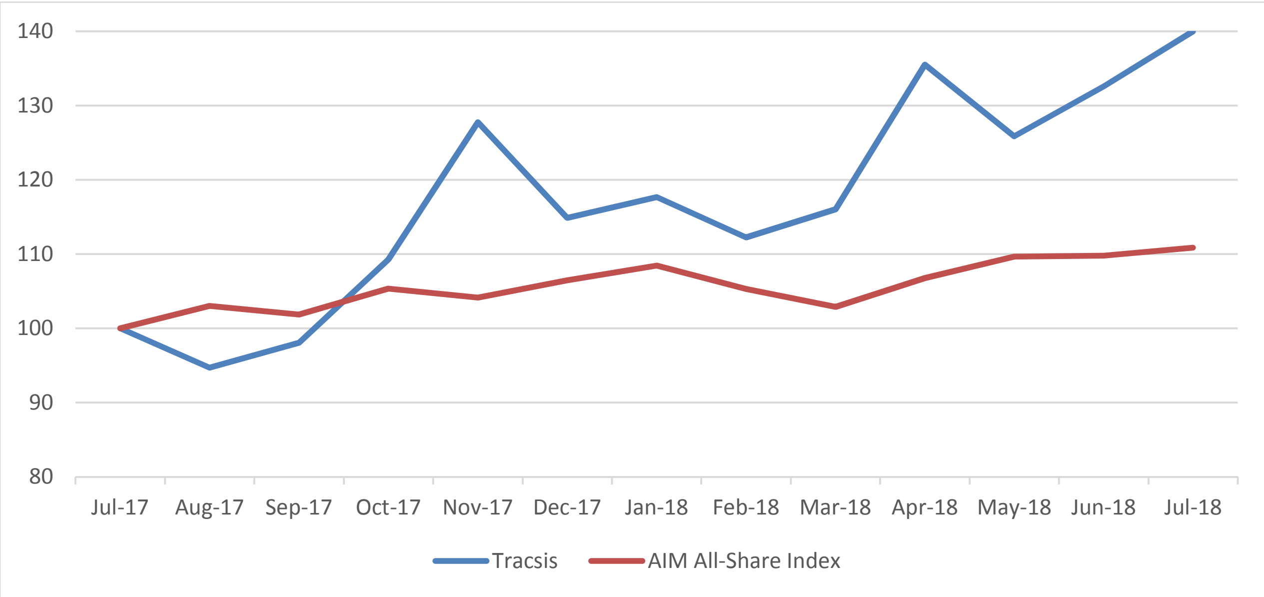
- John McArthur granted maximum of 44,342 options
- Full award is only payable should statutory diluted EPS for the year ending 31 July 2020 be 16.87p, and TSR versus the peer group is in the top quartile
- Should statutory diluted EPS for the year ending 31 July 2020 be less than 13.87p, and TSR versus the peer group is less than the median, no options will be awarded
- For scenarios between the above range, the options will be exercisable on a sliding scale basis in both instances
- Any options vesting will be able to be exercised from 28 February 2021 being three years from the grant date

The aggregate amount of pre-tax gains made by directors on the exercise of share options was £100,000 (2017: £nil). This is based on John Nelson’s exercise referred to above, where 25,000 options were exercised with a price of £1.75 per share and a market value at the time of exercise of £5.75 per share. No shares were disposed of. No directors received or were due to receive any shares under long term incentive schemes other than under the share options schemes set out above.

Directors' Remuneration Report continued

Performance graph

The following graph shows the Company's share price (rebased) compared with the performance of the FTSE AIM all-share index (rebased) for the period from 1 August 2017 to 31 July 2018.



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

On behalf of the Board

Lisa Charles-Jones
Chair of the Remuneration Committee
8 November 2018

Governance

Corporate Governance

Tracsis plc was listed on AIM on 27 November 2007. The Group recognises the importance of, and is committed to, high standards of corporate governance. Tracsis plc, as an AIM Company, adopts the Quoted Company Alliance's Corporate Governance Code for Small and Mid-Size Quoted Companies 2013 (updated April 2018) (the "QCA Code") which supports the Group's long term success and strategy for growth.

The Board

There are currently 6 Board members, comprising two Executive Directors and four Non-Executive Directors. The role of the Non-Executive Directors is to bring independent judgement to Board deliberations and decisions. Chris Cole was appointed as a Non-Executive Chairman of the Board in 2014 to oversee Board meetings and field all concerns regarding the executive management of the Group and the performance of the Executive Directors. A biography of each Director appears on page 14. The Directors each have diverse backgrounds and a wide range of experience is available to the Group. The Board meets on a monthly basis to review the Group's performance and to review and determine strategies for future growth. The Board has delegated specific responsibilities to its committees as set out below.

Each of the Directors is subject to either an executive services agreement or a letter of appointment as set out on page 18. Tracsis plc's Articles of Association require directors to retire from office and submit themselves for re-election on a one third rotation at each Annual General Meeting. Liz Richards and Lisa Charles-Jones will be retiring at the Annual General Meeting and submitting themselves for re-election.

Board meetings and attendance

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

	Board Meetings (total/poss)	Nomination Committee Meetings	Remuneration Committee Meetings	Audit Committee Meetings
John McArthur	10/10	-	-	-
Max Cawthra	10/10	-	-	-
John Nelson	10/10	-	2/2	2/2
Chris Cole	10/10	-	2/2	2/2
Lisa Charles-Jones	9/10	-	2/2	2/2
Liz Richards	10/10	-	2/2	2/2

Board committees

Nomination Committee

The Nomination Committee comprises Chris Cole as Chairman, Mac Andrade (from 1 Nov 18), John Nelson (to 1 Nov 18), Lisa Charles-Jones and Liz Richards. The committee's primary responsibilities are to make recommendations to the Directors on all new appointments of Directors and senior management, interviewing nominees, to take up references and to consider related matters.

Remuneration Committee

The Remuneration Committee comprises Lisa Charles-Jones as Chairperson, Mac Andrade (from 1 Nov 18), John Nelson (to 1 Nov 18), Liz Richards and Chris Cole as attendee. The committee's primary responsibilities are to review the performance of the Executive Directors and to determine the terms and conditions of service of senior management and any Executive Director appointed to the Board (including the remuneration of and grant of options to any such person under any share scheme adopted by the Group).

Corporate Governance continued

Audit Committee

The Audit Committee similarly comprises Liz Richards as Chairperson, Mac Andrade (from 1 Nov 18), John Nelson (to 1 Nov 18), Lisa Charles-Jones and Chris Cole as attendee. The audit committee's primary responsibilities are to monitor the financial affairs of the Group, to ensure that the financial performance of the Group is properly measured and reported on, and to review reports from the Group's auditor relating to the accounting and internal controls. The significant issues considered by the Audit Committee relating to the Group's financial statements include Revenue recognition, Intangible Assets, and Contingent Consideration, as detailed in note 4 to the financial statements.

Non audit services

In accordance with its policy on non audit services provided by the Group's auditor, the Audit Committee reviews and approves the award of any such work. The Audit Committee refers to the Board for approval of any work comprising non audit services where the fees for such work represent more than 25% of the annual audit fee. During the year, KPMG LLP did not provide any non audit services (2017: nil).

Auditor independence and conflicts of interest

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

Internal audit

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

Control procedures

The Board approves the annual budget each year. This process allows the Board to identify key performance targets and risks expected during the upcoming year. The Board also considers the agreed budget when reviewing trading updates and considering expenditures throughout the year. Progress against budget is monitored via monthly reporting of actual financial performance against budget and prior year actual results. The Group has clear authority limits deriving from the list of matters reserved for decision by the Board including capital expenditure approval procedures.

Relations with shareholders

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

Going concern

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

Independence of Non-Executive Directors

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

Board evaluation process

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

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

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and Parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report

to the members of Tracsis plc

1. Our opinion is unmodified

We have audited the financial statements of Tracsis plc ("the Company") for the year ended 31 July 2018 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheet, the Consolidated and Company Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes, including the accounting policies in note 3.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 July 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;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework;* and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Materiality: Group financial statements as a whole	£260k (2017: £225k) 4.8% (2017: 4.9%) of Group profit before tax and contingent consideration credit
Coverage	94% (2017:99%) of Group profit before tax

Risks of material misstatement vs 2017		
Event driven	**New:** Business combinations accounting including valuation of acquired intangible assets and contingent consideration	
Recurring risks	Revenue recognition – software contracts	◄►

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

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows including Acquisition accounting as a new risk for 2018.

