TAX SYSTEMS

2017
ANNUAL REPORT

Contents

Highlights for the year

Tax Systems plc is a leading provider of corporation tax software and services to many of the largest companies and the accounting profession in the UK and Ireland. The Company is seeking to continue to build on and expand the solutions and services it provides to its clients both organically and through acquisition to help them navigate and comply with the ever increasing regulatory environment. A key focus of the Government, together with the regulators, is to increase tax revenues, reduce tax evasion and ensure businesses are paying their fair share of tax in order to support government spending and reduce the annual deficit.

Strategic:

- Acquisition of OSMO Data Technology Limited ("OSMO") on 3 April 2017 for £3.2m in shares, adding automation of data extraction from core ERP systems to the Group's capabilities

Financial:

- Early adoption of IFRS 15 'Revenue from Contracts with Customers'
- Year-on-year total revenue growth of 17% (2017: £15.1m, 2016[1]: £12.9m)
- Year-on-year organic and comparable revenue growth of 10% (2017: £15.1m, 2016[2]: £13.8m)
- 90% of revenue is recurring from software licences, 10% from professional services
- Year-on-year organic and comparable Adjusted EBITDA[3] growth of 11% (2017: £7.0m, 2016[2]: £6.3m) representing an Adjusted EBITDA[3] margin of 46%
- Year-on-year reduction in net debt[4] of 16% (31 December 2017: £20.5m, 31 December 2016: £24.4m). Net debt[4] now represents less than 3x Adjusted EBITDA[3]
- Conversion of Adjusted EBITDA[3] to operating cash flow after exceptional items of 98%

1 2016 is on a proforma basis, applying IFRS 15 and excluding results from OSMO

2 2016 on a proforma basis including comparable figures for OSMO

3 Adjusted EBITDA is defined as operating profit or loss before exceptional items, depreciation, amortisation and share-based payments

4 Net debt is defined as bank borrowings and loan notes recognised as liabilities and the equity element of the loan notes recognised in equity less cash

Operational:

- Customer retention rate remained high at 95%
- 114 new annuity licences added to the base
- Year-on-year average annuity order value growth of 9%
- Year-on-year average services day rate growth of 25%
- Continued investment in and enhancement of the core product, Alphatax, including the successful launch of version 17 which incorporated the largest UK Finance Act update in history
- Development of new solutions and services, including:
  - Data Entry, designed to help accountancy firms streamline the process of collecting information from data owners; and
  - A new solution to help organisations with country-by-country reporting

Key strengths:

- A customer base of 1,000 large corporates and major accountancy firms including
  - 43 of the FTSE 100
  - 23 of the top 25 UK accountancy firms
- 90% recurring revenues
- 95% customer retention
- 98% conversion of Adjusted EBITDA[3] to operating cash after exceptional items
- Comprehensive corporation tax engine with over 26 years of intellectual property
- Substantial amount of sector expertise providing high barrier to entry to the market
- Find more about Tax Systems' business model on page 9
- Read more in the Financial Review on page 12
- Stay up to date online: www.taxsystems.com

Forward-looking statements

This report includes forward-looking statements. Whilst these forward-looking statements are made in good faith, they are based upon the information available to Tax Systems at the date of this report and upon current expectations, projections, market conditions and assumptions about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about the Group and should be treated with an appropriate degree of caution.

Chairman's Statement

Clive Carver

"During the year under review we met all internal and external targets for the business. We are confident in our ability to continue to increase both our capabilities and shareholder value moving forward"

I am pleased to report to shareholders in respect of the year ended 31 December 2017.

The year under review saw the Company make encouraging progress to its longer-term objective of being a leading international provider of regulatory compliance software and professional services.

Our current focus is on the corporation tax software and services market in the UK and Ireland. In this business we met all internal and external targets including increasing our revenue, contracted annuity base and number of new customers. Of particular note has been the level of cash generated from the business, which has allowed us the reduce debt levels faster than initially planned. Further details of our progress in 2017 is set out in the following CEO and CFO reports.

We made significant investments during 2017 to maintain, update and de-risk our solutions and services in light of the increasing regulatory landscape. Over time we expect more demand for automation and process control which is where we want to provide enhanced functionality and value.

We look forward to extending our technology offering by way of continued product development and targeted acquisitions. In particular, in the shorter term, to broaden the range of taxes covered.

The integration of OSMO, acquired in April 2017, was largely completed and considered a successful transition. OSMO's leading edge technology is now embedded as part of our core value proposition and helps organisations automate the collection of data from large accounting / ERP systems.

We firmly believe we are well placed to exploit the opportunities that will arise from the ever-greater digitalisation of tax compliance and in compliance more generally.

We look forward to the future with confidence.

Annual General Meeting

The Annual General Meeting of the Company will be held on 20 June 2018 at 11 am at the offices of K&L Gates, One New Change, London EC4M 9AF.

Clive Carver
Non-Executive Chairman 20 April 2018

Chief Executive Officer's Review

Gavin Lyons

"I am delighted to report on a successful year, delivering against our strategic objectives of growth, retention, acquisitions, debt reduction and operational transformation."

2017 has been a year of significant and exciting activity for the Company on the transformational journey to develop and upgrade our products and services in order to support our customer base of large corporates and accountancy firms in meeting the increasing demands of tax compliance.

Growth:

During 2017, we achieved year-on-year revenue growth of 17% (10% comparable organic growth) and contracted annuity base growth of 12% (6% comparable organic growth) through 114 new annuity licenses added and average order value growth of 9%.

This growth was achieved through a combination of activities including the appointment of a seasoned sales and marketing director, increased sales and pre-sales activity, incentivisation of sales staff, better customer negotiation and the launch of new solutions and services.

New order intake was driven by additional technology modules, increased user licenses and cross selling other portfolio solutions to existing customers. In addition, several new customers were won.

New solutions and services launched in the year included 'Data Entry' which is designed to help accountancy firms streamline the process of collecting information from data owners, and a new service to help organisations with country-by-country reporting.

We can further improve the sales and marketing engine but to achieve these results without substantial investment has been a great success and a credit to the team.

Retention:

During 2017, customer retention remained strong at a rate of 95%, in line with management's expectations. The high level of retention is largely due to two factors, the first being that our core technology solution (Alphatax) continues to deliver for our customers. 2017 saw the release of the largest finance bill in UK history and our tax content team did an outstanding job ensuring the legislation was successfully encoded into our core product within a timely manner. The architecture of the technology enables us to do this on a continual basis with a team that is well versed in the practice with documented processes and procedures. The second is the focus and quality of our local support teams, the members of which are experts in both customer service and tax. These teams are proud of our Company, solutions and services and have a real desire to ensure our customers are responded to effectively and efficiently.

As well as strong customer retention, we also continued to retain our expert employees. Key activities completed in the year included restructuring the organisation and individual accountabilities, establishing the core leadership team, promoting several internal staff, recruiting new talent, a change of headquarters, modernisation of the Company brand and the adoption of 'agile' development methodologies.

I am very pleased with the way employees have embraced change and would like to thank everyone for their contribution. We all continue to be excited about the future and working together to achieve our potential.

Acquisitions:

During 2017, we defined our vision and strategy which, along with having a greater understanding of the market and customer demand, highlighted a need to quickly provide a solution to automate the collection of data – the fundamental building block of any compliance process.

Having evaluated various options, we completed the acquisition of OSMO in April 2017 in return for the issue of 4.7 million ordinary shares of the Company, valuing OSMO at £3.2 million.

OSMO is a leading provider of automated data extraction services that currently connects to 310 versions of accounting software packages, whether they be cloud, on premise or enterprise versions. Using OSMO's technology, finance and tax teams can significantly decrease the manual workload associated with data collection, reduce errors and risk from re-keying data and increase the speed and accuracy of data production. OSMO's solution is an ideal add-on to the existing software and services that Tax Systems already provides.

I am pleased with OSMO's progress to date; the team delivered against its 2017 performance expectations and have fitted in well both technically and culturally. We have one final stage of the integration left which is moving OSMO's core IT systems and processes onto our standard operating platform within shared services. This activity has begun and is expected to be finished by the end of H1 2018. At that point we can consider the business fully integrated.

In addition, further acquisition targets were identified and considered during the year. Disappointingly we declined to proceed with two potential targets after finalising the due diligence process but in both cases it was the right decision for the business.

We continue to actively evaluate other acquisition opportunities but will only proceed where we believe a business is the right strategic fit and will enhance both the Company's offering and shareholder value.

Debt reduction:

During 2017, we reduced our net debt by 16% to £20.5m as a result of our revenue growth, customer retention rate and excellent cash conversion. In addition, we were also successful in recovering £0.6m of VAT relating to the fees payable on the acquisition of Tax Computer Systems Limited ("TCSL") in July 2016.

Net debt at the end of the year represented less than 3x Adjusted EBITDA. By continuing to focus on sustainable growth and customer retention we will be able to further reduce our debt or utilise the facilities to fund further acquisitions.

Operational transformation:

A key focus of the business has been on achieving operational excellence through its people, processes, systems and facilities – an absolutely critical requirement of any business but often over looked and lacking due to the size and complexity of the implementation of a target operating model.

Significant time and effort has been put into defining and achieving this, and, though there is still some tasks to be completed, I am pleased that the majority of this work has been done.

Outlook:

In summary, I'm pleased to report that we delivered against all key strategic objectives in the year with the headlines being revenue growth of 17% and debt reduction of 16%. Moving forward, the Company will continue to focus on the execution of its strategy in order to deliver against its goals and vision. Whilst there is still work to be done to get the business to where we would like it to be in order to maximise the market opportunity, I am confident in our ability to achieve this.

We believe we have the right technology platform from which to continue to grow, in no small part thanks to the hard work and talent of our people, whom I would like to thank for their dedication and contribution to the ongoing success of the business.

The Board remains confident in the ability of the business to deliver increasing shareholder value over the coming years. I look forward to 2018 and beyond with continued passion and excitement.

Gavin Lyons
Chief Executive Officer 20 April 2018

Market Overview

Regulators and media coverage:

A key focus of the Government, together with the regulators is to increase tax revenues, reduce tax evasion and ensure businesses are paying their fair share to support government spending, reduce national debt and reduce annual deficits without the need to raise taxes. UK debt levels were at £1,720 billion for the financial year ending March 2017 which represented 86.7% of Gross Domestic Product ("GDP"). UK deficit levels were at £46.9 billion for the same period.

As a result, there is an ever-increasing collaboration between governments and agencies, especially since the financial crisis of 2007 and Panama Papers in 2016. Furthermore, regulators are introducing a new wave of local and international compliance obligations along with investing in sophisticated digital platforms for greater data gathering and analysis, all of which will assist them in achieving their objectives both efficiently and sustainably.

In addition, and due to tax becoming an ever-increasing headline in the media, how businesses communicate their approach to tax and the amount of tax paid is a key component in building trust, reducing reputational risk and maintaining a good relationship with regulators, shareholders and customers.

When it comes to tax, a business' focus is no longer just about calculating and submitting the correct tax number, rather having an agile tax function that can protect it from financial penalties or reputational damage. This tax function needs to be able to respond efficiently and accurately to the regulator in the event of non-compliance or an audit notification whilst offering proactive expert tax advice on strategic activities such as mergers and acquisitions, disposals and geographical and operational structures.

Growing reporting and transparency obligations:

In 2017 alone, the UK's Finance (No.2) Act 2017 was the longest in recent memory, stretching to 665 pages compared to 187 pages in Finance Act 2018.

New international reporting including the OECD's Common Reporting Standard ("CRS") and Base Erosion and Profit Shifting ("BEPS") have come in to force in both the UK and Ireland. BEPS requires organisations with a group turnover of greater than €750 million to submit detailed transactional information on operations and group transfer pricing for each country they operate in, on an annual basis.

Furthermore, from 2019, HMRC's Making Tax Digital ("MTD") initiative will modernise the way tax is reported, starting with VAT and then corporation tax which will result in a four-fold increase in reporting obligations. The Irish Revenue will be introducing real-time reporting of payroll taxes from January 2019.

Last but not least, there is now a legal requirement for all large businesses operating in the UK to publish their tax strategy if, in the previous tax year, the business had a turnover above £200 million or a balance sheet over £2 billion. For groups and sub-groups, it's the combined totals of all the relevant bodies that must be used.

Regulator investment into digital platforms:

Regulators are leading the way in creating new digital platforms for the submission and gathering of tax data. Submission requirements will vary based on each specific country, but most will specify a file format, a deadline, along with the tax and transactions to be included.

The powerful part of collecting and storing data digitally is what can then be done by the regulators using analytical software. Data can be mined, matched and shared to ultimately find ways of increasing tax collections and creating new reporting obligations to help meet their objectives. Due to the level of data regulators will hold, the number of audit notices is likely to increase which will require swift responses from businesses and a greater level of quality and accuracy.

Ultimately, as with any data project, this will end up with the regulator wanting to consume more and more data so that they can digest it and analyse how best to monetise the facts presented. Ultimately, we will end up with the regulator wanting to 'drill down' from any submitted tax number to see how it has been calculated and via what transactions.

Customer Challenge Overview

Pain points currently impacting the current tax function:

The most commonly cited factors affecting the ability of a tax team to execute are five-fold which, in no particular order, are as follows:

The first is coping with the increased volume and complexity of regulations so that the business is protected from financial penalties or reputational damage in the event of non-compliance. Linked to this is the ability to manage compliance across multiple jurisdictions and the ability to respond to tax authorities when under scrutiny.

The second is the managing of the speed and accuracy of data – most data is supplied by spreadsheet and requires manual collaboration between the tax and finance teams both locally and internationally. Getting consistent and correct data to be input into tax computations takes time and the difficulty in obtaining it can affect the quality of data.

The third is the substantial manual effort required and often a lack of defined and documented activities, processes and controls in order to ensure that a business is compliant with the relevant rules and regulations.

The fourth is underinvestment in technology to automate manual activities, enforce processes and controls, manage the risk associated with the completion of the compliance cycle, provide insight into continuous improvement and calculate and submit tax computations.

Last but not least is the level of resources available and the changing nature of the skillset required from tax professionals. Such professionals need to have both the technical skills as well as an ability to adapt to and assist with the continuous improvement of processes, controls and technology.

Preparing for future workload:

Due to the changing regulatory and media landscape, businesses need ensure they have an appropriate tax function in place that is capable of dealing with the increased pressure and workloads arising from external compliance and reporting, an increasing requirement for internal advice relating to strategic activities as well as increasing internal governance demanding effective processes.

Ultimately, the tax function of the future should have the ability to manage the end to end core tax compliance cycles with limited risk, supply accurate data in real time (both externally and internally) and respond to tax enquiries in an efficient and cost-effective manner.

Ideally a tax function should have the ability to use the same data and methodology in relation to all major tax processes and outputs, be that direct tax, indirect tax or tax provisioning to name a few. In addition, the tax function of the future should be fully integrated with the finance function in terms of data, workflows and controls thereby increasing efficiency and decreasing the risk of error in exchanging information.

Technology will be key to achieving all of the above, and Tax Systems is ideally placed to be able to build on its existing product set as well as look to develop or acquire new products in order to help businesses do so.

The customer challenge – outsource, insource or co-source the tax function?

The increased regulatory and media attention and resulting change to tax operating models is driving businesses to question whether they should outsource, in-source or co-source their tax function.

Customer Challenge Overview

continued

Outsourcing the tax function to an advisor ensures that the widest range of skills and the highest level of tax expertise can be leveraged, provides assurance on the output and removes the effort and challenges associated with finding, hiring and retaining an internal tax team. However, this can come at a significant cost. In addition, advisors sometimes do not have an in-depth understanding of the complexity of each individual business and so the onus is still on the 'client' to ensure the right data is collected and validated.

Insourcing helps businesses retain control, drive their own processes and mitigate tax risk. Investing in technology and process as opposed to additional headcount delivers an automated tax function with improved data access, reliability and accuracy along with greater business insight.

Businesses looking to do this will need a solution set such as ours, hence this presents a good opportunity for Tax Systems.

Co-sourcing is a hybrid whereby the business has the benefit of controlling and managing its core end to end compliance cycle using technology that they own but still use an external advisor for what would be considered 'value add' and complex areas.

Business Overview

Our history and heritage:

Tax Systems' core operating business was formed in 1991 and has built up an excellent reputation as a trusted supplier of corporation tax technology solutions and services. We have achieved local market leadership, based on the success of our suite of corporation tax software solutions and services, led by our flagship offering Alphatax. Since then our solutions have been continually developed and shaped to serve the evolving needs of corporation tax departments.

The root cause of the company's continued success is fourfold:

- Our focus on customer service
- Employing expert resources
- Substantial intellectual property rights investment creating a high barrier to market entry
- Continuously improving the accuracy of our highly complex compliance engines and complementary solutions

Our purpose:

The reason we exist is to help our customers be compliant with the regulations in the most efficient manner possible and provide tangible intelligence to continuously improve both the end to end compliance process and utilisation of expert resources. We enable customers to do this by developing and supporting innovative technology and expert service offerings.

Our market and geographical focus:

We operate in the corporation tax compliance and reporting market serving companies in the UK and Ireland. We sell directly to our customers via a sales force - we do not sell via any third-party distributors or resellers.

Our customer focus:

We currently serve and target large multi-national corporate companies, accountancy firms, and credit lenders. We have over 800 corporate clients including 43% of the FTSE 100, over 200 accountancy firms including 23 out of the top 25 and 8 high profile credit lenders.

Our customers' key buying criteria:

Over the years, customers have made it clear that their key buying criteria focus is on the quality, accuracy and reliability of the product as well as technical expertise. Value for money is also considered to be very important but overall there is demand for quality and accuracy rather than low cost. The key aspects to get right for our customers are:

- Quality and accuracy of product
- Ease of use / user experience
- Technical expertise
- Customer service
- Value for money

Customer loyalty:

We have a customer retention rate of over 95% which demonstrates that we are delivering against their requirements above. In the event we lose a customer (invariably a corporate customer rather than an accountancy firm) it is due to one of three reasons:

- If a company decides to outsource the compliance process to a third party (accountancy firms)
- If a company wants to move to a single global tax solution i.e. one company supplying multiple compliance process solutions
- If we do not have a solution to a customer need

Our revenue streams:

We generate revenue from the licensing of software solutions (multiple products) and sale of professional services. A high proportion of our revenue comes from annual licensing of software which means we have good visibility of revenue due to its recurring nature.

Our cost structure:

Our business is relatively simple in the sense that circa 75% of our costs relate to people and the remaining costs are associated with infrastructure (offices and IT, etc).

Business Overview

continued

Our relationship with HMRC:

We are committed to working closely with HMRC to ensure a seamless transition to the new ways of working for our current and future users. We have witnessed and experienced multiple changes in the UK corporation tax regime before including when XML and Inline Extensible Business Reporting Language ("iXBRL") were introduced. We worked closely with HMRC to ensure that we brought to market a fully tested and aligned solution and were the first major corporation tax software supplier to e-file under both XML and iXBRL.

Our goals:

As a public company we remain continually focused on delivering value for both our shareholders and customers and have four goals that drive our business:

- Increase shareholder value
- Deliver our market forecasts
- Define and deliver our customer requirements
- Live and breathe our culture and values

Our vision:

Longer term, we see ourselves as a software and services company specialising in international regulatory compliance technology.

Our business is currently made up of three types of technology assets:

Compliance engines and statutory reporting solutions – technologies that automate regulation into databases to drive a compliance output and reporting. Right now, we have two main compliance engines and over time we expect to develop or acquire other compliance engines.

Data management engines – technologies that automate and filter data to work with compliance engines. Right now, we have three data management engines and over time expect the data management engines to be able to work seamlessly with all of our compliance engines so that data is automatically populated into compliance engines for increased efficiency and accuracy.

Process management and Intelligence solutions – as a result of providing both compliance and data management engines we will naturally provide other complementary solutions around the core compliance process that are required by customers. We currently have solutions to help organisations manage their end to end compliance process which also provide intelligence to help people improve this process, over time we expect to add to that capability.

In summary, over time, we see the business becoming a 'RegTech' company with multiple compliance engines that help bridge the gap between companies and regulators by providing innovative technology and expert services – all of which will use our data management engines to automate as much of the process as possible. There is still work to be done in order to achieve this vision but we are well underway.

Strategy:

The chosen strategy to help achieve our vision and drive growth is a 'buy, build and partner' strategy.

Buy – meaning that Tax Systems will look to acquire companies that will complement our existing or future customer value proposition.

Build – meaning that Tax Systems will invest in resources to grow organically by selling existing and new solutions and services to existing and new customers. Tax Systems currently has over 1,000 customers across a range of verticals and has plenty of scope to 'retain and penetrate' those customers with further solutions as well as acquire new customers. During 2017, we invested over 70% of our wage bill into technical related resources in order to maintain and re-architect existing solutions, develop new solutions, new SaaS platform delivery mechanisms and drive interoperability between them.

Partner – meaning that Tax Systems will look to work with complementary third parties to generate revenue and profit from white labelling i.e. other companies integrating our technology with theirs as long as it is complementary and does not dilute our business. During 2017, we explored five different partnering opportunities but concluded that, in the short term, alternative acquisition options were our preference.

End to end Compliance Management

Data Management Suite	**Process Management Suite**	**Compliance Suite**	**Services**
• Accounts integration • Data entry for data owner collection • Osmo for automated data collection	*Process Management* • Control Suite for due dates, workflow, risk management, audit control and documents *Intelligence:* • Control Suite for process intelligence	*Compliance Engines* • Alphatax software for corporate tax compliance • Alphatax software for statutory reporting/accounting compliance *Statutory reporting solutions:* • CbyCR • FACTA	• Tagging • CbyCR • FACTA & CRS • Prepare and file • Training

Available on a mix of Desktop, Hosted & Cloud

Financial Review

Kevin Goggin

"I am pleased to report the results of Tax Systems for the year ended 31 December 2017, which shown a strong trading performance and good cash conversion.

We have early adopted IFRS 15 in these financial statements. This provides the clearest basis for our investors to evaluate our business going forward, embeds the new standard in advance of the implementation deadline and is in line with our strategy of transparency."

The results[1] for the year ended 31 December 2017, which is the first full year of operations of the Group since the acquisition of TCSL, were in line with expectations. Cash generation was particularly strong which resulted in a reduction in net debt of 16% from £24.4m as at 31 December 2016 to £20.5m as at 31 December 2017.

1 The results for the year ended 31 December 2017 are comprised of the results for Tax Systems plc and TCSL for the full year together with the results for OSMO for the nine months from acquisition on 3 April 2017. The results for the year ended 31 December 2016 are comprised of the results for Tax Systems plc for the full year together with the results for TCSL for the five-month period from acquisition on 26 July 2016.

Early adoption of IFRS 15 'Revenue from Contracts with Customers'

The new reporting standard on revenue recognition, IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15") has an effective date of 1 January 2018. However, the Group has early adopted this standard with an initial application date of 1 January 2017. The early adoption of IFRS 15 has resulted in changes in the timing of recognition of revenue.

Previously, the licence fee element of software licence agreements was recognised in the month in which the agreement commenced. The early adoption of IFRS 15 for the year ending 31 December 2017 has resulted in a change in our accounting policy to one of recognising revenue from software licence agreements evenly over the term of the agreement.

The change in policy to IFRS 15 does not impact on the lifetime profitability of contracts nor the cash flows associated with contracts.

The main consequences of the change in accounting policy are:

- Revenue is phased over the life of the software licences in line with the delivery of outcomes to clients and, consequently, the timing of profits is re-profiled;
- An increased level of deferred income was recognised. At 31 December 2017, the Group's balance sheet includes deferred income of £6.9m in relation to contracts where outcomes are being delivered over time. The majority of deferred income will unwind within 12 months and is expected to be replaced by similar levels, subject to changes to the contract portfolio; and
- Tax assets increased by £0.8m as a result of the change in accounting policy.

As permitted by IFRS 15, the Company has applied the change using a modified retrospective approach for which the comparative results for 2016 have not been restated. Instead, a cumulative adjustment has been recognised to opening retained earnings at 1 January 2017 in relation to agreements which still required performance by the Group at that date.

Revenue and gross margin

Revenue for the year to 31 December 2017 amounted to £15.1m (2016: £5.8m) from a mixture of sales of licenced software solutions and services mostly to large blue-chip corporates and major accountancy firms. 89% (2016: 87%) of revenue was derived in the UK with the balance from Ireland.

Revenue from annually renewable software licences amounted to £13.5m (2016: £5.0m), representing 90% (2016: 86%) of total revenue. This revenue stream provides the Group with a strong recurring revenue model.

The acquisition of OSMO contributed £1.0m to total revenue, comprised of £0.8m from licences and £0.2m from professional services.

Gross profit amounted to £14.0m (2016: £5.4m) after accounting for cost of sales which comprised of directly attributable staff costs and third-party hosting costs. The corresponding gross margin is 93% (2016: 93%).

Operating costs

Total operating costs for the year were £14.2m (2016: £8.6m). The increase was largely driven by the full year impact of the operating costs of TCSL, the costs of OSMO since acquisition and the full year charge for amortisation and depreciation of £6.4m.

	2017	2016
	£'m	£'m
Other administrative expenses	**7.1**	2.7
Transaction and restructuring costs	**0.7**	3.3
Amortisation and depreciation	**6.4**	2.6
Total operating costs	**14.2**	8.6

Operating loss, EBITDA and Adjusted EBITDA

The operating loss for the year was £0.2m (2016: loss £3.2m).

The Directors use Adjusted EBITDA as a non-GAAP measure in order to assess the underlying performance of the Group and to incentivise management. This measure allows management and investors to compare performance without the potentially distorting effects of one-off items, non-operational items and the charge for non-cash share based payments. Adjusted EBITDA is defined as operating profit or loss before exceptional items, depreciation, amortisation and share-based payments.

Adjusted EBITDA amounted to £7.0m (2016: £2.7m) for the year. A reconciliation of operating loss to Adjusted EBITDA is as follows:

	2017	2016
	£'m	£'m
Operating loss	**(0.2)**	(3.2)
Amortisation and depreciation	**6.3**	2.6
EBITDA	**6.1**	(0.6)
Share based payments	**0.2**	–
Transaction and restructuring costs	**0.7**	3.3
Adjusted EBITDA	**7.0**	2.7

Net finance costs

Net finance costs for the year amounted to £1.6m (2016: £0.8m), principally made up of interest payable on bank borrowings and unsecured loan notes of £1.2m (2016: £0.6m), together with a non-cash effective interest charge of £0.4m (2016 £0.2m) on the equity settled element of the cost of the loan notes.

Loss before tax

The Group reported a loss before tax of £1.9m in 2017 (2016: £4.0m). The loss for the year is after accounting for an amortisation charge of £6.3m (2016: £2.6m) as a result of the significant value of intangible assets attributed to customer contracts and intellectual property rights.

Tax

The tax credit for the year was £1.4m (2016: £0.3m). The credit for 2017 was principally represented by adjustments in respect of prior years, which mainly arose from the submission of enhanced R&D tax claims.

Statutory loss after tax

The reported loss after tax was £0.5m (2016: loss £3.7m).

Earnings per share

Basic loss per share was 0.59p (2016: 9.82p).

OSMO acquisition

On 3 April 2017, the Company completed the acquisition of the entire issued share capital of OSMO for £3.2m settled by the issue of 4,701,492 ordinary shares of 1p each in the capital of the Company ("Ordinary Shares") at a price of 68p per share.

Long Term Incentive Plan and warrants

The Group's Long Term Incentive Plan ("LTIP") was established to incentivise certain directors and senior executives of the Group.

On 2 August 2017, the number of warrants issued to MXC Capital Limited ("MXC") was adjusted to reduce the entitlement of MXC to 4% of the fully diluted share capital, down from 6%, so that the pool available to management under the LTIP could be increased from 6% to 8% of shareholder value created.

Financial Review

continued

The LTIP awards are structured as Growth Shares in Tax Systems Holdings Limited, a wholly owned subsidiary of the Company. Beneficiaries will share in a pool of up to 8% of shareholder value which is defined as the growth in value in the market capitalisation of the Company from the date of its re-admission to trading on AIM on 26 July 2016 as adjusted for further share issuance and capital returns if any. At the reporting date, LTIP awards equal to 8.0% (2016: 5.3%) of the growth in value have been made.

At 31 December 2017 MXC had warrants to subscribe for 3,362,641 Ordinary Shares (2016: 4,851,184 Ordinary Shares) at a price of 67p and 61p per share. The Company also has granted the Business Growth Fund ("BGF") an option to subscribe for 5,970,149 Ordinary Shares at a price of 67p.

The Board intends, in due course, to purchase a limited number of Ordinary Shares to set up a new LTIP scheme principally for the benefit of existing employees not included in the current scheme and staff either yet to join or who will become part of the Group by way of acquisition.

Cash flow and net debt

The Group generated £1.3m (2016: absorbed £2.8m) of cash during the year with the key components of the Group's cash flow being:

	2017 £'m	2016 £'m
Adjusted EBITDA	**7.0**	2.7
Exceptional items	**(0.7)**	(3.3)
Net change in working capital	**0.6**	0.5
Operating cash flow	**6.9**	(0.1)
Net interest paid	**(1.2)**	(0.3)
Tax paid	**(0.4)**	(0.4)
Capital expenditure	**(1.6)**	(0.4)
Free cash flow	**3.7**	(1.2)
Issue of shares	**–**	43.8
Acquisitions	**2.4**	(74.0)
Cash inflow from borrowings	**–**	29.5
Repayment of bank borrowings	**(4.8)**	(0.9)
Net change in cash flow	**1.3**	(2.8)
Cash at start of year	**2.2**	5.0
Cash at end of year	**3.5**	2.2

Conversion of Adjusted EBITDA to operating cash flow after exceptional items was 98%.

Net debt at 31 December 2017 amounted to £20.5m (2016: £24.4m) which comprised of the following:

	2017 £'m	2016 £'m
Term loans and revolving credit facilities	**(14.3)**	(19.1)
BGF loan notes	**(10.0)**	(10.0)
Gross debt	**(24.3)**	(29.1)
Loan arrangement fees	**0.3**	0.5
Cash and restricted cash	**3.5**	4.2
Net debt	**(20.5)**	(24.4)

Kevin Goggin
Chief Financial Officer 20 April 2018

Risk Management and Principal Risks

There are a number of potential risks and uncertainties that could have a material impact on the Group's long-term performance. The Board has overall responsibility for managing risk. Risks are formally identified and recorded in a risk register which is reviewed by the Board and appropriate processes are in place to implement and monitor mitigating controls. The Group has a delegation of authorities that clearly sets out the approval required for key activities, including those restricted to the Board and the Executive Directors.

The Audit and Risk Committee, which includes the independent Non-Executive Directors, monitors and promotes the highest standards of integrity, financial reporting, risk management and internal control.

As reported in the CEO statement, there has been a significant level of activity at an operating level during 2017 including documenting the Group's longer term goals, vision, strategy and target operating model. From a risk perspective we have a fully aligned organisation with individual accountability and objectives in place to not only grow the business but also manage risk. The Executive Directors are closely involved in the day-to-day management of the business and have oversight of all the controls the business has in place, including financial, operational and compliance controls, as well as overseeing risk management.

In addition, in order to assist with the management of risks, the Group continues to recruit individuals who are expert in our markets, technology and support disciplines.

Data protection and privacy practices are essential for the Group. The implementation of the EU General Data Protection Regulations ("GDPR") planned for May 2018 is therefore a critical project for us. We are working to ensure that we are ready, and to help our customers be ready too. Subject to specific local data laws, GDPR will be the standard against which we will assess all of our future data protection activities. The key risks to which the Group is exposed are set out on the following page.

Risk area and potential impact	Target Operating Model linkage	Management of risks
Market competition and product development The market in which the Group operates is technology driven and competitive. The Group may fail to develop its technology portfolio to meet customer demand. Developments by competitors, new entrants and alliances may render the Group's current and proposed products and services obsolete. Superior technology and increased competition may cause price reductions, reduced margins and loss of market share.	Technology interoperability and architecture contains five objectives. Product & services performance and investment decisions contains four specific objectives. Market, product & services analysis contains five specific objectives. For all of the above, the CTO is accountable for delivery with delegation of responsibility down to team members.	The Group is building an integrated end to end tax compliance solution by making substantial investment in the development of its products and services in order to meet the challenge of ever increasing levels of technological advancements. This also has the effect of reducing the Group's reliance on Alphatax. The Group also continually monitors the market place for competitor developments.