	The risk	Our response
Business combinations accounting including valuation of acquired intangible assets and contingent consideration Acquired Intangible assets £2,916k Contingent consideration payable £1,200k *Refer to page 36 (accounting policy) and page 42 (financial disclosures)*	**Subjective Valuation:** The Group has acquired Delay Repay Sniper Limited (DRS) and Travel Compensation Services Limited (TCS). The exercise to recognise intangible assets acquired at fair value involves a significant degree of judgement on the inputs used to value the intangibles, (such as useful economic life of assets and discount rate) and is a material estimate. The valuation of contingent consideration recognised at fair value involves a significant degree of judgement and is a material estimate.	Our procedures included: — **Accounting analysis:** We assessed the judgements taken around fair value adjustments having regard to relevant accounting standards. — Considering the separately identified intangible assets acquired through gaining an understanding of the business' acquired and applying our professional experience and judgement; — **Benchmarking assumptions:** challenging the basis for the key assumptions used in the valuation such as discount rate and growth rates applied in the valuation of acquired intangibles having regard to internal and external data; and — Challenging the basis for key assumptions used in the valuation of contingent consideration such as forecast future performance and probability weightings. — **Assessing transparency:** considering the adequacy of the Groups disclosures in respect of business combinations accounting and contingent consideration payable.
Revenue Recognition – Software Contracts **(Group and Parent)** Software revenue (Group) £14,010k, (2017: £11,711k) Deferred income (Group) £3,740k (2017: £4,086k) Software revenue (parent company) £3,500k (2017: £2,333k) Deferred Income (parent company) £423k (2017: £407k) *Refer to page 35 (accounting policy), page 44 and page74 (financial disclosures).*	**Complex Accounting Treatment** Software contracts are a key revenue stream for the Group. These contracts often contain multiple components resulting in complex revenue, and ultimately profit, recognition considerations. Given the complexity there is a risk of error on the amount of revenue recognised or deferred on those contracts at year end.	Our procedures included: — **Accounting analysis:** We critically assessed the Group's accounting policies in relation to revenue recognition with reference to the accounting standards; — **Test of Detail:** We agreed a sample of sales to customer orders and sales invoices to determine whether the contractual terms such as timing and value had been taken into account in calculating revenue. — **Expectation vs. Outcome:** We performed a recalculation over a sample of deferred income at the year end to determine, based on our understanding of the transaction price and value of the deliverable if the correct deferred income amount had been recognised by reference to the contractual terms.

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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 £260k (2017: £225k), determined with reference to a benchmark of Group profit before tax normalised to exclude this years contingent credit of £2,653k as disclosed in note 9.3. (of which it represents 4.6% (2017: 4.9%of profit before tax).

Materiality for the parent company financial statements as a whole was set at £180.7k (2017: £184k), determined with reference to a benchmark of Company profit before tax normalised to exclude this years contingent consideration credit of £2,653k as disclosed in note 9.3, of which it represents 4.9% (2017: 4.7% of company profit before tax).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £13k, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 13 (2017: 11) reporting components, we subjected 11 (2017: 9) to full scope audits for Group purposes. For the residual 2 components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

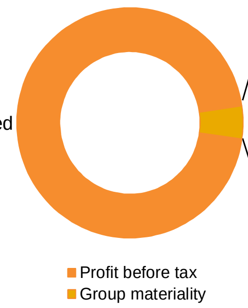
The components within the scope of our work accounted for the percentages illustrated opposite.

The work on all 13 (2017: 11) components was performed by the Group team.

The Group team performed procedures on the items excluded from normalised group profit before tax

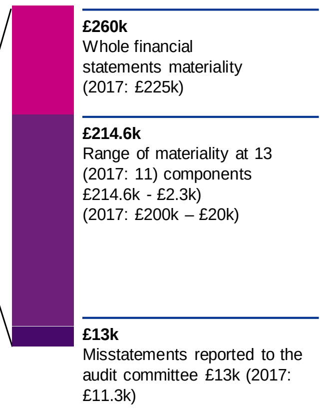
Profit before tax and contingent consideration credit

£5,622k (2017 profit before tax: £4,616k)

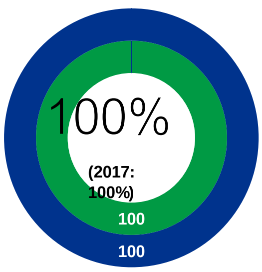


Group Materiality

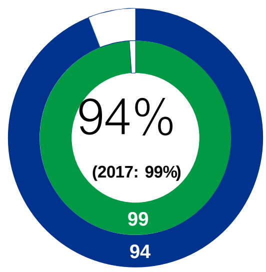
£260k (2017: £225k)



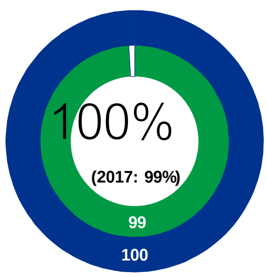
Group revenue

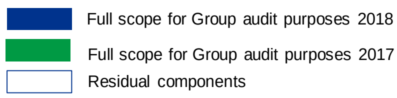


Group profit before tax



Group total assets





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

Auditor's responsibilities

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

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

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

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

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

8 November 2018

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Financial Statements

Consolidated Statement of Comprehensive Income

for the year ended 31 July 2018

		2018			2017
		Continuing operations	Acquisitions	**Total**	
	Notes	£000	£000	**£000**	£000
Revenue	6	39,370	464	**39,834**	34,486
Cost of sales		(16,623)	-	**(16,623)**	(15,279)
Gross profit		22,747	464	**23,211**	19,207
Administrative costs		(14,211)	(516)	**(14,727)**	(14,491)
Adjusted EBITDA*	6	9,311	114	**9,425**	8,494
Depreciation	14	(758)	(2)	**(760)**	(799)
**Adjusted profit ** **		8,553	112	**8,665**	7,695
Amortisation of intangible assets	15	(1,674)	(100)	**(1,774)**	(1,674)
Other operating income	9.4	197	17	**214**	134
Share-based payment charges	8	(1,193)	-	**(1,193)**	(1,300)
Operating profit / (loss) before exceptional items		5,883	29	**5,912**	4,855
Exceptional items	9.3	2,653	(81)	**2,572**	(139)
Operating profit / (loss)	9	8,536	(52)	**8,484**	4,716
Finance income	10	19	-	**19**	15
Finance expense	11	(27)	-	**(27)**	(38)
Share of result of equity accounted investees	16	(201)	-	**(201)**	(77)
Profit / (loss) before tax		8,327	(52)	**8,275**	4,616
Taxation	12	(1,004)	(25)	**(1,029)**	(901)
Profit / (loss) after tax and total comprehensive income		7,323	(77)	**7,246**	3,715
Earnings per ordinary share					
Basic	13	25.97p	(0.27p)	**25.70p**	13.36p
Diluted	13	25.11p	(0.26p)	**24.85p**	12.93p

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

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

Financial Statements

Consolidated Balance Sheet as at 31 July 2018 Company number: 05019106

	Note	**2018** £000	2017 £000
Non-current assets			
Property, plant and equipment	14	**2,181**	2,461
Intangible assets	15	**26,223**	24,458
Investments – equity	16	**250**	675
Loans due from associated undertakings	16	**250**	187
Investments in equity accounted investees	16	**972**	111
Deferred tax assets	22	**602**	457
		30,478	28,349
Current assets			
Inventories	17	**253**	239
Trade and other receivables	19	**7,329**	8,480
Cash and cash equivalents		**22,329**	15,350
		29,911	24,069
Total assets		**60,389**	52,418
Non-current liabilities			
Hire-purchase contracts	18	**121**	230
Contingent consideration payable	21	**1,100**	-
Deferred tax liabilities	22	**3,875**	3,718
		5,096	3,948
Current liabilities			
Hire-purchase contracts	18	**157**	320
Trade and other payables	20	**10,316**	8,842
Contingent consideration payable	21	**2,165**	5,041
Current tax liabilities		**546**	620
		13,184	14,823
Total liabilities		**18,280**	18,771
Net assets		**42,109**	33,647
Equity attributable to equity holders of the company			
Called up share capital	23	**113**	112
Share premium reserve	24	**6,243**	5,948
Merger reserve	24	**3,160**	3,010
Retained earnings	24	**32,593**	24,577
Total equity		**42,109**	33,647

The financial statements on pages 29 to 67 were approved and authorised for issue by the Board of Directors on 8 November 2018 and were signed on its behalf by:

John McArthur – Chief Executive Officer

Max Cawthra – Chief Financial Officer

The accompanying notes form an integral part of these financial statements

Financial Statements

Consolidated Statement of Changes in Equity

	Share Capital £'000	Share Premium £'000	Merger reserve £'000	Retained Earnings £'000	Total £'000
At 1 August 2016	110	5,622	3,010	19,924	28,666
Profit for the year	-	-	-	3,715	3,715
Total comprehensive income	-	-	-	3,715	3,715
Transactions with owners:					
Dividends	-	-	-	(362)	(362)
Share based payment charges	-	-	-	1,300	1,300
Exercise of share options	2	326	-	-	328
At 31 July 2017	**112**	**5,948**	**3,010**	**24,577**	**33,647**
At 1 August 2017	112	5,948	3,010	24,577	33,647
Profit for the year	-	-	-	7,246	7,246
Total comprehensive income	-	-	-	7,246	7,246
Transactions with owners:					
Dividends	-	-	-	(423)	(423)
Share based payment charges	-	-	-	1,193	1,193
Exercise of share options	1	295	-	-	296
Shares issued as consideration for business combinations	-	-	150	-	150
At 31 July 2018	**113**	**6,243**	**3,160**	**32,593**	**42,109**

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

Financial Statements

Consolidated Cash Flow Statement for the year ended 31 July 2018

	Notes	2018 £000	2017 £000
Operating activities			
Profit for the year		**7,246**	3,715
Finance income	10	**(19)**	(15)
Finance expense	11	**27**	38
Depreciation	14	**760**	799
Loss on disposal of plant and equipment		**17**	12
Non cash exceptional items	9.3	**(2,653)**	139
Other operating income	9.4	**(214)**	(134)
Amortisation of intangible assets	15	**1,774**	1,674
Share of result of equity accounted investees	16	**201**	77
Income tax charge	12	**1,029**	901
Share based payment charges	8	**1,193**	1,300
Operating cash inflow before changes in working capital		**9,361**	8,506
Movement in inventories		**(14)**	32
Movement in trade and other receivables		**1,259**	(2,314)
Movement in trade and other payables		**1,411**	488
Cash generated from operations		**12,017**	6,712
Interest received	10	**19**	15
Interest paid	11	**(27)**	(38)
Income tax paid		**(1,407)**	(664)
Net cash flow from operating activities		**10,602**	6,025
Investing activities			
Purchase of plant and equipment	14	**(509)**	(558)
Proceeds from disposal of plant and equipment		**53**	56
Acquisition of subsidiaries (net of cash acquired)	5	**(1,714)**	-
Equity investments and loans to investments	5	**(700)**	(550)
Repayment of loans from investments	16	**-**	111
Receipt of deferred consideration		**-**	300
Payment of contingent consideration	21	**(323)**	(1,109)
Net cash flow used in investing activities		**(3,193)**	(1,750)
Financing activities			
Dividends paid	30	**(423)**	(362)
Proceeds from exercise of share options		**296**	328
Hire purchase repayments	18	**(303)**	(276)
Net cash flow used in from financing activities		**(430)**	(310)
Net increase in cash and cash equivalents		**6,979**	3,965
Cash and cash equivalents at the beginning of the year		**15,350**	11,385
Cash and cash equivalents at the end of the year		**22,329**	15,350

The accompanying notes form an integral part of these financial statements

Financial Statements

Notes to the Consolidated Financial Statements

1 Reporting entity

Tracsis plc (the 'Company') is a company incorporated in the United Kingdom. The consolidated financial statements of the Company for the year ended 31 July 2018 comprise the Company and its subsidiaries (together referred to as the 'Group').

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The Accounts have been prepared under the historical cost convention.

(c) Presentation currency

These consolidated financial statements are presented in sterling. All financial information presented in sterling has been rounded to the nearest thousand.

(d) Use of estimates and judgements

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

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

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

(e) Accounting developments

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting period beginning on or after 1 August 2017. The following new standards and amendments to standards are mandatory and have been adopted for the first time for the financial year beginning 1 August 2017:

- Disclosure Initiative (Amendments to IAS 7)
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
- Annual Improvements to IFRSs 2014-2016 Cycle (Amendments to IFRS 12)

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

The following new or revised standards and interpretations issued by the International Accounting Standards Board (IASB) have not been applied in preparing these accounts as their effective dates fall in periods beginning on or after 1 August 2018.

Notes to the Consolidated Financial Statements continued

2 Basis of preparation (continued)

Effective for the year ending 31 July 2019

- IFRS 2 'Share-based payment' – amendments clarifying how to account for certain types of share-based payment transactions
- IFRS 9 'Financial instruments' – introduces new requirements for classification and measurement of financial assets and financial liabilities, impairment methodology and hedge accounting.
- IFRS 15 'Revenue from contracts with customers' – provides a single model for measuring and recognising revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17. It supersedes all existing revenue requirements in IFRS.
- Annual Improvements to IFRSs 2014-2016 Cycle (Amendments to IFRS 1 and IAS 28)

Effective for the year ending 31 July 2020

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

IFRS 15 "Revenue from Contracts with Customers"

The Group is required to adopt IFRS 15 "Revenue from Contracts with Customers" from 1 August 2018. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts".

The principles in IFRS 15 must be applied using the following five step model:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies its performance obligations

Revenue is recognised either when the performance obligation in the contract has been performed (so "point in time" recognition) or "over time" as control of the performance obligation is transferred to the customer. The Group is continuing to assess the estimated impact that the initial application of IFRS 15 will have on its consolidated financial statements. The estimated impact of the adoption of this standard on the Group is based on initial assessments undertaken to date and is summarised below. The actual impact of adopting the standard at 1 August 2018 may change as whilst the Group has made an assessment of all the significant income streams, it has not finalised the assessment of all income streams and controls over its new reporting approach. An initial assessment of the impact of IFRS 15 is summarised as follows:

Rail Technology & Services

There are a number of revenue streams within this division. The Group has a number of different arrangements in respect of software and other related services such as hosting, support and maintenance. The revenue recognition in respect of perpetual licence sales, and also bespoke development work under IFRS 15 is expected to be the same as current accounting. Software licences which involve hosting are currently generally spread over the term of the licence on a straight line basis and this is expected to continue under IFRS 15. Software licences which do not involve hosting, but moreover access to the Software are divided into licence fees and support, both of which have different accounting treatments and are expected to continue under IFRS 15. Revenue in respect of contracts which involve purely hosting, or support and maintenance is spread on a straight line basis is over the term of the Agreement, which again is expected to continue under IFRS 15. In respect of remote condition monitoring, revenue is recognised once the units are despatched to the Customer and under IFRS 15, this is not expected to change under IFRS 15. For consultancy services, revenue is recognised when the services are performed and this is not expected to change under IFRS 15.

Traffic & Data Services

In respect of traffic data collection and passenger counting, the Group currently recognises revenue based on the stage of completion, with 'Amounts Recoverable on Contract' (accrued income based on the stage of completion of certain projects – as detailed in note 19) being recognised. Under IFRS 15, this will no longer be recognised but will be replaced by a 'Contract Asset' representing the costs incurred in respect of the partially completed projects at the end of a reporting period, which will have the effect of deferring any profit to be recognised on partially completed projects. In respect of event planning, parking and traffic management, revenue is recognised when the event takes place and the service provided, and no changes are expected to take place to this revenue recognition under IFRS 15.

Notes to the Consolidated Financial Statements continued

2 Basis of preparation (continued)

IFRS 16 "Leases"

IFRS 16 "Leases" will first be effective for the Group during the year ending 30 July 2020. It will bring most leases on to the balance sheet for lessees, eliminating the distinction between operating leases and finance leases. The Group has a number of operating lease arrangements and it is considered that the broad impact of IFRS 16 will be to recognise a right-of-use asset and a corresponding lease liability for the lease commitments which are detailed in note 25. In addition, rentals on operating leases currently charged to the statement of comprehensive income will be replaced by a depreciation charge on the asset and an interest expense on the lease liability. Details of operating lease rental charges are outlined in note 9.

IFRS 9 'Financial Instruments' is not expected to have a material impact on the Group's financial statements.

(f) Going concern

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

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

3 Significant accounting policies

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

(a) Basis of consolidation

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

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. The accounting policies of subsidiary companies have been changed where necessary to align them with the policies adopted by the Group. The Group entities included in these consolidated financial statements are those listed in note 29. All intra-group balance and transactions, including unrealised profits arising from intra-group transactions, are eliminated fully on consolidation.

(b) Revenue recognition

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

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

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

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

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies (continued)

Revenue recognition (continued)

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

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

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

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

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

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

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

(c) Property, plant and equipment

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

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

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

(d) Intangible assets

Goodwill

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

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

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies (continued)

Goodwill (continued)

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

Business Combinations

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

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

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

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

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

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

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

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

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

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

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

(e) Impairment of non-current assets

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

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies (continued)

(f) Research and Development Costs

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

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

Capitalised development costs would be amortised over the periods the Group expected to benefit from selling the products developed. At present, the Group has not considered that its development expenditure meets the criteria for capitalisation. Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the income statement as incurred.

(g) Financial instruments

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

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

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

(i) Cash and cash equivalents

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

(ii) Trade receivables

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

(iii) Trade payables

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

(iv) Equity instruments

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

(h) Taxation

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

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

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying value in the financial statements. The principal temporary differences arise from depreciation on plant and equipment and share options granted by the Group to employees and directors. Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Where the deferred tax asset recognised in respect of share-based payments would give rise to a credit in excess of the related accounting charge at the prevailing tax rate the excess is recognised directly in equity. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(i) Dividend distribution

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

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies (continued)

(j) Leases

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

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

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

(k) Employee benefits

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

(l) Share based payments

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

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

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

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

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

(m) Retirement benefits

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

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies (continued)

(n) Exceptional items

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

(o) Finance income

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

(p) Cash and cash equivalents

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

(q) Operating segments

The Group has divided its results into two segments being 'Rail Technology and Services' and 'Traffic & Data Services'. The level of disclosure of segmental and other information is determined by such assessment. Further details of the considerations made and the resulting disclosures are provided in note 6 to the financial statements.

(r) Inventories

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

(s) Foreign currencies

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

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

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

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

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

(t) Translation of financial statements of foreign entities

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

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

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies (continued)

(u) Investments

Investments are carried at fair value.

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

(v) Equity accounted investees

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

4 Critical Accounting Estimates and Judgements

The Group's accounting policies are set out in Note 3. The Directors consider that the key judgements and estimates made in the preparation of the consolidated financial statements are:

<u>Estimates</u>

Revenue recognition

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

Intangible fixed assets

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

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

Contingent consideration

Within the share purchase agreements for the acquisitions of Travel Compensation Services Limited and Delay Repay Sniper Limited, are various provisions relating to the payment of contingent consideration which are linked to financial performance post acquisition. Included within the balance sheet is an amount of £1.2m, which is management's best estimates of the fair value of the amount payable.

<u>Judgements</u>

There were no significant judgements applied in the preparation of the consolidated financial statements.

Notes to the Consolidated Financial Statements continued

5 Acquisitions and investments in the current year

a) Acquisition: S Dalby Consulting Limited, Travel Compensation Services Limited and Delay Repay Sniper Limited

On 1 February 2018, the Group acquired the entire issued share capital of Travel Compensation Services Limited ('TCS'), Delay Repay Sniper Limited ('DRS') and S Dalby Consulting Limited (the holding company of TCS). All three companies were subject to one Share Purchase Agreement. The Directors believe that the areas in which TCS and DRS operate are likely to be opportunities for growth in the future and believe that the Group should have a product offering to take advantage of such growth.