Risk Management and Principal Risks

continued

Risk area and potential impact	Target Operating Model linkage	Management of risks
Undetected defects in the software The Group's business involves providing customers with reliable software. If the software contains undetected defects when first introduced or when upgraded or enhanced, the Group's customers may suffer incorrect tax computations. As a result, the Group may lose customers or become liable to its customers for damages.	Product quality contains two specific objectives. Product & services release management contains two specific objectives. Product & services maintenance contains two specific measures. For all of the above, the CTO is accountable for delivery with delegation of responsibility down to team members.	The Group has dedicated tax and technical teams which focus on product integrity and testing to help reduce errors in tax computations. The Group also continues to invest in best of breed development and test automation technologies to ensure there is full visibility and traceability of the end to end software development and management process.
Breach of data integrity and confidentiality There may be threats to the confidentiality, integrity and availability of the information systems and information that the Group holds about and on behalf of its customers and staff. This could impact the Group's operations, result in fines and undermine customer trust in the Group's business and brand leading to a loss of customers.	End to end systems, data and security infrastructure contains four specific objectives. For all of the above, the CFO is accountable for delivery with delegation of responsibility down to team members.	The Group implements and maintains controls, processes and tools that ensure continuity of information systems and the confidentiality and integrity of confidential and sensitive information. The Group's technical team includes a number of experienced IT security professionals, and the Group uses third party providers' expertise as appropriate.
Governmental developments Governments may introduce new tax compliance portals and procedures requiring changes to the Group's technology suite. Revision of the frequency and timing of the Chancellor's budget statements may impact the Group's ability to respond with updates leading to product inoperability due to non-current tax rules being incorporated in the software. This may lead to loss of customers and faith in the Group's products.	Legislation development is a fundamental core of the entire business and doesn't need to be transformed under the Target Operating Model. This is therefore listed as a 'maintain' function which links in with release management. For all of the above, the CTO is accountable for delivery with delegation of responsibility down to team members.	The Group is a member of HMRC's software development group and therefore it keeps up to date with and has advanced warning of potential changes to the corporation tax regime and timing thereof, allowing it to adapt and update its products in a timely fashion. Our products are continually being upgraded and extended in order to ensure that we meet timing and transparency demands.

Risk area and potential impact	Target Operating Model linkage	Management of risks
Failure to recruit and retain key management and staff The Group may fail to recruit and retain individuals with appropriate skills and experience to deliver the Group's strategy.	Employer recruitment, experience, communication and engagement contains ten specific objectives Management & leadership development contains four specific objectives. For all of the above, the CFO is accountable for delivery with delegation of responsibility down to team members.	The Group has a senior management team and places a significant emphasis on staff retention. Key management and staff are incentivised via bonus plans and share schemes; a new Long Term Incentive Scheme was established during the year under review to achieve this.
Acquisitions The Group may fail to execute its acquisition and partnerships strategy successfully which may impact on the Group's ability to build an end to end tax solution and consequently on the Group's financial performance.	Corporate development contains four specific objectives. For all of the above, the CEO is accountable for delivery with delegation of responsibility down to team members.	The Group continually monitors market developments and together with its M&A advisor and broker, regularly evaluates potential acquisitions and partners. Before an acquisition is made, the Group commissions financial and legal due diligence to highlight potential risks and mitigate them where possible.

Board of Directors

Gavin Lyons (40)

Chief Executive Officer ("CEO")

Gavin is responsible for the planning, setting and execution of the Group's strategy as well as identifying and evaluating acquisition opportunities. Gavin was Executive Chairman and led the Company's re-admission to AIM in July 2016 and became Chief Executive Officer of Tax Systems at the beginning of April 2017. Gavin has had a distinguished career in the TMT sector completing close to 20 corporate transactions (including three major exits) totalling more than £200m. Gavin was until recently a partner at MXC Capital Limited, the AIM quoted technology investor and advisor, but stepped away from his operating role to concentrate his efforts on Tax Systems plc.

Prior to MXC Capital Limited, Gavin was CEO of Accumuli plc, a successful buy and build in the IT security sector sold to NCC Group plc for £55m. Prior to Accumuli plc, Gavin was Head of Telecoms & Utilities at SAP UK&I, the global market and technology leader in business management software. Prior to SAP, Gavin had considerable executive-level experience derived from his role as Vice President of Sales and Alliances with Identum and three subsequent director positions with Trend Micro. Identum was a venture capitalist backed email encryption business that was successfully sold to IT security giant Trend Micro in 2008 for a multimillion dollar sum. Gavin has also worked at Xerox, Compuware and The Caudwell Group.

Areas of expertise:

Gavin Lyons has 17 years of experience in the IT industry specialising in software, services and telecoms. Gavin has functional and leadership experience in strategy, sales, marketing, commercial and M&A. Gavin has experience of P&L ownership with both independent software vendors and service providers. Gavin also has experience of running both public and privately owned companies. Overall, this experience enables Gavin to lead companies on growth journeys.

Kevin Goggin (55)

Chief Financial Officer ("CFO")

Kevin joined the group as Chief Financial Officer in April 2017. Kevin is a Fellow of the Institute of Chartered Accountants in England & Wales with significant international experience in finance and operations, having previously held CFO and MD positions. Kevin has worked in both listed and private companies, most recently in software and technology and, prior to this, in media storage and logistics. Kevin has completed a number of corporate transactions, including two business sales to private equity. Before joining Tax Systems, Kevin has worked with Monitise plc and was CFO at Bonded Services Group.

Areas of Expertise

Kevin has significant financial and operational experience in international businesses which allows him to ensure that the Group continues to perform while delivering its transformation and growth.

Clive Carver (57)

Independent Non-Executive Chairman

Clive is the Non-Executive Chairman, having previously been a Non-Executive Director of the Company. Clive is a Fellow of the Institute of Chartered Accountants in England & Wales (FCA) and a Fellow of the Association of Corporate Treasurers (FCT) with more than 35 years City experience.

He qualified in the tax department at Coopers & Lybrand and subsequently worked for in the corporate finance departments of Kleinwort Benson and Price Waterhouse.

He spent 17 years in the corporate broking arena becoming successively head of corporate finance at Seymour Pierce, Williams de Broe and finnCap.

His first appointment as a non-executive director was in 2001 and his first appointment as a non-executive chairman was in 2007.

He is currently Executive Chairman and CFO at Caspian Sunrise PLC, non-executive chairman at Ascent Resources PLC and non-executive chairman at appScatter Group PLC. Additionally, he has a number of board positions in private companies.

Areas of Expertise

Clive has experience both as an adviser and a principal, including equity fund raising, debt, acquisitions (public & private), disposals (public & private), IPO's, restructurings, rescues, corporate governance as well as general and financial management.

Linda Beal (56)

Independent Non-Executive Director

Linda is a chartered accountant and worked in major accounting firms for 33 years. During this time, she spent 27 years specialising in tax structuring and tax compliance for UK and international groups.

Linda was, until 30 June 2016, a tax partner at Grant Thornton. Prior to Grant Thornton, Linda was a tax partner at PwC and one of its legacy firms from 1997 to 2013.

Linda has significant experience of advising large and medium sized groups operating in the UK and internationally, including supporting boards and in-house tax teams on tax structuring, management of tax risk and tax compliance using Alphatax and other tax compliance software.

Areas of Expertise

Linda provides insight from her tax knowledge, experience from being a tax partner in two major accounting firms and of working with in-house tax teams to the Board's strategic discussions.

Paul Gibson (53)

Non-Executive Director

Paul Gibson is a partner in MXC Capital Limited and has had a highly successful career in the TMT sector, most recently as Chief Operating Officer of Advanced Computer Software plc ("ACS") prior to its acquisition by Vista Equity Partners for £725m. In his five years at ACS Paul oversaw a period of exceptional value creation and transformation, with responsibility for driving both organic and acquisitive growth. Prior to ACS, Paul held a number of senior roles in both financial and operational capacities, latterly as Finance Director of Redac Limited, the Alchemy backed turnaround that was subsequently sold to ACS for £100m. The foundations of Paul's career were built at Unigate, GrandMet (now Diageo) and Oracle.

Areas of Expertise

Paul has over 25 years' software specific operational, financial, commercial and M&A experience. This experience allows him to provide substantial insight to the discussions of the Board and its Committees.

Corporate Governance Report

The Board is committed to the maintenance of high standards of corporate governance and seeks to implement best practice as appropriate for smaller listed companies by reference to the provisions of the Quoted Companies Alliance's Corporate Governance Code for Small and Mid-Size Quoted Companies.

The Board of Directors and Committees

The Board is responsible for setting the overall strategy of the business, reviewing management performance and ensuring the Group has sufficient financial and human resources to meet its objectives. It directs the Group's activities in an effective manner through general Board meetings and monitors performance through timely and relevant reporting procedures. Where it deems necessary, the Board requests reports on specific areas outside the normal reporting regime.

The Chairman is responsible for the leadership of the Board and ensuring its effectiveness.

The Board at present comprises two Executives (the CEO and the CFO) and three Non-Executive Directors. The size of the Board is considered to be appropriate to the current size and character of the Group. Clive Carver and Linda Beal are independent of management and any business or other relationships which would interfere with the exercise of their independent judgement.

Authority for the execution of the business plan and the daily running of the business is delegated to the Executive Directors and the senior management team, who meet regularly to review current business performance, sales activity, operational projects, customer service, human resourcing matters and other day-to-day activities.

Board meetings and attendance

	Meetings attended
Meetings held during the year	**11**
Clive Carver (Chairman)	11/11
Gavin Lyons	11/11
Kevin Goggin[1]	8/8
Linda Beal	11/11
Paul Gibson[1]	8/8

[1] K Goggin and P Gibson were appointed in April 2017 and have attended all meetings after their appointment.

The biographies of the serving members of the Board are provided on pages 18 and 19.

The Board has established two standing committees, the Audit and Risk Committee and the Remuneration and Nomination Committee. Each of these Committees acts within defined terms of reference which are available on the Company's website.

Formal agendas and reports are provided to the Board on a timely basis in advance of Board and Committee meetings and the Chairman ensures that all Directors are properly briefed on issues to be discussed at Board meetings. Directors are able to obtain further advice or seek clarity on issues raised at the meetings from within the Company or from external sources.

All Directors are subject to appraisal by the Board. The Non-Executive Directors are responsible for the evaluation of the Chairman.

In accordance with the Company's Articles of Association, Clive Carver will retire and offers himself for re-election at the forthcoming Annual General Meeting.

Clive Carver
Non-Executive Chairman
20 April 2018

Report of the Audit and Risk Committee

Role and responsibilities

The Audit and Risk Committee is responsible for monitoring the integrity of the Company's financial statements, reviewing significant financial reporting issues, reviewing the effectiveness of the Group's internal control and risk management systems, monitoring the need for or the effectiveness of the internal audit function and overseeing the relationship with the Auditor (including advising on their appointment, agreeing the scope of the audit and reviewing the audit findings). The Audit and Risk Committee also reviews the nature and amount of non-audit work undertaken by the Auditor, if any, to satisfy itself that there is no effect on its independence. The Committee is satisfied that Crowe Clark Whitehill is independent.

Composition of the Audit and Risk Committee

The Audit and Risk Committee comprises Linda Beal, Clive Carver and Paul Gibson and is chaired by Linda Beal. The Committee meets at least twice a year at appropriate times in the reporting and audit cycle and otherwise as required. The Committee also meets regularly with the Company's Auditor.

Risk management and internal controls

The Board is responsible for the Group's systems of internal controls and for reviewing its effectiveness. The implementation and maintenance of the risk management and internal control systems are the responsibility of the Executive Directors and senior management. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Audit and Risk Committee meetings and attendance

	Meetings attended
Meetings held during the year	**3**
Linda Beal (Chairman)	3/3
Clive Carver	3/3
Paul Gibson[1]	2/2

[1]Paul Gibson was appointed to the audit committee during the year and has attended all meetings since his appointment

The Board confirms that there are ongoing processes for identifying, evaluating and mitigating the significant risks faced by the Group.

The key procedures that have been established for internal controls are as follows:

- An established operational management structure with clearly defined responsibilities and regular performance reviews;
- A comprehensive system for reporting financial and non-financial information to the Board, including review of annual budgets and strategy plans;
- Detailed monthly budgeting and reporting of trading results, balance sheets and cash flows, with regular review by management and the Board of variances from budget;
- The control of key financial risks through appropriate authorisation levels and segregation of accounting duties; and
- Review of reports issued by the external auditor.

The Committee regularly reviews the overall assessment of the principal risks and the management actions and mitigation in place as set out in the Risk Register. The Risk Register is presented to the Board for formal review on a biannual basis and progress on matters is presented throughout the year through executive reporting.

Report of the Audit and Risk Committee

continued

Paul Gibson performs an internal audit role as well as his role as Non-Executive Director with a focus on evaluating and improving the effectiveness of management systems.

On behalf of the Board, the Committee reviews reports from the external auditor together with management's response regarding proposed actions. In this manner they have reviewed the effectiveness of the system of internal controls for the period covered by the accounts.

Investor relations

Tax Systems is committed to open communication with all its shareholders. The Company believes it is important to explain business development and financial results to its shareholders and to ensure that suitable arrangements are in place so that the issues and concerns of major shareholders are heard and understood.

Copies of the Annual Report and Accounts are issued to all shareholders who have requested them and copies are available on the Group's investor website www.taxsystems.com. The Group's interim results are also made available on the Company's website. The Group makes full use of its investor website to provide information to shareholders and other interested parties.

Shareholders are given the opportunity to raise questions at the Annual General Meeting and the Directors are available both before and after the meeting for further discussion with shareholders. As a matter of policy, the level of proxy votes (for, against and vote withheld) lodged on each resolution is declared at the meeting.

The CEO and CFO are primarily responsible for investor relations. Meetings are offered to major institutional shareholders to discuss strategy, financial performance and investment activity immediately after the full year and interim results announcements. All the Non-Executive Directors are available to meet with major shareholders if such meetings are required. Feedback from such meetings with shareholders is provided to the Board to ensure the Directors have a balanced understanding of the issues and concerns of major shareholders. Trading updates and press releases are issued as appropriate and the Group's brokers provide briefings on shareholder opinion and compile independent feedback from investor meetings.

External auditors

The Audit and Risk Committee reports to the Board on the effectiveness of the Auditor and receives information from the Executive team in this regard. The Audit and Risk Committee and the Board also consider the appointment of the Auditor annually prior to recommending the appointment of the Auditor at the Annual General Meeting in June.

Significant reporting and accounting matters

The Committee met over the course of the year to receive and consider:

- Updates on financial reporting and significant accounting matters. The change of accounting policy for revenue recognition was addressed in preparing the Group's financial statements;
- Significant costs were incurred on the business transformation activities for the move to a new operating model and the recognition of these costs as non-recurring items has been an area of focus;
- The appropriateness of the accounting treatment applied for the acquisition of OSMO together with the judgements and estimations applied;
- Impairment testing and the recoverability of goodwill was considered including the key inputs to forecast future cash flows, discount rates and growth rates.

Following the completion of each of these areas, the Committee was satisfied that the accounting policies, judgements and estimates applied and the disclosures made about them in the financial statements were appropriate.

Linda Beal
Chair of the Audit and Risk Committee
20 April 2018

Report of the Remuneration and Nomination Committee

The Remuneration and Nomination Committee is responsible for determining and agreeing with the Board the framework for the remuneration of Executive Directors and other designated senior executives and, within the terms of the agreed framework, determining the total individual remuneration packages of such persons, including, where appropriate, bonuses, incentive payments and share options or other share awards.

The remuneration of Non-Executive Directors will be a matter for the Executive Directors. No director will be involved in any decision as to his or her own remuneration. Further details are set out in the Directors' Remuneration Report on pages 24 to 25.