TCS is a software provider of enterprise delay repay solutions to the UK Rail Industry. The business has developed technology that allows train operators to automatically process large volumes of consumer claims arising from rail delays and in doing so lower the transactional costs involved whilst speeding up response times and helping eliminate fraud.

DRS is a consumer facing web portal (www.delayrepaysniper.com) that enables rail passengers to quickly and easily submit valid claims under the delay repay scheme to rail operators. The business operates a subscription service model and is relevant to regular rail travellers and commuters who are often delayed many times per month and wish to forego the time and effort involved in submitting multiple individual claims.

In the year ended 30 September 2017, TCS and DRS generated revenue of £0.7m and a profit before tax of £0.3m. Under the terms of the acquisition there is a three year earn out period during which Tracsis expect both businesses to achieve growth.

The acquisition consideration comprised an initial cash payment of £1.75m, the issue of 28,571 Ordinary Shares in Tracsis at a total value of £0.15m, an additional cash payment in respect of net current assets of £0.2m; and Contingent deferred cash consideration of up to £4.7m, payable annually based on the significant growth in performance of the acquisitions over a three year period.

The contingent consideration could range from £nil to £4.7m depending on the financial performance over the three years since acquisition and the Directors concluded that £1.2m was the fair value of the contingent consideration payable and included this in the balance sheet.

In the period to 31 July 2018 TCS and DRS contributed revenue of £0.5m and pre tax profit of £0.1m to the Group's results, before amortisation of associated intangible assets and exceptional deal costs. If the acquisition had occurred on 1 August 2017, management estimates that the contribution to Group revenue would have been £0.8m and Group pre tax profit for the period of £0.1m. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 August 2017.

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

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

The Group incurred acquisition related costs of £81,000 which are included within administrative expenses.

TCS was subsequently renamed Tracsis Travel Compensation Services Limited.

The acquisition (in respect of both trading companies – which have been amalgamated) had the following effect on the Group's assets and liabilities on the acquisition date:

Notes to the Consolidated Financial Statements continued

5 Acquisitions and investments in the current year (continued)

a) Acquisition: S Dalby Consulting Limited, Travel Compensation Services Limited and Delay Repay Sniper Limited (continued)

	Pre-acquisition carrying amount £000	Fair value adjustments £000	Recognised value on acquisition £000
Intangible assets: Technology assets	-	1,678	1,678
Intangible assets: Customer relationships	-	1,238	1,238
Tangible fixed assets	10	-	10
Cash and cash equivalents	214	-	214
Trade and other receivables	108	-	108
Trade and other payables	(63)	-	(63)
Income tax payable	(32)	-	(32)
Deferred tax liability	(2)	(496)	(498)
Net identified assets and liabilities	235	2,420	2,655
Goodwill on acquisition			623
			3,278
Consideration paid in cash			1,928
Consideration paid: fair value of shares issued			150
Fair value of contingent consideration payable			1,200
Total consideration			3,278

b) Investment: Vivacity Labs Limited

On 3 April 2017, the Group entered into an agreement to acquire up to 28.1% of Vivacity Labs Limited for total consideration of £1.3m, split between equity investments to be made in three tranches of £1.0m, plus a warrant for a further £0.3m. The first tranche of the investment took place during the year ended 31 July 2017 and comprised an investment of £0.425m in return for 11.4%. Tranches two and three were made during the year ending 31 July 2018, and comprised a further investment of £0.575m in return for a further 11.9% to take the total investment to 23.3%, for total consideration of £1.0m. Tracsis holds a further warrant for the remaining 4.8% to take the total potential investment to 28.1%.

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

During the year ended 31 July 2017, the investment was carried at cost as the investment was only 11.4%. In the year ended 31 July 2018, it was accounted for as an associated undertaking given the shareholding of 23.3%. Further details are provided in note 16.

c) Investment: Nutshell Software Limited

On 21 July 2016, the Group entered into an agreement to acquire up to 37.8% of Nutshell Software Limited for total consideration of £0.5m split as £0.25m of equity and £0.25m of debt. The investment was made in three tranches and the first one made in July 2016 comprised a total of £0.25m which was split £0.125m equity and £0.125m of debt in return for 23.3% of the shares in the company, and the second one was made in March 2017 and comprised a total of £0.125m which was split as £0.0625m equity and £0.0625m of debt in return for a further 8.0% of the shares in the company to take the total holding to 31.3%.

During the year ended 31 July 2018, the third investment was made, which comprised a total of £0.125m which was split as £0.0625m equity and £0.0625m of debt in return for a further 6.5% of the shares in the company to take the total holding to 37.8%. The investment is accounted for as an Associated undertaking, and further details are provided in note 16.

Notes to the Consolidated Financial Statements continued

6 Segmental analysis

The Group has divided its results into two segments being 'Rail Technology and Services' and 'Traffic & Data Services'. Travel Compensation Services Limited and Delay Repay Sniper Limited are reported within 'Rail Technology & Services'.

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

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

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

Sales revenue is summarised below

	2018	2017
	£000	£000
Rail Technology & Services	**18,968**	15,964
Traffic & Data Services	**20,866**	18,522
Total revenue	**39,834**	34,486

Revenue can also be analysed as follows:

	2018	2017
	£000	£000
Software and related services	**14,010**	11,711
Other	**25,824**	22,775
Total	**39,834**	34,486

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

Notes to the Consolidated Financial Statements continued

6 Segmental analysis (continued)

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

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

Notes to the Consolidated Financial Statements continued

6 Segmental analysis (continued)

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

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

Major customers

Transactions with the Group's largest customer represent 14% of the Group's total revenues (2017: 16%).

Geographic split of revenue

A geographical analysis of revenue is provided below:

	2018 £000	2017 £000
United Kingdom	**38,388**	33,224
North America	**260**	437
Rest of the World	**1,186**	825
Total	**39,834**	34,486

Notes to the Consolidated Financial Statements continued

7 Employees and personnel costs

	2018	2017
	£000	£000
Staff costs:		
Wages and salaries	**17,240**	15,273
Social security contributions	**1,374**	1,200
Contributions to defined contribution plans	**352**	303
Equity-settled share based payment transactions	**1,193**	1,300
	20,159	18,076
Average number of employees (including directors) in the year	**667**	683

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

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

Total directors' remuneration, including bonus and pension contributions was £750,000 (2017: £513,000). The aggregate remuneration of the highest paid director was £376,000 (2017: £231,000). The highest paid director did not exercise any share options nor did he receive any shares under a long term incentive plan during the year. One director (2017: one) exercised share options during the year. Two directors (2017: two) participate in the long term incentive plan. Two directors (2017: two) receive employer pension contributions into a personal pension scheme. Directors of the Company control 4.4% of the voting shares of the company (2017: 4.9%). Details of other key management personnel are disclosed in note 27.

8 Share based payments

The Group has various share option schemes for its employees.

EMI Share options
Options are exercisable at a price agreed at the date of grant. The vesting period is usually between one and five years. The exercise of options is dependent upon eligible employees meeting performance criteria. The options are settled in equity once exercised. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Discounted EMI Share options
In August 2012, the Group implemented a new EMI share option scheme, resulting in discounted EMI share options being issued to staff instead of cash bonuses, provided certain predetermined performance criteria were met for both the overall group, and the part of the business the employee directly works in. This scheme was made available to all staff. Staff are also able to exchange an element of annual salary in return for share options too. The vesting period is three years. The options are settled in equity once exercised. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Unapproved Share options
In August 2015, the Group implemented a revised share option scheme, resulting in discounted unapproved share options being issued to staff instead of cash bonuses, provided certain predetermined performance criteria were met for both the overall group, and the part of the business the employee directly works in. This scheme was made available to all staff except for Directors. Staff are also able to exchange an element of annual salary in return for share options too. The vesting period is three and a half years. The options are settled in equity once exercised. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Directors' scheme
Directors were not entitled to take part in the 2015, 2016 or 2017 staff schemes and a revised scheme was implemented by the Remuneration Committee. Details of this scheme are provided in the Directors Remuneration Report.

Notes to the Consolidated Financial Statements continued

8 Share based payments (continued)

Details of the schemes are given below:

Grant date	Employees entitled	Number of options	Performance conditions	Exercise price (p)	Earliest exercise date	Expiry date
Staff schemes						
28/01/2009	1	21,000	Time served	52.0	28/07/2009*	28/01/2019
20/05/2010	1	30,000	Time served	51.5	20/01/2011*	20/05/2020
22/09/2011	2	32,351	Time served	63.5	22/03/2012*	22/09/2021
21/11/2011	1	25,000	Time served	57.5	21/05/2012*	21/11/2021
02/08/2012	8	10,089	Time served	0.40	02/08/2013**	02/08/2022
02/08/2012	3	22,683	Time served	123.0	02/02/2013*	02/08/2022
08/01/2013	1	9,000	Time served	159.0	08/07/2013*	08/01/2023
28/01/2013	1	70,000	Time served	155.5	28/07/2013*	28/01/2023
01/08/2013	4	34,501	Time served	162.5	01/02/2014*	01/08/2023
01/08/2013	6	8,523	Time served	0.40	01/08/2014**	01/08/2023
01/01/2014	1	11,250	Time served	199.5	01/07/2014*	01/01/2024
01/01/2014	1	21,178	Time served	0.40	01/01/2015**	01/01/2024
01/08/2014	29	70,268	Time served	0.40	01/08/2015**	01/08/2024
01/08/2015	84	139,138	Time served	0.40	01/08/2016****	01/08/2025
25/09/2015	21	77,269	Time served	0.40	25/09/2016****	25/09/2025
01/12/2015	6	53,188	Time served	0.40	01/12/2016****	01/12/2025
01/08/2016	91	213,515	Time served	0.40	01/08/2017****	01/08/2026
01/08/2017	60	84,128	Time served	0.40	01/08/2018****	01/08/2027
Directors' schemes						
15/12/2015	2	45,925	EPS and TSR	0.40	15/12/2018	15/12/2025
06/01/2017	2	71,742	EPS and TSR	0.40	06/01/2020	06/01/2027
28/02/2018	1	44,342	EPS and TSR	0.40	28/02/2021	28/02/2028
Outstanding		**1,095,090**				

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

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

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

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

Notes to the Consolidated Financial Statements continued

8 Share based payments (continued)

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

	2018 Number	**2018 Weighted Average Exercise Price**	2017 Number	2017 Weighted Average Exercise Price
Outstanding at 1 August	**1,342,730**	**44.0p**	1,556,094	59.0p
Granted	**137,103**	**0.4p**	324,002	0.4p
Lapsed	**(43,012)**	**0.4p**	(119,841)	0.4p
Exercised	**(341,731)**	**86.7p**	(417,525)	78.4p
Outstanding at 31 July	**1,095,090**	**26.9p**	1,342,730	44.0p
Exercisable at 31 July	**613,006**	**47.6p**	736,801	80.0p

Share options were exercised at numerous points in the year, and the average share price for the year ended 31 July 2018 was 515p (2017: 454p).

The share options outstanding at the end of the year have a weighted average remaining contractual life of 5 years (2017: 7 years).

Fair value assumptions of share based payment charges

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

Options granted in previous years:

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

Options granted in previous years (continued):

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

Notes to the Consolidated Financial Statements continued

8 Share based payments (continued)

Options granted in previous years (continued):

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

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

Options granted on	01/08/ 2015	25/09/ 2015	01/12/ 2015	15/12/ 2015	15/12/ 2015	01/08/ 2016	06/01/ 2017
Share price at date of grant	420.0p	452.5p	462.5p	550.0p	550.0p	438.0p	502.5p
Exercise price	0.4p	0.4p	0.4p	0.4p	0.4p	0.4p	0.4p
Vesting period (years)	3.5	3.5	3.5	2	3	3.5	3
Expected volatility	30%	30%	30%	30%	30%	30%	30%
Option life (years)	10	10	10	10	10	10	10
Expected life (years)	10	10	10	10	10	10	10
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Expected dividends expressed as a dividend yield	-	-	-	-	-	-	-

Options granted in the current year:

Options granted on	01/08/ 2017	28/02/ 2018
Share price at date of grant	445.0p	500.0p
Exercise price	0.4p	0.4p
Vesting period (years)	3.5	3
Expected volatility	30%	30%
Option life (years)	10	10
Expected life (years)	10	10
Risk-free rate	3.5%	3.5%
Expected dividends expressed as a dividend yield	-	-

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

Notes to the Consolidated Financial Statements continued

8 Share based payments (continued)

Charge to the income statement

	2018 £000	2017 £000
Share based payment charges	**1,193**	1,300

9 Operating profit

9.1 Operating profit is stated after charging:

	2018 £000	2017 £000
Depreciation of property, plant and equipment - owned	**592**	595
Depreciation of property, plant and equipment - leased	**168**	204
Total depreciation	**760**	799
Loss on disposal of plant and equipment	**17**	12
Operating lease rentals: Land and buildings	**474**	418
Operating lease rentals: Plant & machinery	**37**	29
Total operating lease rentals	**511**	447
Research and development expenditure expensed as incurred	**1,942**	1,214

9.2 Auditor's remuneration:

	2018 £000	2017 £000
Audit of these financial statements	**25**	18
Amounts receivable by auditors and their associates in respect of:		
- Audit of financial statements of subsidiaries pursuant to legislation	**75**	45
- Other services	**-**	-

9.3 Exceptional items:

The Group incurred a number of exceptional items in 2018 and 2017 which are analysed as follows:

	2018 £000	2017 £000
Non cash:		
Provision against investment	**-**	139
Contingent consideration credit	**(2,653)**	-
Cash:		
Legal and professional fees in respect of acquisitions	**81**	-
Total exceptional items	**(2,572)**	139

2018

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

2017

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

Notes to the Consolidated Financial Statements continued

9.4 Other operating income:

The Group no longer qualifies as a SME for R&D purposes and as such is governed by the large company 'above the line' credit in respect of research and development costs for Corporation Tax purposes. This amounted to £214,000 in 2018 (2017: £134,000).

10 Finance income

	2018	2017
	£000	£000
Interest received on bank deposits	**19**	15

11 Finance expense

	2018	2017
	£000	£000
Interest on finance lease obligations	**27**	38

12 Taxation

Recognised in the income statement

	2018	2017
	£000	£000
Current tax expense		
Current year	**1,515**	1,351
Adjustment in respect of prior periods	**-**	-
Total current tax	**1,515**	1,351
Deferred tax		
Current year		
Origination and reversal of temporary differences	**(486)**	(261)
Rate changes	**-**	(189)
Total deferred tax	**(486)**	(450)
Total tax in income statement	**1,029**	901

Reconciliation of the effective tax rate

	2018	**2018**	2017	2017
	£000	**%**	£000	%
Profit before tax for the period	**8,275**	**100.0**	4,616	100.0
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2017: 19.67%)	**1,572**	**19.0**	908	19.7
Expenses not deductible for tax purposes	**26**	**0.3**	127	2.7
Non taxable income	**(504)**	**(6.1)**	-	-
Effect of rate changes	**-**	**-**	(189)	(4.1)
Other movements	**(65)**	**(0.8)**	55	1.2
Total tax expense	**1,029**	**12.4**	901	19.5

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. The deferred tax asset and liability at 31 July 2018 and 31 July 2017 has been calculated based on these rates. This will reduce the company's future current tax charge accordingly and reduce the deferred tax asset and liability further.

Notes to the Consolidated Financial Statements continued

13 Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 July 2018 was based on the profit attributable to ordinary shareholders of £7,246,000 (2017: £3,715,000) and a weighted average number of ordinary shares in issue of 28,196,000 (2017: 27,804,000), calculated as follows:

Weighted average number of ordinary shares
In thousands of shares

	2018	2017
Issued ordinary shares at 1 August	**27,964**	27,546
Effect of shares issued related to business combinations	**14**	-
Effect of shares issued for cash	**218**	258
Weighted average number of shares at 31 July	**28,196**	27,804

Diluted earnings per share

The calculation of diluted earnings per share at 31 July 2018 was based on profit attributable to ordinary shareholders of £7,246,000 (2017: £3,715,000) and a weighted average number of ordinary shares in issue after adjustment for the effects of all dilutive potential ordinary shares of 29,159,000 (2017: 28,738,000):

Adjusted EPS

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

	2018 £'000	2017 £'000
Profit attributable to ordinary shareholders	**7,246**	3,715
Amortisation of intangible assets	**1,774**	1,674
Share-based payment charges	**1,193**	1,300
Exceptional items	**(2,572)**	139
Other operating income	**(214)**	(134)
Adjusted profit for EPS purposes	**7,427**	6,694

Weighted average number of ordinary shares
In thousands of shares

For the purposes of calculating Basic earnings per share	**28,196**	27,804
Adjustment for the effects of all dilutive potential ordinary shares	**29,159**	28,738

Basic adjusted earnings per share	**26.34p**	24.08p
Diluted adjusted earnings per share	**25.47p**	23.29p

Notes to the Consolidated Financial Statements continued

14 Property, plant and equipment

	Freehold Land & Buildings £000	Motor Vehicles £000	Computer equipment £000	Plant, machinery, fixtures & fittings £000	**Total £000**
Cost					
At 1 August 2016	400	1,306	1,523	2,070	5,299
Additions	-	322	98	300	720
Disposals	-	(252)	(2)	(171)	(425)
At 31 July 2017	400	1,376	1,619	2,199	5,594
Additions	-	54	143	343	540
Arising on acquisition	-	-	10	-	10
Disposals	-	(210)	(147)	(582)	(939)
At 31 July 2018	400	1,220	1,625	1,960	5,205
Depreciation					
At 1 August 2016	66	423	1,189	1,013	2,691
Charge for the year	12	255	196	336	799
Disposals	-	(194)	(1)	(162)	(357)
At 31 July 2017	78	484	1,384	1,187	3,133
Charge for the year	12	224	157	367	760
Disposals	-	(151)	(147)	(571)	(869)
At 31 July 2018	90	557	1,394	983	3,024
Net book value					
At 1 August 2016	334	883	334	1,057	2,608
At 31 July 2017	322	892	235	1,012	2,461
At 31 July 2018	**310**	**663**	**231**	**977**	**2,181**

The net book value of assets held under finance lease obligations is £511,000 (2017: £709,000).