The Remuneration and Nomination Committee comprises Clive Carver, Gavin Lyons and Linda Beal and is chaired by Clive Carver. The Remuneration and Nomination Committee meets at least twice a year and otherwise as required.

For nominations, the Committee meets as and when necessary to consider the appointment of new executive and non-executive directors.

Clive Carver
Chair of the Remuneration and Nomination Committee
20 April 2018

Remuneration and Nomination Committee meetings and attendance

	Meetings attended
Meetings held during the year	**2**
Clive Carver (Chairman)	2/2
Linda Beal	2/2
Gavin Lyons	2/2

Directors' Remuneration Report

General policy

The Remuneration and Nomination Committee determines, on behalf of the Board, the Company's policy for executive remuneration and the individual remuneration packages for the Executive Directors. The Remuneration and Nomination Committee determines the detailed terms of service of the Executive Directors, including basic salary, incentives and benefits and the terms upon which their service may be terminated.

The Group's remuneration policy for Executive Directors is designed to attract, retain and motivate executives of the highest calibre to ensure the Group is managed successfully to the benefit of shareholders.

In setting remuneration levels, the Remuneration and Nomination Committee takes into consideration remuneration within the Group and the remuneration practices in other companies of a similar size in the markets and locations in which Tax Systems operates. The packages are designed to be competitive in value to those offered to the Directors of similar sized public companies in related sectors. It is the Board's policy to align the long-term interests of managers with those of our shareholders in the granting of options and other equity rewards.

Remuneration of Executive Directors

The remuneration packages comprise the following components:

- **Basic salary**
  Basic salary is based on a number of factors including market rates together with the individual director's experience, responsibilities and performance. Car allowances form part of an Executive Director's basic salary.

- **Bonus scheme**
  The Company operates an annual performance related bonus scheme for Executive Directors. The bonus scheme is discretionary and dependent on the performance of the individual and the Group. The performance criteria for the year are set by reference to targets for Adjusted EBITDA and net debt.

- **Pensions**
  The Company makes payments into defined contribution Personal Pension Plans on behalf of the Executive Directors. These payments were at a rate of 1% and with effect from 1 April 2018 will be at 2% of basic salary.

- **LTIP**
  Under the LTIP participants are entitled to receive a share of shareholder value created, subject to achievement of share price and employment related performance criteria. Further information can be found in the Directors' Report on page 26 and in note 24 of the financial statements.

- **Other benefits**
  The Executive Directors are entitled to receive the benefit of private medical insurance and income protection insurance.

The CEO and CFO are engaged under service contracts which require a notice period of six months.

Remuneration of Non-Executive Directors

The fees paid to the Non-Executive Directors are determined by the Executive Directors. They are not entitled to receive any bonuses or other benefits, other than Paul Gibson who is a participant in the LTIP. Non-Executive Directors' letters of appointment are on a three-month rolling basis.

Directors' remuneration

	Salary and fees		Bonus		Pension		Other benefits		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Executive Directors										
G Lyons[1]	**157**	31	**100**	–	**–**	–	**6**	–	**263**	31
K Goggin[2]	**97**	–	**30**	–	**–**	–	**1**	–	**128**	–
G Benson[3]	**129**	63	**–**	–	**–**	–	**4**	–	**133**	63
Non-Executive Directors										
C Carver	**66**	31	**–**	–	**–**	–	**–**	–	**66**	31
L Beal	**41**	17	**–**	–	**–**	–	**–**	–	**41**	17
P Gibson[4]	**30**	–	**–**	–	**–**	–	**1**	–	**31**	–
J Swingewood[5]	**–**	8	**–**	–	**–**	–	**–**	–	**–**	8
R Oren[5]	**–**	8	**–**	–	**–**	–	**–**	–	**–**	8
Total remuneration	**520**	140	**130**	–	**–**	–	**12**	–	**662**	140

1 In 2017, £44,000 (2016: £81,000) was paid to MXC Advisory Limited. A further £87,000 was charged by MXC Capital Advisory Limited in connection with the due diligence and consultancy services provided by Gavin Lyons prior to the Company's acquisition of TCSL. See note 29 for further details.

2 K Goggin was appointed as a director on 3 April 2017.

3 G Benson resigned as a director on 3 April 2017. Salary for 2017 includes an amount of £87,000 for compensation for loss of office. Prior to the Company's re-admission to trading on AIM on 26 July 2017, £69,000 was paid to Intronovo Limited in respect of consultancy services provided by G Benson.

4 P Gibson was appointed as a director on 3 April 2017. In the year to 31 December 2017, £52,000 (2016: £23,000) was paid to MXC Advisory Limited and £30,000 (2016: £13,000) was paid to P Gibson in respect of his services to the Company.

5 J Swingewood and R Oren resigned as directors on 23 March 2016

Directors' interests in shares

The Directors' shareholdings in the Company are listed in the Directors' Report on page 26.

On behalf of the Board

Clive Carver

Chair of the Remuneration and Nomination Committee 20 April 2018

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2017. This Directors' Report contains certain statutory, regulatory and other information and incorporates, by reference, the Strategic Report and Governance Review included earlier in this document.

Strategic report

This Annual Report and Accounts has been prepared to provide shareholders with a fair and balanced review of the Group's business and the outlook for the future development of the Group as well as the principal risks and uncertainties which could affect the Group's performance.

Principal activity

The principal activity of the Group during the year was the supply of tax compliance software and services to large corporates and the accountancy profession in the UK and Ireland.

Results and dividends

Details of the Group's results are set out in the Consolidated Statement of Comprehensive Income on page 33. The Group's loss for the year after taxation amounted to £0.5m (2016: loss £3.7m). The Directors do not propose a dividend for the year ended 31 December 2017 (2016: £nil).

Directors

The current Directors of the Company are shown on pages 18 and 19. Clive Carver and Linda Beal, as Non-Executive Chairman and Non-Executive Director respectively, were considered to be independent of management and any business or other relationships which could interfere with the exercise of their independent judgement.

Kevin Goggin and Paul Gibson were appointed to the Board on 3 April 2017.

Directors' interests in shares

At 31 December 2017, Gavin Lyons held 149,254 ordinary shares representing 0.2% of the issued share capital. No other director had a beneficial interest in the ordinary shares.

LTIP

An LTIP scheme was introduced in July 2016 to provide an effective mechanism for senior executives to participate in the Company's equity, aligning their interests with those of shareholders. The LTIP scheme was amended in August 2017 to increase the participation available to management from 6% to 8%. At the same time, MXC agreed to reduce its warrants over the fully diluted share capital of the Company from 6% to 4%. There was therefore no change to the overall dilution to shareholders as a result of this modification. Details of the LTIP are set out in note 24 to the financial statements.

The directors participating in the scheme at the date of this report and their respective entitlement to the growth in value of market capitalisation of the Company are as follows:

Gavin Lyons	3.2%
K Goggin	0.5%
Paul Gibson	1.0%

Directors' indemnity and insurance

The Group maintained insurance cover during the year for its Directors and Officers under a Directors and Officers liability insurance policy against liabilities that may be incurred by them while carrying out their duties.

Substantial shareholders

At 29 March 2018, shareholders with a beneficial holding of more than 3% of the Company's issued share capital were as follows:

	Number of ordinary shares	**% of issued share capital**
1798 Volantis	16,004,466	19.8%
MXC Capital	15,200,718	18.8%
Coltrane Asset Management	10,149,754	12.6%
Schroder Investment Management	6,729,851	8.3%
Mr Nigel Wray	5,354,743	6.6%
Premier Fund Management	5,228,060	6.5%
River & Mercantile Asset Management	4,600,000	5.7%

Share capital and reserves

Details of changes in the authorised and issued share capital and reserves of the Company are shown in note 23 to the financial statements.

On 3 April 2018, Tax Systems completed the acquisition of OSMO in return for the issue of 4,701,492 ordinary shares in the capital of the Company. Further details are set out in note 30 to the financial statements.

Employees

As at the date of this report, the Group employed 90 people.

The Group's policy is to consult and discuss with employees matters likely to affect employees' interests. The Group systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Group is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the Group plays a major role in maintaining its relationship with its staff.

The Group is committed to employment policies which follow best practice, based on equal opportunities for all employees, irrespective of ethnic origin, religion, political opinion, gender, marital status, disability, age or sexual orientation.

Applications for employment by disabled persons are fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled employees should, as far as possible, be identical with that of other employees.

Environmental policy

The Group acknowledges the importance of environmental matters and where possible uses environmentally friendly policies in its offices, such as recycling and energy-efficient practices.

Health and safety

The Group aims to provide and maintain a safe working environment for all colleagues and visitors to its premises, and to comply with all relevant UK health and safety legislation. Health and safety matters are delegated to representatives within the business, who can raise any issues arising via a number of means, including the corporate risk register whose highest rated risks are reviewed periodically by the Board.

Financial risk management objectives and policies

The Group's financial risk management objectives and policies are described in note 3 to the financial statements.

Research and development

The Group capitalised £1.2m (2016: £0.4m) during the year on development of software products.

Charitable and political donations

The Group has made no charitable or political donations in the year (2016: £nil).

Going concern

The Directors, having made suitable enquiries and analysis of the accounts, consider that the Group has adequate resources to continue in business for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements. In making this assessment, the Directors have considered the Group's budget, cash flow forecasts, available banking facilities and levels of recurring revenue.

Disclosure of information to auditors

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

Directors' Report

continued

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and applicable law.

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 Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed subject to any material departures disclosed and explained; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at the time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are further responsible for ensuring that the Strategic Report and Report of the Directors and other information included in the Annual Report and financial statements are prepared in accordance with applicable law in the United Kingdom.

The maintenance and integrity of the corporate and financial information included on the Company's website is the responsibility of the Directors; the work carried out by the auditors does not involve the consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Annual General Meeting

The Annual General Meeting will be held at 11 a.m. on 20 June 2018. Details and an explanation of the resolutions to be proposed are contained in the Notice of Annual General Meeting and explanatory notes either sent to shareholders with the Annual Report or available on the Company's website, www.taxsystems.com.

Auditors

Crowe Clark Whitehill LLP have expressed their willingness to continue in office as auditors and a resolution to appoint them and authorise the Directors to determine their remuneration for the ensuing year will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Kevin Goggin
Company Secretary 20 April 2018

Independent Auditor's report

to the members of Tax Systems Plc

Opinion

We have audited the financial statements of Tax Systems plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2017, which comprise:

- the Group statement of comprehensive income for the year ended 31 December 2017;
- the Group and parent company statements of financial position as at 31 December 2017;
- the Group and parent company statements of cash flows for the year then ended;
- the Group and parent company statements of changes in equity for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

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 December 2017 and of the Group's loss for the period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- The directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £350,000, which represents 5% of Adjusted EBITDA (2016: £300,000). We used that benchmark because of the importance of Adjusted EBITDA for shareholders in assessing the performance of the Group.

Independent Auditor's report

to the members of Tax Systems Plc continued

We use a different level of materiality ("performance materiality") to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

Where considered appropriate performance materiality may be reduced to a lower level, such as, for related party transactions and directors' remuneration.

We agreed with the Audit Committee to report to it all identified errors in excess of £10,000. Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

Overview of the scope of our audit

Tax Systems Plc and its subsidiaries are accounted for from one operating location in the UK. Our audit was conducted from the main operating location and all subsidiary companies were within the scope of our audit testing, including Osmo Data Technology Limited which was acquired by the Group in April 2017.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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.

This is not a complete list of all risks identified by our audit.

Key audit matter	How the scope of our audit addressed the key audit matter
Revenue recognition The board of the Parent Company elected to early adopt IFRS 15 'Revenue from Contracts with Customers' for the year ended 31 December 2017. The Group has applied the consequent change in accounting policy using a modified retrospective approach in which the comparative results for 2016 have not been restated, instead a cumulative adjustment has been recognised through retained earnings at 1 January 2017 in relation to agreements which still required performance by the Group at that date.	We performed substantive testing to determine whether the change of accounting policy on adoption of IFRS 15 had been correctly applied. We also performed substantive testing with respect to the revenue recognised during the year, including deferred revenue. We assessed the appropriateness of the related disclosures in the financial statements, including disclosures related to the adoption of IFRS 15.

Key audit matter	How the scope of our audit addressed the key audit matter
Carrying value of goodwill and other intangible assets The Group acquired Tax Computer Systems Ltd ("TCSL") in the prior year and OSMO Data Technology Ltd ("OSMO") in the current year. As a result, intangible assets and goodwill have been recognised in the financial statements. TCSL also recognises an intangible asset arising from capitalised software development costs.	We obtained management's impairment review of the existing goodwill and intangible assets recognised on acquisition of TCSL in the prior year and consider that this continues to support the carrying values of these assets, details of which are included in Note 12 to the financial statements. We obtained management's assessment of the fair values of the net assets of OSMO acquired by the Group during the year, together with the valuation of the intangible assets and goodwill arising, as further explained in Note 30 to the financial statements. We challenged management on the valuation basis and assumptions. We also tested the additions and carrying value of the capitalised development costs, set out in Note 12.

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of our audit

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report and strategic report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or

Independent Auditor's report

to the members of Tax Systems Plc continued

- 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.

Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's 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 the directors 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 for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Stephen Bullock (Senior Statutory Auditor)
for and on behalf of
Crowe Clark Whitehill LLP
Statutory Auditor
London
23 April 2018

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Revenue	5	**15,109**	5,753
Cost of sales		**(1,138)**	(377)
Gross profit		**13,971**	5,376
Administrative expenses		**(14,205)**	(8,609)
Operating loss	6	**(234)**	(3,233)
Finance income	8	**14**	26
Finance costs	8	**(1,661)**	(787)
Loss before income tax		**(1,881)**	(3,994)
Income tax	9	**1,411**	254
Loss for the year attributable to the owners of the parent		**(470)**	(3,740)
Other comprehensive (expense)/income that may be reclassified subsequently to profit or loss:			
Currency translation differences on consolidation		**(1)**	61
Total comprehensive expense for the year attributable to the owners of the parent		**(471)**	(3,679)
Loss per share attributable to owners of the parent during the year – basic and diluted (pence)	10	**(0.59p)**	(9.82p)

Non-GAAP measure: Adjusted EBITDA	Note	2017 £'000	2016 £'000
Operating loss	6	**(234)**	(3,233)
Depreciation and amortisation	6	**6,369**	2,576
EBITDA		**6,135**	(657)
Share-based payments	24	**188**	38
Exceptional items	6	**680**	3,333
Adjusted EBITDA[1]		**7,003**	2,714

[1] Adjusted EBITDA is defined as operating profit or loss before exceptional items, depreciation, amortisation and share-based payments.

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 to not present the parent company Statement of Comprehensive Income (see note 31).

The notes on pages 39 to 78 are an integral part of these financial statements.

Consolidated Statement of Financial Position

as at 31 December 2017

	Note	2017 £'000	2016 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**331**	30
Intangible assets	12	**79,481**	81,135
Deferred tax assets	21	**3**	13
		79,815	81,178
Current assets			
Trade and other receivables	14	**3,173**	2,880
Current tax assets		**1,920**	89
Restricted cash	15	**–**	2,000
Cash and cash equivalents	16	**3,468**	2,200
		8,561	7,169
Total assets		**88,376**	88,347
LIABILITIES			
Current liabilities			
Trade and other payables	18	**(2,995)**	(2,806)
Deferred income	32	**(6,855)**	(1,518)
Current tax liabilities		**(116)**	(165)
Provisions	19	**(24)**	–
Borrowings	20	**(1,730)**	(1,730)
		(11,720)	(6,219)
Non-current liabilities			
Provisions	19	**(33)**	–
Borrowings	20	**(19,985)**	(24,293)
Deferred tax liabilities	21	**(9,359)**	(9,948)
Total liabilities		**(41,097)**	(40,460)
Net assets		**47,279**	47,887
EQUITY			
Capital and reserves attributable to owners of the parent			
Ordinary shares	23	**807**	760
Share premium	23	**53,936**	50,775
Foreign exchange reserve	23	**60**	61
Other reserves	23	**3,623**	3,446
Accumulated losses		**(11,147)**	(7,155)
Total equity		**47,279**	47,887

These financial statements on pages 33 to 78 were approved and authorised for issue by the Board of Directors on 20 April 2018 and were signed on its behalf by:

Gavin Lyons
Chief Executive Officer

Kevin Goggin
Chief Financial Officer

Company number: 04998151

The notes on pages 39 to 78 are an integral part of these financial statements.