Notes to the Consolidated Financial Statements continued

15 Intangible assets

	Goodwill	Customer related intangibles	Technology related intangibles	Total
	£000	£000	£000	£000
Cost				
At 1 August 2016 and 2017	3,025	22,373	3,974	29,372
Arising on acquisition	623	1,238	1,678	3,539
At 31 July 2018	3,648	23,611	5,652	32,911
Amortisation and impairment				
At 1 August 2016	-	2,272	968	3,240
Charge for the year	-	1,276	398	1,674
At 31 July 2017	-	3,548	1,366	4,914
Charge for the year	-	1,327	447	1,774
At 31 July 2018	-	4,875	1,813	6,688
Carrying amounts				
At 1 August 2016	3,025	20,101	3,006	26,132
At 31 July 2017	3,025	18,825	2,608	24,458
At 31 July 2018	**3,648**	**18,736**	**3,839**	**26,223**

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

	Goodwill		**Customer related intangibles**		**Technology related intangibles**	
	2018	2017	**2018**	2017	**2018**	2017
	£000	£000	**£000**	£000	**£000**	£000
Tracsis Rail Consultancy Limited	**671**	671	**390**	425	**-**	-
Tracsis Passenger Counts Limited	**43**	43	**203**	221	**-**	-
Safety Information Systems Limited	**136**	136	**154**	168	**31**	53
MPEC Technology Limited	**269**	269	**819**	883	**193**	262
Tracsis Traffic Data Limited	**390**	390	**802**	973	**-**	-
Datasys Integration Limited	**359**	359	**2,446**	2,601	**961**	1,127
SEP Limited	**555**	555	**1,039**	1,184	**-**	-
Ontrac Technology Limited	**602**	602	**11,695**	12,370	**1,026**	1,166
Tracsis Travel Compensation Services Limited & Delay Repay Sniper Limited	**623**	-	**1,188**	-	**1,628**	-
	3,648	3,025	**18,736**	18,825	**3,839**	2,608

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

	2018	2017
	£000	£000
Administrative expenses	**1,774**	1,674

Notes to the Consolidated Financial Statements continued

15 Intangible assets (continued)

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

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

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

	2018	2017
Long term growth rate	**1.0%**	1.0%
Discount rate	**10-12%**	10-12%

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

The directors' key assumptions relate to profitability, revenue growth and the discount rate, however, carrying value is not significantly sensitive to reasonably foreseeable changes in these assumptions in respect of all acquired intangible assets with the exception of those resulting from the acquisition of Ontrac Technology Limited, where profits could fall by circa 25% versus projected numbers before an impairment would be recognised of intangible assets and also the carrying value of the investment within Tracsis plc. If profits were to fall by more than 25% then an impairment would be recognised. No impairment charges in respect of goodwill arose during the year.

16 Investments

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

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

	% held At 31 July	**2018 £000**	2017 £000
Citi Logik Limited	17.2%	**500**	500
Nutshell Software Limited	37.8%	**500**	375
Vivacity Labs Limited	23.3%	**1,000**	425
		2,000	1,300

These are split as follows:

Equity investments:

	2018 £000	2017 £000
Citi Logik Limited	**375**	375
Nutshell Software Limited	**250**	188
Vivacity Labs Limited	**1,000**	425
	1,625	988

Notes to the Consolidated Financial Statements continued

16 Investments (continued)

Convertible Loan notes receivable from investments:

	2018	2017
	£000	£000
Citi Logik Limited	**125**	125
Nutshell Software Limited	**250**	187
	375	312

During the previous financial year, Citi Logik Limited repaid loan notes amounting to £111,000, and a provision of £139,000 was made against the carrying value of the investment in Citi Logik Limited comprising amounts against the equity value of £125,000 and the remaining debt of £14,000, following a conversion of the remaining debt that took place.

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

Nutshell Software Limited was accounted for as an associated undertaking, with a share of results of £80,000 being recognised based on the Group's holding of 31.3% for a period of time and 37.8% for part of the financial year.

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

Investments – equity

	2018	2017
	£000	£000
Citi Logik Limited	**250**	250
Vivacity Labs Limited	**-**	425
	250	675

Convertible Loan notes receivable from associated undertakings:

	2018	2017
	£000	£000
Nutshell Software Limited	**250**	187
	250	187

Investments in equity accounted investees:

	2018	2017
	£000	£000
Nutshell Software Limited	**93**	111
Vivacity Labs Limited	**879**	-
	972	111

During the year, the Group increased its investment in Vivacity Labs Limited from 11.4% to 23.3% and as such it has been accounted for as an equity accounted investee.

	2018	2017
	£000	£000
At start of the year	**111**	125
Reclassification of Vivacity Labs Limited investment	**425**	-
Additional investment made	**637**	63
Share of results of equity accounted investee	**(201)**	(77)
At end of the year	**972**	111

Notes to the Consolidated Financial Statements continued

17 Inventories

	2018	2017
	£000	£000
Raw materials & work in progress	**180**	159
Finished goods	**73**	80
	253	239

The value of inventories expensed in the period in cost of sales was £698,000 (2017: £600,000). Provision is made for slow moving and obsolete stock on a line by line basis. The value of any write downs/reversals in the current and previous period was not material.

18 Hire purchase contracts

	2018	2017
	£000	£000
Due within one year	**157**	320
Due after more than one year:		
Between one and two years	**114**	145
Between two and three years	**7**	85
Total due after more than one year	**121**	230
Total hire purchase contract obligation	**278**	550

A reconciliation of the obligation is stated below.

	2018	2017
	£000	£000
At start of the year	**550**	664
New hire purchase contracts	**31**	162
Repayments	**(303)**	(276)
At end of the year	**278**	550

	Carrying amount	Contractual cash flows	Less than one year	One to Two years	Two to Five years
	£000	£000	£000	£000	£000
Hire Purchase Obligations					
2018	**278**	**301**	**172**	**120**	**9**
2017	550	620	375	155	90

Notes to the Consolidated Financial Statements continued

19 Trade and other receivables

	2018	2017
	£000	£000
Trade receivables	**6,573**	7,223
Other receivables and prepayments	**521**	409
Amounts recoverable on contracts	**235**	848
	7,329	8,480

Although the Group has a large number of customers, there is a concentration of risk in that the Group derives a large amount of revenue from one major customer as detailed in note 6 (2018: 14% of revenue, 2017: 16% of revenue), though the credit worthiness of this customer is unquestionably strong. In other cases, where one customer represents a significant proportion of overall revenue, the relationship consists of a large number of small contracts which are not considered to be interdependent. The directors do not consider that any of the amounts from the sale of goods to be irrecoverable, hence no provision has been made for bad or doubtful debts in either the current or preceding year.

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

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

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

	2018	2017
	£000	£000
Under 30 days overdue	**978**	1,070
Between 30 and 60 days overdue	**80**	295
Over 60 days overdue	**-**	172
	1,058	1,537

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

Notes to the Consolidated Financial Statements continued

20 Trade and other payables

	2018	2017
	£000	£000
Trade payables	**1,075**	1,178
Other tax and social security	**2,122**	1,761
Deferred income	**3,740**	4,086
Accruals and other payables	**3,379**	1,817
	10,316	8,842

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

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

21 Contingent consideration

During the year, the Group acquired Travel Compensation Services Limited (renamed Tracsis Travel Compensation Services Limited) and Delay Repay Sniper Limited. Under the share purchase agreement, contingent consideration is payable which is linked to the profitability of the acquired businesses for a three year period post acquisition. The maximum amount payable is £4,700,000. The fair value of the amount payable was assessed at £1,200,000.

During the year, contingent consideration of £323,000 was paid in respect of the SEP acquisition which was made in the year ended 31 July 2016, and £nil was paid in respect of the Ontrac acquisition which was made in the year ended 31 July 2016. An amount of £2,058,000 was paid after the Balance Sheet date in respect of the Ontrac acquisition which was agreed with the Sellers and also £7,000 in respect of SEP Limited.

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

	2018	2017
	£000	£000
SEP Limited	**7**	330
Ontrac Limited	**2,058**	4,711
Tracsis Travel Compensation Services Limited & Delay Repay Sniper Limited	**1,200**	-
	3,265	5,041

The group has made numerous acquisitions over the past few years and carries contingent consideration payable in respect of them, which is considered to be a 'Level 3 financial liability' as defined by IFRS 13. These are carried at fair value, which is based on the estimated amounts payable based on the provisions of the Share Purchase Agreements and involves assumptions about future profit forecasts.

The movement on contingent consideration can be summarised as follows:

	2018	2017
	£000	£000
At the start of the year	**5,041**	6,150
Arising on acquisition	**1,200**	-
Cash payment	**(323)**	(1,109)
Release to Statement of Comprehensive Income	**(2,653)**	-
At the end of the year	**3,265**	5,041

Notes to the Consolidated Financial Statements continued

21 Contingent consideration (continued)

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

	2018	2017
	£000	£000
Payable in less than one year	**2,165**	5,041
Payable in more than one year	**1,100**	-
Total	**3,265**	5,041

22 Deferred tax

Non-current liability/(asset)	**Intangible assets £000**	**Accelerated capital allowances £000**	**Share options £000**	**Total £000**
At 31 July 2016	4,159	125	(573)	3,711
(Credit)/charge to income statement (note 12)	(515)	(51)	116	(450)
At 31 July 2017	3,644	74	(457)	3,261
Arising on acquisition (note 5)	496	2	-	498
(Credit)/charge to income statement (note 12)	(301)	(40)	(145)	(486)
At 31 July 2018	**3,839**	**36**	**(602)**	**3,273**

The closing deferred tax asset and liability has been calculated at 17% as at 31 July 2018 (2017: 17%).

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

	2018	2017
	£000	£000
Deferred tax assets	**(602)**	(457)
Deferred tax liabilities	**3,875**	3,718
Net liability per table above	**3,273**	3,261

23 Share capital

	2018 Number	**2018 £**	2017 Number	2017 £
Allotted, called up and fully paid:				
Ordinary shares of 0.4p each	**28,334,086**	**113,336**	27,963,784	111,855

The following share transactions have taken place during the year ended 31 July 2018:

	2018	2017
	Number	Number
At start of the year	**27,963,784**	27,546,259
Issued as consideration for business combinations	**28,571**	-
Exercise of share options (Note 8)	**341,731**	417,525
At end of the year	**28,334,086**	27,963,784

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

Notes to the Consolidated Financial Statements continued

24 Capital and reserves

The following describes the nature and purpose of each reserve:

Reserve	Description and purpose
Share capital	Amount subscribed for share capital at nominal value
Share premium	Amount subscribed for share capital in excess of nominal value
Merger reserve	Amounts arising from the premium of the fair value of shares issued over their nominal value, in respect of certain business combinations
Retained earnings	Cumulative net profits recognised in the income statement. The share based payment reserve which was previously shown separately was incorporated into retained earnings during the previous year.