Company Statement of Financial Position

as at 31 December 2017

	Note	2017 £'000	2016 £'000
ASSETS			
Non-current assets			
Investments in subsidiaries	13	**73,313**	73,038
		73,313	73,038
Current assets			
Trade and other receivables	14	**150**	834
Restricted cash	15	**–**	2,000
Cash and cash equivalents	16	**164**	258
		314	3,092
Total assets		**73,627**	76,130
LIABILITIES			
Current liabilities			
Trade and other payables	18	**(2,764)**	(2,567)
Borrowings	20	**(1,730)**	(1,730)
		(4,494)	(4,297)
Non-current liabilities			
Borrowings	20	**(19,985)**	(24,293)
Total liabilities		**(24,479)**	(28,590)
Net assets		**49,148**	47,540
EQUITY			
Capital and reserves attributable to owners of the parent			
Ordinary shares	23	**807**	760
Share premium	23	**53,936**	50,775
Other reserves	23	**3,623**	3,446
Accumulated losses		**(9,218)**	(7,441)
Total equity		**49,148**	47,540

The loss for the financial year of the Company was £1,777,000 (2016: £4,026,000).

These financial statements on pages 33 to 78 were approved and authorised for issue by the Board of Directors on 20 April 2018 and were signed on its behalf by:

Gavin Lyons
Chief Executive Officer

Kevin Goggin
Chief Financial Officer

Company number: 04998151

The notes on pages 39 to 78 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

	Note	Ordinary shares £'000	Share premium £'000	Other reserve £'000	Equity element of loan notes £'000	Share-based payment reserve £'000	Accumulated losses £'000	Foreign exchange reserve £'000	Total equity £'000
Balance at 1 January 2016		4,419	3,655	444	–	–	(3,588)	–	4,930
Loss for the year		–	–	–	–	–	(3,740)	–	(3,740)
Other comprehensive income		–	–	–	–	–	–	61	61
Total comprehensive (expense)/income		–	–	–	–	–	(3,740)	61	(3,679)
Issue of Ordinary shares (net of expenses)	23	672	43,129	–	–	–	–	–	43,801
Restructuring of share capital	23	(4,331)	4,331	–	–	–	–	–	–
Recognition of warrants	23	–	(340)	340	–	–	–	–	–
Fair value of equity element of loan notes		–	–	–	2,624	–	173	–	2,797
Share-based payments	24	–	–	–	–	38	–	–	38
Balance at 31 December 2016		760	50,775	784	2,624	38	(7,155)	61	47,887
Balance at 1 January 2017, as originally reported		760	50,775	784	2,624	38	(7,155)	61	47,887
Change in accounting policy	31	–	–	–	–	–	(3,522)	–	(3,522)
Balance at 1 January 2017, as restated		760	50,775	784	2,624	38	(10,677)	61	44,365
Loss for the year		–	–	–	–	–	(470)	–	(470)
Other comprehensive expense		–	–	–	–	–	–	(1)	(1)
Total comprehensive expense		–	–	–	–	–	(470)	(1)	(471)
Issue of Ordinary shares (net of expenses)	23	47	3,150	–	–	–	–	–	3,197
Cancellation of warrants	23	–	11	(11)	–	–	–	–	–
Share-based payments	24	–	–	–	–	188	–	–	188
Balance at 31 December 2017		**807**	**53,936**	**773**	**2,624**	**226**	**(11,147)**	**60**	**47,279**

The notes on pages 39 to 78 are an integral part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31 December 2017

	Note	Ordinary shares £'000	Share premium £'000	Other reserve £'000	Equity element of loan notes £'000	Share-based payment reserve £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 January 2016		4,419	3,655	444	–	–	(3,588)	4,930
Loss for the year and total comprehensive expense	31	–	–	–	–	–	(4,026)	(4,026)
Issue of Ordinary shares (net of expenses)	23	672	43,129	–	–	–	–	43,801
Restructuring of share capital	23	(4,331)	4,331	–	–	–	–	–
Recognition of warrants	23	–	(340)	340	–	–	–	–
Fair value of equity element of loan notes		–	–	–	2,624	–	173	2,797
Share-based payments	24	–	–	–	–	38	–	38
Balance at 31 December 2016		760	50,775	784	2,624	38	(7,441)	47,540
Balance at 1 January 2017		760	50,775	784	2,624	38	(7,441)	47,540
Loss for the year and total comprehensive expense	31	–	–	–	–	–	(1,777)	(1,777)
Issue of Ordinary shares (net of expenses)	23	47	3,150	–	–	–	–	3,197
Cancellation of warrants	23	–	11	(11)	–	–	–	–
Share-based payments	24	–	–	–	–	188	–	188
Balance at 31 December 2017		**807**	**53,936**	**773**	**2,624**	**226**	**(9,218)**	**49,148**

The notes on pages 39 to 78 are an integral part of these financial statements.

Cash Flow Statements

for the year ended 31 December 2017

	Note	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Cash flows from/(used in) operating activities					
Cash generated by operations, before exceptional items	26	**7,540**	3,230	**3,501**	1,340
Exceptional items (net)		**(680)**	(3,333)	**463**	(3,103)
Cash generated/(used) by operations, after exceptional items		**6,860**	(103)	**3,964**	(1,763)
Net income tax paid		**(433)**	(393)	**–**	–
Net cash from/(used in) operating activities		**6,427**	(496)	**3,964**	(1,763)
Investing activities					
Acquisition of subsidiary, net of cash acquired	30	**2,384**	(73,988)	**1,913**	(75,061)
Interest received		**14**	26	**–**	–
Purchases of property, plant and equipment		**(351)**	(14)	**–**	–
Purchase and capitalisation of intangible assets		**(1,249)**	(417)	**–**	–
Net cash generated from/(used in) investing activities		**798**	(74,393)	**1,913**	(75,061)
Financing activities					
Proceeds from issuance of ordinary shares (net of expenses)		**–**	43,801	**–**	43,801
Interest paid		**(1,171)**	(348)	**(1,171)**	(348)
Proceeds from long-term borrowings		**–**	19,650	**–**	19,650
Repayments of long-term borrowings	27	**(4,800)**	(900)	**(4,800)**	(900)
Proceeds from loan notes		**–**	9,852	**–**	9,852
Net cash (used in)/from financing activities		**(5,971)**	72,055	**(5,971)**	72,055
Net increase/(decrease) in cash and cash equivalents		**1,254**	(2,834)	**(94)**	(4,769)
Cash and cash equivalents at beginning of the year		**2,200**	5,027	**258**	5,027
Effect of exchange rate changes		**14**	7	**–**	–
Cash and cash equivalents at end of the year	16	**3,468**	2,200	**164**	258

The notes on pages 39 to 78 are an integral part of these financial statements.

Notes to the Financial Statements

for the year ended 31 December 2017

1. General information

Tax Systems plc ("the Company") and its subsidiaries (together "the Group") are leading suppliers of corporation tax and associated software and services to large corporates and accountancy firms in both the UK and Ireland. The Group is headquartered in the UK and during the year ended 31 December 2017 operated ventures in the UK and Ireland.

The Company is a public limited company incorporated and domiciled in England and Wales whose shares are publicly traded on the AIM market of the London Stock Exchange ("AIM"). The registered number of the Company is 04998151 and its registered office is Magna House, 18-32 London Road, Staines-upon-Thames TW18 4BP.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The policies are the same as those used in preparing the consolidated financial statements at 31 December 2016, unless otherwise stated.

2.1. Basis of preparation

The consolidated financial statements of Tax Systems plc have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("IFRS as adopted by the EU"), IFRS Interpretations Committee and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified, where applicable, by the revaluation of financial assets and financial liabilities (including derivatives) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies (see note 4).

The results for the year ended 31 December 2017 are comprised of the results for Tax Systems plc and Tax Computer Systems Limited and its subsidiaries ("TCSL") for the full year together with the results for Osmo Data Technology Limited ("OSMO") for the nine months from acquisition on 3 April 2017. The results for the year ended 31 December 2016 are comprised of the results for Tax Systems plc for the full year together with the results for TCSL for the five-month period from acquisition on 26 July 2016.

2.1.1. Going concern

These consolidated financial statements have been prepared on the going concern basis. The Group meets its day to day working capital requirements through its existing cash resources and borrowing facilities which are sufficient to meet currently maturing obligations as they fall due. The Directors have reviewed the Group's financial projections including sensitivities for at least the next 12 months and have, at the time of approving the financial statements, a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future and accordingly these financial statements are prepared on the going concern basis.

2.1.2. New standards and interpretations

New standards adopted in year

The Company has reviewed the way that it accounts for revenue from contracts with customers and has early adopted the new reporting standard on revenue recognition, IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15"). The Company has applied a consequent change in accounting policy by using a modified retrospective approach in which the comparative results for 2016 have not been restated, instead a cumulative adjustment has been recognised through retained earnings at 1 January 2017 in relation to agreements which still required performance by the Company at that date. Further details in relation to the changes are set out in note 32.

Notes to the Financial Statements

for the year ended 31 December 2017

2. Summary of significant accounting policies (continued)

Future standards

The Directors have considered those Standards and Interpretations, which have not been applied in the Financial Statements but are relevant to the Group's operations, that are in issue but not yet effective and, with the exception of IFRS 16 and IFRS 9 referred to below, do not consider that any will have a material impact on the future results of the Group.

IFRS 16 'Leases' is effective for periods commencing on or after 1 January 2019. Under the provisions of the standard most leases, including the majority of those previously classified as operating leases, will be brought onto the statement of financial position, as both a right-of-use asset and a largely offsetting lease liability. The right-of-use asset and lease liability are both based on the present value of lease payments due over the term of the lease, with the asset being depreciated in accordance with IAS 16 'Property, Plant and Equipment' and the liability increased for the accretion of interest and reduced by lease payments.

The substantial majority of the Group's operating lease commitments, approximately £1,074,000 on an undiscounted basis (see note 28) would be brought on balance sheet and depreciated separately. There will be no impact on cash flows although the presentation of the cash flow statement will change significantly. Management is currently working on its detailed assessment of the impact of compliance with this accounting standard.

The Directors are in the process of considering the potential changes that may occur to the financial statements under IFRS 9 'Financial Instruments', which will apply to periods commencing on or after 1 January 2018. It is not expected that the application of IFRS 9 will have a material impact on the Group's results. There are no other new or amended accounting standards relevant to the Group that were effective for the first time for the financial year beginning 1 January 2017 that have a material impact on the Group's consolidated financial statements.

2.2. Consolidation

The financial information consolidates the financial statements of Tax Systems plc and the entities controlled by the Company.

Subsidiaries are all entities over whose financial and operating policies the Group has the power to govern so as to obtain economic benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of the potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The financial statements of subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Statement of Comprehensive Income. Gains on acquisitions may arise where the acquisition date fair value of any previous equity interest in the acquiree exceeds the book value of that interest.

2. Summary of significant accounting policies (continued)

2.2. Consolidation (continued)

The Company completed the acquisition of the entire shareholding of OSMO on 3 April 2017 for £3,197,000 by the issue of shares. The Company completed the acquisition of the entire shareholding of TCSL on 26 July 2016 for an enterprise value of £73,000,000, a reverse acquisition under the AIM Rules. Both acquisitions have been accounted for using the acquisition method of accounting. See note 30 for more details.

2.3. Revenue

Revenue comprises the fair value of consideration received and receivable for the sale of goods and services provided to customers, net of discounts and value added taxes. Revenue is disaggregated into revenue from the sale of licenced software solutions and revenue for professional services.

Revenue from licenced software solutions

Customers predominantly enter into software licences to use the Group's software products. Software licenses are contractual arrangements whereby the customer purchases the right to continuously exploit the licenced functionality of the Group's products, including the right to be kept continuously updated and supported by the Group, over a fixed term of predominantly, 12 months. Revenue from software licences is recognised evenly over the period of the licences.

This represents a change in accounting policy for software licences as a consequence of adopting IFRS 15. Previously the Group's policy had been to recognise revenue from software licences predominantly on commencement of the licence period.

Further details of the changes are set out in note 32.

Revenue from professional services

The Group derives revenues from the sale of professional services separate to licensed software solutions. The most significant components of professional services revenues are currently derived from iXBRL tagging and from projects involving implementation and installation management and the provision of technical support. Contracts with customers for the sale of professional services are predominantly of a short duration and have specific outcomes which the Group considers to comprise its performance obligations. Contracts for the sale of professional services can be contracted on a time and materials or fixed fee basis. Revenue from both types of contract are recognised on fulfilment of the relevant performance obligation and are invoiced on the agreed basis.

Amounts which meet the Group's revenue recognition policy which have not yet been invoiced are accounted for as accrued income whereas amounts invoiced which have not met the Group's revenue recognition criteria are deferred and are accounted for as deferred income until such time as the revenue can be recognised. Management makes an assessment of the certainty of any accrued revenue amounts in determining how much revenue to recognise.

2.4. Segmental reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. During the year ended 31 December 2017, the Group had one single operating segment, being the provision of software and services to corporates and accountancy firms.

Notes to the Financial Statements

for the year ended 31 December 2017

2. Summary of significant accounting policies (continued)

2.5. Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition or creation of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial year in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their costs, over their estimated useful lives, as follows:

	Estimated useful lives
Fixtures and fittings	4 years
Computer equipment	3 – 4 years
Leasehold improvements	Lower of 10 years or the term of the lease to the first break

The residual values and useful lives of assets are reviewed for impairment, and adjusted if appropriate, at each year end reporting date. Impairment is measured by comparing the carrying amount of an asset to its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell, and the value in use, by reference to discounted future cash flow. Any impairment is recognised in profit or loss immediately.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the Statement of Comprehensive Income. Fully depreciated assets are been treated as disposals as they have no residual value.

2.6. Goodwill

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. It is held in the currency of the acquired entity and revalued at the closing rate at the reporting date. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is not subject to amortisation but is tested at least annually for impairment, or more frequently if events or changes in circumstances indicate a potential impairment. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss recognised in the Statement of Comprehensive Income on disposal.

2.7. Other intangible assets

Expenditure incurred in the development of software products, and their related intellectual property rights, is capitalised as an intangible asset only when technical feasibility has been demonstrated, adequate technical, financial and other resources exist to complete the development, which the Group intends to complete and use, future economic benefits expected to arise are deemed probable, and the costs can be reliably measured. Research costs and development costs not meeting these criteria are expensed in the Statement of Comprehensive Income as incurred. Capitalised development costs are amortised as a charge to the Statement of Comprehensive Income within amortisation on a straight-line basis over their useful economic lives. Capitalised development costs for assets which are not yet in use are tested for impairment annually, or more frequently if events or changes in circumstances indicate a potential impairment. Separately acquired licences have a finite useful life and are carried at cost less accumulated amortisation.

2. Summary of significant accounting policies (continued)

2.7. Other intangible assets (continued)

Contractual customer relationships and technology-related intangible assets purchased or acquired in a business combination are recognised at fair value at the acquisition date. These assets have finite useful lives and are carried at cost less accumulated amortisation.

Amortisation on the assets is calculated using the straight-line method over their estimated useful lives as follows:

Customer relationships	10 years
Intellectual property rights	10 years
Purchased software licences	3 – 7 years
Capitalised development costs	3 – 7 years

2.8. Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate a potential impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped into cash-generating units at the lowest levels for which there are separately identifiable cash flows. Goodwill is allocated to each cash-generating unit ("CGU") for the purpose of impairment reviews (see note 12). The Group currently operates under a single CGU, which reflects the way that the businesses are managed. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9. Financial instruments

2.9.1. Financial assets

The Group classifies its financial assets, and cash and cash equivalents, as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of reporting period date. These are classified as non-current assets.

The Group's financial assets are disclosed in notes 14, 15, 16 and 22. Impairment testing of trade receivables is described in note 14.

2.9.2. Financial liabilities

The Group has two categories of financial liabilities, which are financial liabilities measured at amortised cost using the effective interest method, and financial liabilities at fair value through profit or loss (designated on initial recognition). Both categories are classified as non-current when payments fall due greater than 12 months after the end of the reporting period.

Financial liabilities are described in further detail in notes 18, 20 and 22.

Notes to the Financial Statements

for the year ended 31 December 2017

2. Summary of significant accounting policies (continued)

2.9. Financial instruments (continued)

2.9.2. Financial liabilities (continued)

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group does not currently designate any derivatives as hedging instruments. Gains and losses on derivative instruments that are not designated as hedge instruments are recognised immediately in the Statement of Comprehensive Income within finance costs.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods to determine the fair value, including pricing models which reflect the specific instrument. Management uses judgement to select a variety of methods and make assumptions that are based on market conditions existing at the end of the reporting period as well as internal information regarding a variety of probable outcomes.

2.10. Trade receivables

Trade receivables are initially recognised at fair value and subsequently held at amortised cost using the effective interest rate method. Trade receivables with standard payment terms of 30 days are recognised and carried at the lower of their original invoiced or recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full, the amount of the provision being the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Balances are written off when the probability of recovery is assessed as being remote.

2.11. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less. Restricted cash balances are excluded from cash and cash equivalents.

2.12. Share capital

Ordinary shares are classified as equity.

Share premium recognised on the issue of share capital is stated as the excess consideration received over the nominal value of shares issued, net of any costs directly attributable to the issue.

2.13. Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2. Summary of significant accounting policies (continued)

2.15. Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Company's subsidiaries operate and generate taxable income. Current and deferred tax are recognised in the profit and loss except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Deferred income tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not provided on the initial recognition of an asset or liability in a transaction, other than a business combination, if at the time of the transaction there is no effect on either accounting or taxable profit or loss.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset or liability is released or settled.

Deferred income 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.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income tax levied by the same taxation authority and the Group intends to settle current tax assets and liabilities on a net basis.

2.16. Pension obligations

The Group operates defined contribution plans. The Group pays contributions to privately administered pension insurance plans on a contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.17. Share-based payments

The Group operates an equity-settled long term incentive plan ("LTIP"). The fair value of the employee services received in exchange for the grant of the LTIP awards is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the LTIP awards granted. At each reporting date, the entity revises its estimates of the amount of LTIP awards that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the Statement of Comprehensive Income, with a corresponding adjustment to equity.

The grant by the Company of LTIP awards over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase in investments in subsidiary undertakings, with a corresponding credit to equity. The fair value is determined by use of the Black Scholes model method.

2.18. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease. The Group does not hold any assets under finance leases.

Notes to the Financial Statements

for the year ended 31 December 2017

2. Summary of significant accounting policies (continued)

2.19. Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in thousands of Pounds (£'000), unless otherwise stated, which is the Company's functional and the Group's presentational currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the year end rates are recognised in the Statement of Comprehensive Income. Foreign exchange gains and losses on borrowings, investments and cash and cash equivalents are presented in the Statement of Comprehensive Income within finance costs. All other foreign exchange gains and losses are presented within operating results.

c) Group companies

The results and financial position of all subsidiaries (none of which have the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the reporting date;

ii) income and expenses for each Statement of Comprehensive Income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

iii) all resulting exchange differences are recognised as a separate component of equity within the foreign exchange reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the Statement of Comprehensive Income as part of the gain or loss on sale.

2.20. Investments

Investments held by the Company in its subsidiary undertakings are stated at cost less provision for any impairment in value. Impairment reviews are performed if events or changes in circumstances indicate a potential impairment.

2.21. Exceptional items

These are items which, in management's judgement, need to be disclosed by virtue of their size or nature in order for the user to obtain a proper understanding of the financial information and the underlying business performance.

2.22. Alternative performance measures ("APMs")

In reporting financial information, the Group presents APMs, which are not defined or specified under the requirements of IFRS. The Group believes that these APMs, which are not considered to be a substitute for, or superior to, IFRS measures, provide stakeholders with additional helpful information on the performance of the business. The APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board. The key APMs that the Group uses include Adjusted EBITDA, Adjusted EPS and net debt.

Certain adjustments are made to the statutory profit measures in order to derive the APMSs. The Group's policy is to exclude items that are considered to be significant in both nature and/or quantum and where treatment as an adjusted item provides additional useful information to assess the trading performance.

The reconciliation between operating loss and Adjusted EBITDA is shown on the face of the Consolidated Statement of Comprehensive Income.

3. Financial risk management

3.1. Financial risk factors

The Group's activities expose it to a variety of financial risks arising from its use of financial instruments: credit risk, liquidity risk and market risk.

This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The principal financial instruments held by the Group, from which financial instrument risks arise, are as follows:

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

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board reviews regular finance reports from the Chief Financial Officer through which it evaluates any risk exposures with a view to minimising any potential adverse effects on the Group's financial performance. Transactions that are speculative in nature are expressly forbidden.

Details regarding the policies that address financial risk are set out below:

(a) Credit risk

The nature of the Group's operations means that most of its current key customers are large corporates and accountancy firms. The credit risks are minimised due to the nature of these customers. The Group continually reviews its credit risk policy, taking particular account of future exposure to developing markets and associated changes in customers' credit risk profiles.

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit. At the balance sheet date there was no significant concentration of credit risks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset on the balance sheet. In particular the Group benefits from the fact that most of its customers are required to settle contracts before rights under them are transferred.

The carrying amount in the Statement of Financial Position, net of any applicable provisions, represents the amount exposed to credit risk and hence there is no difference between the carrying amount and the maximum credit risk exposure.

(b) Liquidity risk

Management strive to ensure that there are sufficient levels of committed facilities, cash and cash equivalents to enable the company at all times to meet its financial commitments. The policy is to finance operations through working capital. They consider that cash and cash equivalents are equivalent to their fair value, largely due to their short term status.

The Group's policy is to ensure that it will always have sufficient cash within the Group to allow it to meet its liabilities when they become due and to have such funds available for its operations. Management monitors rolling forecasts of the Group's liquidity reserve which comprises cash and cash equivalents (note 16) on the basis of expected cash flow. At the reporting date, these projections indicate that the Group expects to have sufficient liquid resources to meet its obligations under all reasonable expected circumstances for the forthcoming year. The Group continues to monitor its liquidity position through budgetary procedures and cash flow analysis.

Notes to the Financial Statements

for the year ended 31 December 2017

3. Financial risk management (continued)

3.1. Financial risk factors (continued)

(b) Liquidity risk (continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows:

	31 December 2017			
	Less than 1 year £'000	**Between 1 and 2 years £'000**	**Between 2 and 5 years £'000**	**Over 5 years £'000**
Trade and other payables	2,140	–	–	–
Provisions	24	–	33	–

	31 December 2016			
	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Trade and other payables	1,874	–	–	–

(c) Market risk

Market risk arises from the Group's use of interest-bearing and foreign currency financial instruments. There is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), or foreign exchange rates (currency risk).

(i) Interest rate risk

Interest payable on the Group's bank borrowings is calculated with reference to pre-agreed margins above the London Interbank Overnight Rate ("LIBOR"). The interest payable on the loan notes is based on a fixed coupon which is not subject to change. Overall risk is not regarded as significant and the effect of a 100 bps increase in the LIBOR during the year would have resulted in an increase in post-tax loss for the year of £275,000 (2016: increase of £113,000) and a decrease in equity of £275,000 (2016: decrease of £113,000).

(ii) Currency risk

The Group's main exposure to foreign exchange is to the Euro exchange rate arising from the Group's overseas operation in Ireland. The level of risk is reviewed regularly throughout the year. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, and net investments.

In order to reduce the foreign exchange risk arising, the Group's policy is to allow the operations to settle liabilities denominated in their functional currency with the funds obtained from the activities arising in that currency. Given the current scale and natural hedging of the Group's overseas operations, overall foreign currency risk remains relatively low.

A 4% (2016: 8%) appreciation in the average Euro exchange rate would have increased the Group's loss after tax by £69,000 (2016: increase of £13,000). At 31 December 2017, the effect on retained earnings of a 4% (2016: 8%) appreciation in the closing Euro exchange rate would be a decrease of £90,000 (2016: decrease of £77,000). The effect on the foreign exchange reserve of a 4% (2016: 8%) appreciation in the closing Euro exchange rate would be an increase of £21,000 (2016: increase of £64,000).

3. Financial risk management (continued)

3.2. Capital risk management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide future returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group seeks to maintain, at this stage of its development, sufficient funding drawn primarily from debt and equity to enable the Group to meet its working capital and strategic needs. The Group may issue new shares or realise value from its existing investments and other assets as deemed necessary.

The Group centrally manages borrowings, investment of surplus funds and financial risks. The objective of holding financial investments is to provide efficient cash and tax management and effective funding for the Group.

4. Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements requires the Group to make estimates, judgements and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The Directors base their estimates on historical experience and various other assumptions that they believe are reasonable under the circumstances, the results of which form the basis for making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

4.1 Accounting judgements

In the process of applying the Group's accounting policies, management has made a number of judgements, of which the following are deemed to have the most significant effect on amounts recognised in the financial statements:

Revenue

As explained in note 32. the sale of the software licence itself is not considered distinct from the provision of access and the provision of continuous software upgrades and support are not considered to be separate performance obligations. The Group's software licenses are therefore considered to be right of access arrangements for a period of time. Since control of goods and services is transferred to customers over time the Group considers that the delivery of access to the software product constitutes a single performance obligation satisfied over lime.

Revenue for professional services is recognised when the right to consideration is earned as each project progresses. Provisions against accrued income are made as and when management becomes aware of objective evidence that the amount of time worked will not be recoverable in full.

Acquisitions accounting and goodwill

Where the Group undertakes business combinations, the cost of acquisition is allocated to identifiable net assets and contingent liabilities acquired and assumed by reference to their estimated fair values at the time of acquisition. The remaining amount is recorded as goodwill. The valuation of identifiable net assets involves an element of judgement related to projected results. Fair values that are stated as provisional are not finalised at the reporting date and final fair values may be determined that are materially different from the provisional values stated.

Judgement was exercised on use of the acquisition method of accounting in respect of the acquisition of TCSL in 2016 which constituted a reverse takeover under the AIM Rules for Companies and for the acquisition of OSMO in 2017. An adjustment of £87,000 was made to finalise the provisional fair values recorded at 31 December 2016 in respect of the acquisition of TCSL, Further details of the acquisitions are set out in note 30 and sensitivity analysis on the carrying value of goodwill is set out in note 12.

Notes to the Financial Statements

for the year ended 31 December 2017

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

4.1 Accounting judgements (continued)

Impairment of assets

Management undertakes an annual test for impairment of assets with indefinite lives, including goodwill and, for assets with finite lives, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Impairment testing is an area involving considerable management judgement. requiring as it does an assessment as to whether the carrying value of assets can be supported by the fair value less costs to sell or net present value of future cash flows derived from those assets discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of growth and discount rates.

Development costs

The Group has capitalised internally generated intangible assets in accordance with IAS 38. Management has exercised judgement in assessing the expected contribution to be generated from these assets and determined that no adjustment is required to the carrying value of the assets.

Amortisation of intangibles

Acquired intangible assets, principally customer contract and intellectual property rights, are amortised over an estimated useful life of 10 years based on historical analysis of customer retention. Judgement has been exercised in estimating those useful lives.

Deterred tax

The recognition of deferred tax assets and liabilities requires management to exercise judgement in determining the amounts to be recognised. In particular. judgement is used when assessing the timing and level of future taxable income.

Share-based payments

Details of share-based payments and the assumptions applied are disclosed in note 24. Judgement is exercised in selecting the appropriate methodology and variables to use in arriving at the fair value of the awards.

Fair value measurement of other financial instruments

Judgement has been applied in determining the fair value of the loan notes and associated equity instruments issued to the Business Growth Fund plc ("BGF"), in order to bifurcate the equity and debt elements. Judgement has also been applied in determining the fair value of warrants granted to MXC Capital Markets LLP ("MXC Capital"). Further details are set out in note 23.

4.2 Accounting judgements

In the process of applying the Group's accounting policies, management has made a number of estimates, of which the following are deemed to have the most significant effect on amounts recognised in the financial statements.

Revenue

Management has made estimates in measuring revenue from professional services including the point at which the right to consideration is earned as each project progresses and provisions required against accrued income as and when management becomes aware of objective evidence that the amount of time worked will not be recoverable in full,

Development costs

The recoverable amount of the assets has been determined based on value in use calculations which require the use of estimates. Management reviews the assets for impairment on a regular basis.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

4.2 Accounting judgements (continued)

Share-based payments

Details of share-based payments and the assumptions applied are disclosed in note 24. Estimation is required in assessing variables in the valuation model applied including the appropriate risk-free interest rate and the expected volatility of the market price of the Company's shares and the number of awards expected to vest

Fair value measurement of other financial Instruments

Estimates have been applied in determining the variables applied in assessing the fair value of financial instruments and in bifurcating debt and equity elements of financial instruments including appropriate cost of capital, discount rates and share price volatility.

5. Segmental information

Reportable segments

Tax Systems' operating segments are reported based on the information reviewed by the chief operating decision maker for the purposes of allocating resources and assessing performance. The Board of Directors is the Group's chief operating decision maker.

The Board of Directors considers revenue, cost of sales, operating costs, exceptional costs and EBITDA of the Group as a whole when assessing the performance of the business and making decisions about the allocation of resources. In addition, the Board reviews revenue split by business unit, products and geographies to assist with the allocation of resources. During the current financial year the Group had a single class of business being the provision of software and services to corporates and accountancy firms.

The results from continuing operations, in the format as provided to the Board, has not been reproduced below and can be found in the Statement of Comprehensive Income on page 33.

Geographical disclosures

In presenting information on the basis of geography, revenue is based on the location of the customers. Non-current assets are based on the geographical location of those assets.

	Revenues		Non-current assets	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
United Kingdom	**13,200**	4,862	**72,972**	73,848
Ireland	**1,909**	891	**6,840**	7,317
Total	**15,109**	5,753	**79,812**	81,165

Revenue has been allocated to geographical segments based upon the location of the customer.

Notes to the Financial Statements

for the year ended 31 December 2017

5. Segmental information (continued)

Products and services

Revenues are disaggregated by service and by geography as follows:

	UK 2017 £'000	**Ireland 2017 £'000**	**Total 2017 £'000**	UK 2016 £'000	Ireland 2016 £'000	Total 2016 £'000
Revenue from licenced software solutions	**11,851**	**1,672**	**13,523**	4,175	763	4,938
Fees from professional services	**1,349**	**237**	**1,586**	687	128	815
Total revenue	**13,200**	**1,909**	**15,109**	4,862	891	5,753

There is no single customer whose revenues are 10% or greater than overall Group revenues in either the current or prior financial year.

Details of contract balances and performance obligations are set out in note 32.

6. Operating loss

This is stated after charging:

	Note	**2017 £'000**	2016 £'000
Employee benefit expense	25	**6,159**	2,280
Depreciation	11	**65**	17
Amortisation	12	**6,304**	2,559
Research and development costs expensed		**398**	393
Share-based payment charge	24	**188**	38
Operating lease expense		**450**	286

Exceptional items comprise:

	2017 £'000	2016 £'000
Exceptional income	**(581)**	–
Restructuring costs	**1,057**	169
Acquisition related costs	**204**	3,164
	680	3,333

The exceptional income relates to an amount received in respect of a recovery of VAT costs treated as irrecoverable within exceptional items in 2016.

Acquisition related costs represented professional fees, broker fees and due diligence costs relating to the acquisition of Osmo in 2017 and TCSL in 2016. Restructuring costs were principally redundancy and termination costs associated with the acquisition of TCSL.

7. Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	2017 £'000	2016 £'000
Fees payable to the Company's auditors and their associates for the audit of the Company's annual financial statements	**27**	27
Fees payable to the Company's auditors and their associates for other services to the Group:		
The audit of the Company's subsidiaries	**18**	13
Total audit fees	**45**	40
Other services		
Tax advisory services	**2**	4
Total other services	**2**	4
Total fees	**47**	44

8. Finance income and expenses

	2017 £'000	2016 £'000
Finance income		
Interest income on short-term deposits	**–**	19
Net foreign exchange gains on financing activities	**14**	7
Finance income	**14**	26
Finance costs		
Interest payable on bank borrowings and loan notes	**(1,169)**	(569)
Effective interest on loan notes	**(399)**	(173)
Amortisation of debt arrangement fees	**(93)**	(45)
Finance costs	**(1,661)**	(787)
Net finance costs	**(1,647)**	(761)

An effective interest charge of £399,000 (2016: £173,000) on the loan notes has been charged during the year and included within finance costs. Further details of the loan notes are set out in note 20.

Notes to the Financial Statements

for the year ended 31 December 2017

9. Income tax

Recognised in the Statement of Comprehensive Income

	Note	2017 £'000	2016 £'000
Current tax			
Current tax, overseas withholding and other taxes		**4**	(199)
Adjustments in respect of prior years		**1,358**	–
Total current tax		**1,362**	(199)
Deferred tax			
Origination and reversal of temporary differences		**(52)**	453
Change in tax rates		**101**	–
Total deferred tax	21	**49**	453
Total tax credit in the Statement of Comprehensive Income		**1,411**	254

Adjustments in respect of prior years reflect the impact of the change in accounting policy consequent on early adoption of IFRS15 (see note 32) and repayments of tax consequential on the submission of enhanced R&D tax claims for prior years.

Reconciliation of effective tax rate

Changes to the UK corporation tax rates include reductions to the main rate to 19% from 1 April 2017 and to 17% from 1 April 2020. As these changes had been substantively enacted at the balance sheet date their effects are included in these financial statements.

The credit for the year is lower (2016: lower) than the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%). The differences are explained below:

	2017 £'000	2016 £'000
Loss before income tax	**(1,881)**	(3,994)
Tax calculated at UK effective tax rate of 19.25% (2016: 20.00%)	**(362)**	(799)
Effects of:		
Fixed asset timing differences	**306**	–
Expenses not deductible for tax purposes	**(54)**	551
Income not subject to tax	**144**	–
Additional deduction for research and development expenditure	**(407)**	–
Losses not utilised	**481**	7
Remeasurement of deferred tax for changes in tax rates	**(20)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(141)**	(13)
Adjustments in respect of prior years	**(1,358)**	–
Total tax in the Statement of Comprehensive Income	**(1,411)**	(254)

10. Loss per share

Basic and diluted

Basic loss per share is calculated by dividing the loss attributable to owners of the parent by the weighted average number of Ordinary shares in issue during the year. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential shares, represented by the LTIP awards, warrants and convertible loan notes. As the Group was loss-making, any options and warrants were considered to be 'anti-dilutive' and, as such, there is no separate calculation for diluted loss per share.

10. Loss per share (continued)

Details of the loss and weighted average number of shares used in the calculation are set out below:

	2017	2016
Weighted average number of shares:	**'000**	'000
Basic	**79,505**	38,096
	£'000	£'000
Loss for the year attributable to the owners of the parent	**(470)**	(3,740)
Loss per share:	**Pence**	Pence
Basic and diluted	**(0.59)**	(9.82)

11. Property, plant and equipment

Group	Note	Leasehold improvements £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost					
As at 1 January 2016		–	–	–	–
Additions		–	–	14	14
Acquisitions		–	2	31	33
As at 31 December 2016		–	2	45	47
Accumulated depreciation and impairment					
As at 1 January 2016		–	–	–	–
Charge		–	1	16	17
As at 31 December 2016		–	1	16	17
Net book value					
As at 1 January 2016		–	–	–	–
As at 31 December 2016		–	1	29	30
Cost					
As at 1 January 2017		–	2	45	47
Exchange differences		–	1	1	2
Additions		297	–	54	351
Acquisitions	30	4	–	10	14
Disposals		–	(1)	(7)	(8)
As at 31 December 2017		**301**	**2**	**103**	**406**
Accumulated depreciation					
As at 1 January 2017		–	1	16	17
Exchange differences		–	(1)	2	1
Charge		35	2	28	65
Disposals		–	(1)	(7)	(8)
As at 31 December 2017		**35**	**1**	**39**	**75**
Net book value					
As at 1 January 2017		–	1	29	30
As at 31 December 2017		**266**	**1**	**64**	**331**

The Company does not have any property, plant or equipment.

Notes to the Financial Statements

for the year ended 31 December 2017

12. Intangible assets

Group	Note	Goodwill £'000	Customer contracts £'000	Intellectual property rights £'000	Software licences £'000	Capitalised development costs £'000	Total £'000
Cost							
As at 1 January 2016		–	–	–	–	–	–
Additions		–	–	–	–	417	417
Acquisitions		24,927	43,475	14,875	–	–	83,277
As at 31 December 2016		24,927	43,475	14,875	–	417	83,694
Accumulated amortisation							
As at 1 January 2016		–	–	–	–	–	–
Charge		–	1,882	644	–	33	2,559
As at 31 December 2016		–	1,882	644	–	33	2,559
Net book value							
As at 1 January 2016		–	–	–	–	–	–
As at 31 December 2016		24,927	41,593	14,231	–	384	81,135
Cost							
As at 1 January 2017		24,927	43,475	14,875	–	417	83,694
Additions		–	–	–	51	1,198	1,249
Acquisitions	30	1,810	645	946	–	–	3,401
As at 31 December 2017		**26,737**	**44,120**	**15,821**	**51**	**1,615**	**88,344**
Accumulated amortisation							
As at 1 January 2017		–	1,882	644	–	33	2,559
Charge		–	4,396	1,558	–	350	6,304
As at 31 December 2017		**–**	**6,278**	**2,202**	**–**	**383**	**8,863**
Net book value							
As at 1 January 2017		24,927	41,593	14,231	–	384	81,135
As at 31 December 2017		**26,737**	**37,842**	**13,619**	**51**	**1,232**	**79,481**

The remaining amortisation period for customer contracts and intellectual property rights is 9 years (2016: 10 years).

The Company does not have any intangible assets.

The Group tests goodwill for impairment annually or more frequently if there are indications that goodwill might be impaired.

Goodwill acquired in a business combination is allocated at acquisition to the CGU that is expected to benefit from that business combination.

In order to determine whether impairments are required, the Group estimates the recoverable amount of the CGU. The calculation is based on projecting future cash flows and a discount factor is applied to obtain a 'value in use' which is the recoverable amount.

12. Intangible assets (continued)

Impairment tests for goodwill

Key assumptions

The value in use calculation includes estimates about the future financial performance of the CGU. The cash flow projections cover five years based on management-approved financial budgets for the first year, and reflect management's expectations of the medium-term operating performance of the CGU and its growth prospects for the subsequent years. Cash flows beyond the five year period are extrapolated using the estimated growth rates stated below.

The key assumptions in the value in use calculations are the revenue growth rates which directly influence the forecasted operating cash flows, as well as the discount rate applied. In determining the key assumptions, management has taken into account the current economic climate and the resulting impact on expected growth and discount rates, as applicable to the Group's business and industry. Average annual revenue growth rates used reflect past experience and are considered appropriate. The discount rate applied represents a pre-tax rate that reflects the Group's internal rate of return, adjusted for specific risks associated with the CGU.

Key assumptions used for the value in use calculations are as follows:

	2017 Group CGU	2016 Group CGU
Discount rate	**13.3%**	13.3%
Medium-term cash flow growth rate	**1.5%**	1.5%
Long-term growth rate	**3.0%**	3.0%

Sensitivity analysis

The Group has conducted a sensitivity analysis on the carrying value of goodwill allocated to the CGU. The Board has considered downside scenarios, including reductions in growth and increases to operating costs. The following table sets out the impact of the individual sensitivities on goodwill and other intangible assets:

	2017 Group	2016 Group
Decrease in medium term growth rate	**1.0%**	1.0%
Potential impairment	**0.0%**	0.0%
Sensitised discount rate	**2.0%**	2.0%
Potential impairment	**0.0%**	0.0%

Any potential impairment would be charged against the assets allocated to that CGU. It would first be allocated against goodwill balances summarised above, then to other assets allocated to that CGU. A change of 1% to the medium term growth rate or 2% change to the discount rate does not result in any impairment to the goodwill does not result in any potential impairment to goodwill.

Notes to the Financial Statements

for the year ended 31 December 2017

13. Investments in subsidiaries

Company	**2017** **£'000**	2016 £'000
Cost		
As at 1 January	**73,038**	-
Acquisitions	**87**	73,000
Capital contributions relating to share-based payments	**188**	38
As at 31 December	**73,313**	73,038
Net book amount		
As at 31 December	**73,313**	73,038

Investments in subsidiaries are recorded at cost, which is the fair value of the consideration paid, and this cost is tested periodically for impairment.

See note 30 for details of acquisitions of subsidiaries.

The capital contribution relating to share-based payments relates to LTIP awards granted by the Company to employees of subsidiary undertakings in the Group.

A full list of the undertakings whose results or financial position are included within the Company's annual financial statements is set out below.

Name	Country of incorporation (or registration) and operation	Registered number	Proportion of voting rights and ordinary share capital held	Nature of business
Direct subsidiary undertakings				
Tax Systems Holdings Limited	United Kingdom	10805509	100%	Intermediate holding company
Eco City Vehicles Limited	United Kingdom	10216019	100%	Dormant
Indirect subsidiary undertakings				
Tax Computer Systems Limited	United Kingdom	05347048	100%	Development and marketing of tax software
Tax Computer Systems Limited	Ireland	361507	100%	Development and marketing of tax software
Osmo Data Technology Limited	United Kingdom	04956103	100%	Development and marketing of data extraction software

The registered office of the UK subsidiary undertakings is Magna House, 18-32 London Road, Staines-upon-Thames, TW18 4BP. The registered office of the Irish subsidiary undertaking is 122 Lower Baggot Street, Dublin 2, Ireland.

14. Trade and other receivables

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Due within one year				
Trade receivables	**2,706**	2,249	**–**	–
Less: provision for impairment of trade receivables	**(69)**	(67)	**–**	–
Trade receivables – net	**2,637**	2,182	**–**	–
Other taxes and social security	**–**	88	**25**	88
Other receivables	**251**	462	**–**	–
Accrued income	**155**	–	**–**	–
Prepayments	**130**	148	**1**	–
Amounts due from Group undertakings	**–**	–	**124**	746
Prepayments and other receivables	**536**	698	**150**	834
Total trade and other receivables due within one year	**3,173**	2,880	**150**	834

The maximum exposure to credit risk at 31 December 2017 is the carrying value of each class of receivables mentioned above. In determining the recoverability of trade receivables, the Group considers the ageing of each debtor and any change in the circumstances of the individual receivable. Due to this, management believes there is no further credit risk provision required in excess of that stated above for doubtful receivables. Other receivables principally comprise deposits and non-interest bearing loans in respect of the LTIP holders (see note 29).

The value of trade and other receivables quoted in the table above also represents the fair value of these items. Trade receivables arise from contracts with customers.

Trade receivables are considered impaired if they are not considered recoverable. As at 31 December 2017, trade receivables of £952,000 (2016: £876,000) were past due but not impaired. The Group considers any change in the credit quality of trade receivables from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the quality of the customer base.

The ageing analysis of trade receivables and impairment is as follows:

	2017		2016	
	Trade receivables £'000	**Impairment provision £'000**	Trade receivables £'000	Impairment provision £'000
Current and not impaired	**1,685**	**–**	1,306	–
Up to 3 months past due	**761**	**–**	894	(18)
Over 3 months past due	**150**	**(11)**	49	(49)
Over 6 months	**110**	**(58)**	–	–
	2,706	**(69)**	2,249	(67)

Notes to the Financial Statements

for the year ended 31 December 2017

14. Trade and other receivables (continued)

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2017	2016
	£'000	£'000
Pounds Sterling	**2,559**	2,332
Euros	**614**	548
	3,173	2,880

Movements on the Group provision for impairment of trade receivables are as follows:

	2017	2016
	£'000	£'000
As at 1 January	**67**	–
Movement in provision	**2**	67
As at 31 December	**69**	67

There are no other financial assets that are past due or impaired.

15. Restricted cash

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Restricted cash	**–**	2,000	**–**	2,000

At 31 December 2016, a cash amount of £2,000,000 was held in escrow in respect of the satisfaction of a potential further payment in respect of the acquisition of TCSL. The escrow was settled in the year and the restricted funds were released. See note 30.

16. Cash and cash equivalents

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Cash at bank and in hand	**3,468**	2,200	**164**	258

17. Net (debt)/funds

		Group		Company	
		2017	2016	**2017**	2016
	Note	**£'000**	£'000	**£'000**	£'000
Cash at bank and in hand	16	**3,468**	2,200	**164**	258
Restricted cash and cash equivalents	15	**–**	2,000	**–**	2,000
Bank loans and loan notes	20	**(21,715)**	(26,023)	**(21,715)**	(26,023)
Equity element of loan notes		**(2,225)**	(2,624)	**(2,225)**	(2,624)
Net debt		**(20,472)**	(24,447)	**(23,776)**	(26,389)

18. Trade and other payables

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Due within one year				
Trade payables	**226**	326	**41**	239
Other taxes and social security	**855**	932	**17**	–
Accruals	**1,859**	1,139	**323**	317
Other payables	**55**	409	**–**	332
Amounts due to Group undertakings	**–**	–	**2,383**	1,679
Other payables due within one year	**2,769**	2,480	**2,723**	2,328
Trade and other payables due within one year	**2,995**	2,806	**2,764**	2,567

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms. The Directors consider that the carrying amount of trade payables approximates to the fair value.

19. Provisions

Group	Property dilapidations £'000	Total £'000
As at 1 January 2017	–	–
On acquisition	10	10
Additional provisions in the year	47	47
As at 31 December 2017	**57**	**57**

	2017	2016
	£'000	£'000
Due within one year	**24**	–
Due after one year	**33**	–

Provisions relate to dilapidation charges. The timing of cash flows associated with these provisions is dependent on the timing of lease agreement termination.

Notes to the Financial Statements

for the year ended 31 December 2017

20. Borrowings

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Due within one year				
Bank loans	**1,730**	1,730	**1,730**	1,730
Borrowings due within one year	**1,730**	1,730	**1,730**	1,730
Due after one year				
Bank loans	**12,325**	17,055	**12,325**	17,055
Loan notes	**7,660**	7,238	**7,660**	7,238
Borrowings due after one year	**19,985**	24,293	**19,985**	24,293
Total Borrowings	**21,715**	26,023	**21,715**	26,023

The Group has revolving and term loan facilities, which are available until 30 June 2021. The term loan is being amortised evenly over the five year term. Interest payable in respect of the revolving credit facility ranges between 1.75% to 3.25% per annum above the London Inter-Bank Offered Rate ("LIBOR") and for the term loan facility between 2.0% to 3.5% above LIBOR.

The Company entered into a £10,000,000 unsecured fixed rate loan notes agreement with the BGF with a 6.5 year term from 26 July 2016. Repayment will be made in four equal instalments semi-annually from 30 June 2021. The Company also granted the BGF an option to subscribe for 5,970,149 Ordinary Shares at a price of 67p at any time before 26 July 2023.

In accordance with IAS 32, the loan notes and options issued to the BGF are deemed to be linked and are treated as a single financial instrument and shown at fair value. The fair value of the loan element was originally calculated at £7,203,000 using a discounted cash flow model over the term of the instrument and an effective borrowing rate of 13%, deemed by the Directors to be an appropriate market rate, reflecting the 6% coupon interest payments and the capital repayment profile of the loan notes. The balance of £2,797,000 was deemed to be the fair value of the equity element and was credited to Other Reserves.

The Group's borrowings are all denominated in Pounds Sterling.

An effective interest of £399,000 (2016: £173,000) has been taken on the loan notes during the year.