25 Operating leases

The Group leases several office facilities under operating leases plus various other assets. During the year £511,000 was recognised as an expense in the income statement in respect of operating leases (2017: £447,000).

Leases as lessee

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

Land and buildings

Minimum lease payments are payable as follows:

	2018	2017
	£'000	£'000
Within one year	**338**	410
In the second to fifth years	**413**	659
	751	1,069

Plant and machinery

	2018	2017
	£'000	£'000
Within one year	**46**	20
In the second to fifth years	**72**	37
	118	57

26 Financial risk management

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

	2018			2017		
	Fixed	**Floating**		Fixed	Floating	
Financial assets	**Rate**	**Rate**	**Total**	Rate	Rate	Total
	£000	**£000**	**£000**	£000	£000	£000
Cash and short term deposits	**-**	**22,329**	**22,329**	-	15,350	15,350

Notes to the Consolidated Financial Statements continued

26 Financial risk management (continued)

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

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

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

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

Fair value or cash flow interest rate risk

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

At 31 July 2018, the Group did not have any fixed-rate deposits in place.

Credit risk

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

Liquidity risk

Liquidity risk is managed on a day to day basis. Facilities are agreed at appropriate levels having regard to the Group's forecast operating cash flows and future capital expenditures. The Group holds its cash balances with highly rated financial institutions and it is also spread across numerous institutions to avoid any exposure to one individual bank.

Capital disclosures

The Group's objectives when maintaining capital are:

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

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

Sensitivity analysis

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

Market risks

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

Foreign currency risk

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

Notes to the Consolidated Financial Statements continued

27 Related Party Transactions

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

	Purchase of goods and services		Amounts owed to related parties	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Leeds Innovation Centre Limited (1)	**99**	79	**13**	8
Ashtead Plant Hire Co Limited (2)	**5**	13	**1**	2
Flash Forward Consulting Limited (3)	**28**	-	**5**	
Citi Logik Limited (4)	**36**	126	**-**	-
Nutshell Software Limited (4)	**107**	6	**9**	7
Vivacity Labs Limited (4)	**17**	7	**-**	-

	Sale of goods and services		Amounts owed by related parties	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
WSP UK Limited (5)	**3,180**	2,489	**883**	708
Flash Forward Consulting Limited (3)	**1**	-	**-**	-
Citi Logik Limited (4)	**30**	-	**36**	-

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

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

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

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

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

Terms and conditions of transactions with related parties

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

Compensation of key management personnel of the Group

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

	2018	2017
	£'000	£'000
Total remuneration	**2,214**	1,589
Share based payment charges	**451**	495
	2,665	2,084

Notes to the Consolidated Financial Statements continued

28 Employee benefits

The Group makes contributions to defined contribution pension schemes for its employees. The pension cost charge for the year comprises contributions payable by the Group to the schemes and other personal pension plans and amounted to £352,000 (2017: £303,000). There were outstanding contributions at 31 July 2018 of £62,000 (2017: £36,000).

29 Group entities

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

Held by Tracsis plc	Principal activity	Country of incorporation	% ordinary share capital owned
Tracsis Rail Consultancy Limited (1)	Rail industry consultancy	England and Wales	100%
Tracsis Passenger Counts Limited (1)	Rail industry consultancy	England and Wales	100%
Safety Information Systems Limited (1)	Software and consultancy	England and Wales	100%
MPEC Technology Limited (1)	Rail industry hardware & Datalogging	England and Wales	100%
Tracsis Traffic Data Limited (2)	Transportation data collection	England and Wales	100%
Datasys Integration Limited (1)	Holding Company	England and Wales	100%
Tracsis Retail & Operations Limited (1)	Rail industry software	England and Wales	100%
SEP Limited (1)	Event planning & traffic management	England and Wales	100%
SEP Events Limited (1)	Dormant	England and Wales	100%
Ontrac Technology Limited (1)	Holding company	England and Wales	100%
Ontrac Limited (1)	Rail industry software	England and Wales	100%
S-H TrafficData Solutions Private Limited (6)	Data processing	India	100%
Tracsis Travel Compensation Services Limited (1)	Rail industry software	England and Wales	100%
Delay Repay Sniper Limited (1)	Rail industry software	England and Wales	100%
S Dalby Consulting Limited (1)	Dormant	England and Wales	100%
Sky High Data Capture Limited (2)	Dormant	England and Wales	100%
Sky High Traffic Data Limited (2)	Dormant	England and Wales	100%
The Web Factory Birmingham Limited (2)	Dormant	England and Wales	100%
Forsyth Whitehead & Associates Limited (2)	Dormant	England and Wales	100%
Sky High Technology (Scotland) Limited (2)	Dormant	England and Wales	100%
Count on Us Traffic Limited (2)	Dormant	England and Wales	100%
Burra Burra Distribution Limited (2)	Dormant	England and Wales	100%
Sky High NCS Limited (2)	Dormant	England and Wales	100%
Halifax Computer Services Limited (2)	Dormant	England and Wales	100%
Skyhightraffic Limited (2)	Dormant	England and Wales	100%
The Traffic Survey Company Limited (2)	Dormant	England and Wales	100%
The People Counting Company Limited (2)	Dormant	England and Wales	100%
Myratech.net Limited (2)	Dormant	England and Wales	100%
Footfall Verification Limited (2)	Dormant	England and Wales	100%
<u>Minority investments:</u>			
Citi Logik Limited (3)	Mobile Network Data Analysis	England and Wales	17.2%
Nutshell Software Limited (4)	Mobile application development	England and Wales	37.8%
Vivacity Labs Limited (5)	Machine Learning technology	England and Wales	23.3%

Notes to the Consolidated Financial Statements continued

29 Group entities (continued)

The registered offices of the subsidiaries are as follows:

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

30 Dividends

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

	2018	2017
	£000	£000
Final dividend for 2015/16 of 0.70p per share paid	**-**	195
Interim dividend for 2016/17 of 0.60p per share paid	**-**	167
Final dividend for 2016/17 of 0.80p per share paid	**225**	-
Interim dividend for 2017/18 of 0.70p per share paid	**198**	-
Total dividends paid	**423**	362

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

	2018	2017	2016	2015	2014	2013	2012
	£000	£000	£000	£000	£000	£000	£000
Interim dividend for 2011/12 of 0.20p per share paid	**-**	-	-	-	-	-	48
Final dividend for 2011/12 of 0.35p per share paid	**-**	-	-	-	-	-	87
Interim dividend for 2012/13 of 0.30p per share paid	**-**	-	-	-	-	75	-
Final dividend for 2012/13 of 0.40p per share paid	**-**	-	-	-	-	102	-
Interim dividend for 2013/14 of 0.35p per share paid	**-**	-	-	-	89	-	-
Final dividend for 2013/14 of 0.45p per share paid	**-**	-	-	-	119	-	-
Interim dividend for 2014/15 of 0.40p per share paid	**-**	-	-	106	-	-	-
Final dividend for 2014/15 of 0.60p per share paid	**-**	-	-	164	-	-	-
Interim dividend for 2015/16 of 0.50p per share paid	**-**	-	137	-	-	-	-
Final dividend for 2015/16 of 0.70p per share paid	**-**	-	195	-	-	-	-
Interim dividend for 2016/17 of 0.60p per share paid	**-**	167	-	-	-	-	-
Final dividend for 2016/17 of 0.80p per share paid	**-**	225	-	-	-	-	-
Interim dividend for 2017/18 of 0.70p per share paid	**198**	-	-	-	-	-	-
Final dividend for 2017/18 of 0.90p per share proposed	**255**	-	-	-	-	-	-

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

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

The dividend will be payable on 15 February 2019 to shareholders on the Register at 1 February 2019.

Notes to the Consolidated Financial Statements continued

31 Reconciliation of adjusted profit metrics

In addition to the statutory profit measures of Operating profit and profit before tax, the Group quotes Adjusted EBITDA and Adjusted profit. These figures are relevant to the Group and are provided to provide a comparison to similar businesses and are metrics used by Equities Analysts who cover the Group.

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

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

	2018	2017
	£000	£000
Profit before tax	**8,275**	4,616
Finance income / expense – net	**8**	23
Share-based payment charges	**1,193**	1,300
Exceptional items	**(2,572)**	139
Other operating income	**(214)**	(134)
Amortisation of intangible assets	**1,774**	1,674
Depreciation	**760**	799
Share of result of equity accounted investees	**201**	77
Adjusted EBITDA	**9,425**	8,494

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

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

	2018	2017
	£000	£000
Profit before tax	**8,275**	4,616
Finance income / expense – net	**8**	23
Share-based payment charges	**1,193**	1,300
Exceptional items	**(2,572)**	139
Other operating income	**(214)**	(134)
Amortisation of intangible assets	**1,774**	1,674
Share of result of equity accounted investees	**201**	77
Adjusted profit	**8,665**	7,695

Adjusted EBITDA reconciles to adjusted profit as set out below:

	2018	2017
	£000	£000
Adjusted EBITDA	**9,425**	8,494
Depreciation	**(760)**	(799)
Adjusted profit	**8,665**	7,695

32 Events after the Balance Sheet Date

An amount of £2.1m was paid in respect of the acquisition of Ontrac Limited following the finalisation of the amounts due to the Sellers under the terms of the Share Purchase Agreement.

Financial Statements

Company Balance Sheet (prepared under FRS 101)

as at 31 July 2018

Company number: 05019106

	Note	**2018 £000**	2017 £000
Non-current assets			
Property, plant and equipment	34	**342**	328
Investments	35	**38,845**	34,867
Deferred tax assets	39	**360**	369
		39,547	35,564
Current assets			
Cash and cash equivalents		**10,152**	7,648
Trade and other receivables	36	**2,608**	2,866
		12,760	10,514
Total assets		**52,307**	46,078
Non-current liabilities			
Contingent consideration	38	**1,100**	-
		1,100	-
Current liabilities			
Trade and other payables	37	**10,304**	9,830
Contingent consideration	38	**2,165**	5,041
		12,469	14,871
Total liabilities		**13,569**	14,871
Net assets		**38,738**	31,207
Capital and reserves			
Called up share capital	40	**113**	112
Share premium reserve		**6,243**	5,948
Merger reserve		**3,160**	3,010
Retained earnings		**29,222**	22,137
Total equity		**38,738**	31,207

The Company's profit for the year, after dividends received was £6,315,000 (2017: £3,855,000)

The financial statements were approved and authorised for issue by the Board of Directors on 8 November 2018 and were signed on its behalf by:

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

Financial Statements

Company Statement of Changes in Equity

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

	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Total equity £000
At 1 August 2016	110	5,622	3,010	17,344	26,086
Profit and total comprehensive income	-	-	-	3,855	3,855
Dividends	-	-	-	(362)	(362)
Share based payment charges	-	-	-	1,300	1,300
Exercise of share options	2	326	-	-	328
At 31 July 2017	**112**	**5,948**	**3,010**	**22,137**	**31,207**

The following describes the nature and purpose of each reserve:

Reserve	**Description and purpose**
Share capital	Amount subscribed for share capital at nominal value
Share premium	Amount subscribed for share capital in excess of nominal value
Merger reserve	Amounts arising from the premium of the fair value of shares issued over their nominal value, in respect of certain business combinations
Retained earnings	Cumulative net profits recognised in the income statement. The share based payment reserve which was previously shown separately was incorporated into retained earnings during the previous year.

Financial Statements

Notes to the Company Balance Sheet

33 Company accounting policies

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

The company's accounting reference date is 31 July.

Basis of preparation

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

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

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

Disclosure exemptions adopted:

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

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

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

Notes to the Company Balance Sheet continued

33 Company accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Company Balance Sheet continued

33 Company accounting policies (continued)

Leases

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

Share based payments

The Company's accounting policies followed are in all material regards the same as the Group's policy as shown on page 39. Where there are charges relating to subsidiary undertakings, these are borne by the relevant subsidiary undertakings via a recharge.

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006. The Company's profit after taxation for the year amounted to £6,315,000 after receiving dividends from subsidiary undertakings of £3,350,000 and an exceptional contingent consideration credit of £2,653,000 (2017: profit of £3,855,000 after receiving dividends of £3,550,000).

34 Property, plant and equipment

	Freehold Land & Buildings* £000	Computer equipment £000	**Total £000**
Cost			
At 1 August 2017	400	34	434
Additions	-	34	34
At 31 July 2018	400	68	468
Depreciation			
At 1 August 2017	78	28	106
Charge for the year	12	8	20
At 31 July 2018	90	36	126
Net book value			
At 31 July 2017	322	6	328
At 31 July 2018	**310**	**32**	**342**

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

35 Investments

	Shares in, and loans to subsidiary undertakings £000
At 1 August 2017	34,867
Additions	3,978
At 31 July 2018	**38,845**

Notes to the Company Balance Sheet continued

35 Investments (continued)

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

Name	Country of incorporation	Principal activity	Class and percentage of shares held	Holding
Subsidiary undertakings:				
Tracsis Rail Consultancy Limited	England and Wales	Rail industry consultancy	Ordinary 100%	Direct
Tracsis Passenger Counts Limited	England and Wales	Rail industry ancillary services	Ordinary 100%	Direct
Safety Information Systems Limited	England and Wales	Software and consultancy	Ordinary 100%	Direct
MPEC Technology Limited	England and Wales	Rail industry hardware & datalogging	Ordinary 100%	Direct
Tracsis Traffic Data Limited	England and Wales	Transportation data collection	Ordinary 100%	Direct
Datasys Integration Limited	England and Wales	Holding Company	Ordinary 100%	Direct
Tracsis Retail & Operations Limited	England and Wales	Rail industry software	Ordinary 100%	Indirect
SEP Limited	England and Wales	Event planning & traffic management	Ordinary 100%	Direct
SEP Events Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Ontrac Technology Limited	England and Wales	Holding Company	Ordinary 100%	Direct
Ontrac Limited	England and Wales	Rail industry software	Ordinary 100%	Indirect
S-H TrafficData Solutions Private Limited	India	Data processing	Ordinary 100%	Indirect
Tracsis Travel Compensation Services Limited	England and Wales	Rail industry software	Ordinary 100%	Indirect
Delay Repay Sniper Limited	England and Wales	Rail industry software	Ordinary 100%	Direct
S Dalby Consulting Limited	England and Wales	Dormant	Ordinary 100%	Direct
Sky High Data Capture Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Sky High Traffic Data Limited	England and Wales	Dormant	Ordinary 100%	Indirect
The Web Factory Birmingham Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Forsyth Whitehead & Associates Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Sky High Technology (Scotland) Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Count on Us Traffic Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Burra Burra Distribution Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Sky High NCS Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Halifax Computer Services Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Skyhightraffic Limited	England and Wales	Dormant	Ordinary 100%	Indirect
The Traffic Survey Company Limited	England and Wales	Dormant	Ordinary 100%	Indirect
The People Counting Company Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Myratech.net Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Footfall Verification Limited	England and Wales	Dormant	Ordinary 100%	Indirect
Minority investments				
Citi Logik Limited	England and Wales	Mobile network data analysis	Ordinary 17.2%	Direct
Nutshell Software Limited	England and Wales	Mobile application development	Ordinary 37.8%	Direct
Vivacity Labs Limited	England and Wales	Machine learning technology	Ordinary 23.3%	Direct

Notes to the Company Balance Sheet continued

36 Trade and other receivables

	2018	2017
	£000	£000
Trade receivables	**294**	356
Amounts owed by group undertakings	**1,168**	1,573
Other debtors	**362**	348
Corporation Tax	**756**	577
Prepayments	**28**	12
	2,608	2,866

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

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

37 Trade and other payables

	2018	2017
	£000	£000
Trade payables	**125**	27
Other tax and social security	**60**	45
Amounts owed to group undertakings	**8,996**	9,229
Accruals and deferred income	**1,123**	529
	10,304	9,830

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

38 Contingent consideration

During the year, the Group acquired Travel Compensation Services Limited and Delay Repay Sniper Limited. Under the share purchase agreement, contingent consideration is payable which is linked to the profitability of the acquired businesses for a three year period post acquisition. The maximum amount payable is £4,700,000. The fair value of the amount payable was assessed at £1,200,000.

During the year, deferred and contingent consideration of £323,000 was paid in respect of the SEP acquisition which was made in the year ended 31 July 2016, and £nil was paid in respect of the Ontrac acquisition which was made in the year ended 31 July 2016. An amount of £2,058,000 was paid after the Balance Sheet date in respect of the Ontrac acquisition which was agreed with the Sellers and also £7,000 in respect of SEP Limited.

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

	2018	2017
	£000	£000
SEP Limited	**7**	330
Ontrac Limited	**2,058**	4,711
Travel Compensation Services Limited & Delay Repay Sniper Limited	**1,200**	-
	3,265	5,041

An exceptional release to the Statement of Comprehensive Income was recognised amounting to £2,653,000

Notes to the Company Balance Sheet continued

38 Contingent consideration (continued)

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

	2018	2017
	£000	£000
Payable in less than one year	**2,165**	5,041
Payable in more than one year	**1,100**	-
Total	**3,265**	5,041

39 Deferred tax (asset) / liability

	2018	2017
	£000	£000
At start of the year	**(369)**	(436)
Charge to income statement during the year	**9**	67
At end of the year	**(360)**	(369)

The deferred tax asset can be split as follows:

	2018	2017
	£000	£000
Accelerated Capital Allowances	**-**	(3)
Share options	**(360)**	(366)
At end of the year	**(360)**	(369)

40 Share capital

	2018	**2018**	2017	2017
	Number	**£**	Number	£
Allotted, called up and fully paid:				
Ordinary shares of 0.4p each	**28,334,086**	**113,336**	27,963,784	111,855

The following share transactions have taken place during the year ended 31 July 2018:

	2018	2017
	Number	Number
At start of the year	**27,963,784**	27,546,259
Issued as consideration for business combinations	**28,571**	-
Exercise of share options	**341,731**	417,525
At end of the year	**28,334,086**	27,963,784

Notes to the Company Balance Sheet continued

41 Operating leases

Operating lease commitments.

Minimum lease payments are payable as follows:

	2018	2017
Land and buildings:	**£'000**	£'000
Within one year	**26**	61
Between one and two years	**-**	25

42 Related Party Transactions

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

	Purchase of goods and services		Amounts owed to related parties	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Leeds Innovation Centre Limited	**99**	79	**13**	8

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

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

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

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