21. Deferred tax

The movement in the deferred income tax assets/(liabilities) during the year is as follows:

		2017	2016
Group	Note	**£'000**	£'000
As at 1 January		**(9,935)**	–
On acquisition	30	**(302)**	(10,388)
Credited to Consolidated Statement of Comprehensive Income	9	**49**	453
On change in accounting policy		**831**	–
Credited to other comprehensive income – exchange differences		**1**	–
As at 31 December		**(9,356)**	(9,935)

21. Deferred tax (continued)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Group	**2017 Tax losses £'000**	2016 Tax losses £'000
Deferred tax assets		
As at 1 January	**13**	–
(Charge)/credit to Consolidated Statement of Comprehensive Income	**(842)**	13
Recognised on change in accounting policy	**831**	–
Exchange differences	**1**	–
As at 31 December	**3**	13

		2017				2016			
Group	Note	**Acquisition related intangible assets £'000**	**Tangible fixed assets £'000**	**Capitalised development costs £'000**	**Total £'000**	Acquisition related intangible assets £'000	Tangible fixed assets £'000	Capitalised development costs £'000	Total £'000
Deferred tax liabilities									
As at 1 January		**9,880**	**2**	**66**	**9,948**	–	–	–	–
On acquisition	30	**302**	**–**	**–**	**302**	10,386	2	–	10,388
Recognised in profit or loss		**(1,066)**	**1**	**174**	**(891)**	(506)	–	66	(440)
As at 31 December		**9,116**	**3**	**240**	**9,359**	9,880	2	66	9,948

The timing of the recoverability/(settlement) of the deferred tax assets/(liabilities) is set out below:

	2017			2016		
	Due within one year £'000	**Due after one year £'000**	**Total £'000**	Due within one year £'000	Due after one year £'000	Total £'000
Deferred tax assets	**3**	**–**	**3**	13	–	13
Deferred tax liabilities	**(1,480)**	**(7,879)**	**(9,359)**	(9,948)	–	(9,948)
	(1,477)	**(7,879)**	**(9,356)**	(9,935)	–	(9,935)

Details of changes to tax rates are included in note 9.

Notes to the Financial Statements

for the year ended 31 December 2017

22. Financial instruments

Accounting classification of financial assets and liabilities

Group	Loans and receivables £'000	Borrowings £'000	Other financial liabilities at amortised cost £'000	Total £'000
As at 31 December 2017				
Cash and cash equivalents	**3,468**	**–**	**–**	**3,468**
Trade and other receivables excluding non-financial assets	**2,888**	**–**	**–**	**2,888**
Trade and other payables excluding non-financial liabilities	**–**	**–**	**(9,850)**	**(9,850)**
Loans and loan notes	**–**	**(21,715)**	**–**	**(21,715)**
Total	**6,356**	**(21,715)**	**(9,850)**	**25,209**
As at 31 December 2016				
Cash and cash equivalents	2,200	–	–	2,200
Trade and other receivables excluding non-financial assets	2,644	–	–	2,644
Trade and other payables excluding non-financial liabilities	–	–	(4,324)	(4,324)
Loans and loan notes	–	(26,023)	–	26,023
Total	4,844	(26,023)	(4,324)	(25,503)

Company	Loans and receivables £'000	Borrowings £'000	Other financial liabilities at amortised cost £'000	Total £'000
As at 31 December 2017				
Cash and cash equivalents	**164**	**–**	**–**	**164**
Trade and other receivables excluding non-financial assets	**124**	**–**	**–**	**124**
Trade and other payables excluding non-financial liabilities	**–**	**–**	**(2,764)**	**(2,764)**
Loans and loan notes	**–**	**(21,715)**	**–**	**(21,715)**
Total	**288**	**(21,715)**	**(2,764)**	**(24,191)**
As at 31 December 2016				
Cash and cash equivalents	258	–	–	258
Trade and other receivables excluding non-financial assets	746	–	–	746
Trade and other payables excluding non-financial liabilities	–	–	(2,567)	(2,567)
Loans and loan notes	–	(26,023)	–	(26,023)
Total	1,004	(26,023)	(2,567)	(27,586)

23. Ordinary shares, share premium and other reserves

Allotted and fully paid £0.01 nominal value shares

	Number of shares '000	Ordinary shares £'000	Share premium £'000
As at 1 January 2016	441,885	4,419	3,655
Issue of new shares	67,164	672	44,328
Restructuring of share capital	(433,048)	(4,331)	4,331
Issue of warrants	–	–	(340)
Cost of share issue	–	–	(1,199)
As at 1 January 2017	76,001	760	50,775
Issue of new shares	4,702	47	3,150
Issue of warrants	–	–	11
As at 31 December 2017	**80,703**	**807**	**53,936**

Reconciliation of shares issued

	Number of shares '000	Ordinary shares £'000	Share premium £'000	Total £'000
As at 1 January 2016	441,885	4,419	3,655	8,074
Restructuring of share capital	(433,048)	(4,331)	4,331	–
Issue of warrants	–	–	(340)	(340)
Issue of shares	67,164	672	43,129	43,801
As at 1 January 2017	76,001	760	50,775	51,535
Share issue	4,702	47	3,150	3,197
Issue and modification of warrants	–	–	11	11
As at 31 December 2017	**80,703**	**807**	**53,936**	**54,743**

Share capital and share premium

At 31 December 2017 the share capital of Tax Systems plc consisted of 80,703,381 (2016: 76,001,889) fully paid Ordinary shares with a nominal value of 1p per share. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote.

On 26 July 2016, the Company issued 67,164,180 New Ordinary Shares with a nominal value of 1p at 67p each raising £45,000,000, before costs, as part of its funding of the acquisition of TCSL. At the same time the Company undertook a capital restructuring in order to reduce the number in shares in issue. The capital restructuring was effected by way of a consolidation, subdivision and reclassification of every 50 existing ordinary shares of 1p each into one new ordinary share of 1p each and one deferred share of 49p each. The deferred shares were then acquired by the Company and cancelled.

On 3 April 2017 the Company issued 4,701,492 Ordinary Shares for the acquisition of the entire share capital of OSMO.

Notes to the Financial Statements

for the year ended 31 December 2017

23. Ordinary shares, share premium and other reserves (continued)

Other reserves

For the purposes of presentation on the Consolidated and Company Statements of Financial Position, the share-based payment reserve, the equity element of loan notes and the other reserve have been combined and disclosed as 'Other reserves'.

The other reserve is comprised of the fair value of warrants issued.

As set out in note 20, the Company has granted the BGF an option to subscribe for 5,970,149 Ordinary Shares at a price of 67p at any time before 26 July 2023.

By a warrant instrument dated 23 December 2015 (the "Warrant Instrument"), the Company agreed to issue to MXC Capital such number of warrants to subscribe for Ordinary Shares created pursuant to the Warrant Instrument that shall at all time be equal to 6 per cent. of the issued share capital of the Company. 441,885 warrants were issued in December 2015 (the "Initial Warrants") and a further 4,409,299 warrants were issued in July 2016 (the "Transaction Warrants") so that the number of warrants issued to MXC Capital at 31 December 2016 was 4,851,184.

A further 195,896 Transaction Warrants were issued on 3 April 2017 in respect of the share issue for the acquisition of OSMO.

On 2 August 2017 the Company announced that it had entered into a deed of amendment and restatement whereby MXC Capital had agreed to reduce its warrants over 6 per cent. of the fully diluted share capital of the Company to 4%, Therefore 1,684,439 Transaction warrants have been cancelled and MXC Capital now holds 3,362,641 warrants to subscribe for Ordinary Shares in the Company.

The movement on the Initial Warrants and the Transaction Warrants was as follows:

	2017 Number	2016 Number
As at 1 January	**4,851,184**	441,885
Issue of warrants	**195,896**	4,409,299
Cancellation of warrants	**(1,684,439)**	–
As at 31 December	**3,362,641**	4,851,184

The number of warrants and exercise prices are:

	Exercise price	**2017 Number**	2016 Number
Initial Warrants	61.0p	**441,885**	441,885
Transaction Warrants	67.0p	**2,920,756**	4,409,299
Total		**3,362,641**	4,851,184

The Initial Warrants are exercisable on or after 23 December 2018 if, at any time on or before that date, the average share price for ten consecutive trading days is equal to or greater than 85.50p. The Transaction Warrants are exercisable on or after 26 July 2019 if, at any time on or before that date, the average share price for ten consecutive trading days is equal or greater than 93.80p. If these conditions are not met, the vesting period will be extended for a further 24 months from the first vesting dates.

23. Ordinary shares, share premium and other reserves (continued)

Other reserves (continued)

The fair value of the Transaction Warrants was determined using a Black-Scholes model. The performance conditions related to the Transaction Warrants take into account factors specific to the warrants, such as the vesting period. The share price performance condition related to the scheme, being a market condition, has been incorporated into the measurement by means of binomial modelling. Expected volatility used in the valuation is based on the historical share price volatility. The following principal assumptions were used in the valuation:

Grant date	26 Jul 2016
Share price at issue date	79.5p
Exercise price	67.0p
Fair value per option	15.41p
Dividend yield	–
Risk free rate used in valuation	0.25%
Volatility used in valuation	8.35%
Expected life (years)	3.50
Expected exercise date used in valuation	January 2020

The foreign exchange reserve is used to record exchange differences arising from the translation of foreign subsidiaries.

The Group share-based payment reserve at 31 December 2017 is £226,000 (2016: £38,000) and is discussed in detail in note 24.

24. Share-based payments

Equity-settled share-based payments plan

The Group operates an equity-settled share-based payment plan. A summary of the main terms of the arrangement is given below, with particular reference made to the terms of those grants for which the share-based payment expense has been recognised.

On 2 August 2017 and 26 July 2016, the Group made awards to certain directors and employees under its LTIP scheme.

The Group recognised total expenses in relation to share-based payments as follows:

	2017	2016
	£'000	£'000
Equity-settled share-based payments	**188**	38
Total	**188**	38

The beneficiaries of the LTIP are entitled to receive a share in a pool of up to 8% (2016: 6%) of the shareholder value created since the re-admission of the Company to AIM, subject to share price performance criteria and staff remaining employed by the Group for a minimum of three years.

Shareholder value creation is defined as the growth in the market capitalisation of the Company from the base value of at least three years from 26 July 2016, taking into account dividends and capital returns, if any. The base value is defined as the aggregate value of all Ordinary shares in the capital of the Company in issue on 26 July 2016 as adjusted for the issue or cancellations of new Ordinary shares after that date.

The LTIP is implemented by way of an Employee Growth Shares scheme in Tax Systems Holdings Limited. At 31 December 2017, awards of 8% (2016: 5.3%) of shareholder value created have been made.

Notes to the Financial Statements

for the year ended 31 December 2017

24. Share-based payments (continued)

Equity-settled share-based payments plan (continued)

Participants at 31 December 2017 are entitled to share in a pool equivalent to 8% (2016: 5.3%) of shareholder value created in excess of the base value of the Company as at 26 July 2016, subject to the share price performance of Tax Systems plc. Share price performance will initially be measured at 26 July 2019 (being the 3rd anniversary of the re-admission), with an extension to 26 July 2021 if the performance condition is not met by that date. The share price performance criterion is a share price equal to or greater than 93.8p over five consecutive trading days.

As the share price hurdle for the Employee Growth Shares has not been met, there are no options at the year end that can be determined and there is no movement during the year.

Assumptions used in the valuation of share-based payment arrangements.

The fair value of the LTIP was determined using a Black-Scholes model. The performance condition related to the LTIP takes into account factors specific to the share incentive plans, such as the vesting period. The share price performance condition related to the scheme, being a market condition, has been incorporated into the measurement by means of binomial modelling. Expected volatility used in the valuation is based on the historical share price volatility. The following principal assumptions were used in the valuation:

Modification/grant date	2 Aug 2017	26 Jul 2016
Share price at issue date	81.5p	79.5p
Exercise price	67.0p	67.0p
Fair value	25.06p	15.41p
Dividend yield	–	–
Risk free rate used in valuation	0.25%	0.25%
Volatility used in valuation	17.49%	8.35%
Expected life (years)	2.48	3.50
Expected exercise date used in valuation	January 2020	January 2020

25. Employee benefit expense and Directors' emoluments

Assumptions used in the valuation of share-based payment arrangements.

Group	**2017 £'000**	2016 £'000
Employees (including Directors)		
Wages and salaries	**5,272**	2,036
Social security costs	**594**	161
Share-based payments	**188**	38
Other pension costs	**105**	45
	6,159	2,280
Monthly average number of employees (including Directors)		
Management and administration	**12**	10
Sales and marketing	**15**	9
Technical, support and development	**55**	48
	82	67

25. Employee benefit expense and Directors' emoluments (continued)

The Group has defined contribution pension schemes available to all employees.

Company Directors' emoluments	**2017** **£'000**	2016 £'000
Aggregate emoluments	**574**	221
Amounts receivable under long-term incentive schemes	**129**	22
Compensation for loss of office	**88**	-
	791	243

Emoluments of the highest paid Director	**2017** **£'000**	2016 £'000
Aggregate emoluments	**263**	94

26. Reconciliation of net loss to net cash used in operating activities

	Group		Company	
	2017 **£'000**	2016 £'000	**2017** **£'000**	2016 £'000
Loss before income tax	**(1,881)**	(3,994)	**(1,777)**	(4,026)
Adjustments for:				
Depreciation and impairments to property, plant and equipment	**65**	17	**–**	–
Amortisation and impairments to intangible assets	**6,304**	2,559	**–**	–
Share-based payments	**188**	38	**–**	–
Finance costs – net	**1,647**	761	**1,661**	787
Operating cash flows before movements in working capital	**6,323**	(619)	**(116)**	(3,239)
Decrease/(increase) in receivables	**268**	(74)	**684**	(810)
Increase in payables	**222**	590	**3,396**	2,286
Increase in provisions	**47**	–	**–**	–
Cash generated/(used) by operations, after exceptional items	**6,860**	(103)	**3,964**	(1,763)
Exceptional items	**680**	3,333	**(463)**	3,103
Cash generated by operations, before exceptional items	**7,540**	3,230	**3,501**	1,340

27. Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Note	31 December 2016 £'000	Financing cash flows £'000	Non-cash items £'000	**31 December 2017** **£'000**
Bank loans	20	18,785	(4,800)	70	**14,055**
Loan notes	20	7,238	–	422	**7,660**
Total		26,023	(4,800)	492	**21,715**

Non-cash items represent amortisation of arrangement fees on borrowings and effective interest on loan notes.

Notes to the Financial Statements

for the year ended 31 December 2017

28. Commitments, contingencies and guarantees

The Group leases its office premises under non-cancellable operating lease agreements. The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2017	2016
	£'000	£'000
Within 1 year	**222**	308
Between 1 and 5 years	**852**	20
Total	**1,074**	328

The Group had no capital commitments at the end of the year for capital expenditure contracted for but not provided for in the financial statements.

Legal contingencies

No member of the Group is or has been involved in any governmental, legal or arbitration proceedings and the Directors are not aware of any such proceedings pending or threatened by or against the Group during the 12 months preceding the date of these financial statements which may have or have had, in the recent past, a significant effect on the financial position or profitability of the Group.

Guarantees

There are a number of operational and financial guarantees given by the Company and certain subsidiary companies in each case on behalf of other subsidiary entities.

The Company had no other commitments or contingencies at the end of the year.

29. Related parties

Group

Key management personnel

The compensation of key management personnel, being Directors, members of the Executive Management team and senior technical staff, was as follows:

	2017	2016
	£'000	£'000
Short-term employee benefits	**1,419**	268
Share-based payments	**180**	60
	1,599	328

Details regarding Directors' emoluments can be found in the Directors' remuneration report on pages 24 and 25 and in note 25.

In addition to his role as Director of the Company, Gavin Lyons was also a partner of MXC Capital Limited until 1 April 2017 and he remains a shareholder. MXC Capital Limited is a substantial shareholder of the Company and also holds share warrants, see note 23, but is not considered to have a significant influence over the Group.

During the year, MXC Capital Advisory Limited, a subsidiary of MXC Capital Limited charged the Company £45,000 (2016: £81,000) for Gavin Lyons' services provided to the Company. A further £87,000 was charged by MXC Capital Advisory in 2016 in connection with the due diligence and consultancy services provided by Gavin Lyons prior to the Company's acquisition of TCSL.

29. Related parties (continued)

Group (continued)

Key management personnel (continued)

In addition, MXC Capital Advisory Limited charged the Company £70,000 (2016: £23,000) in relation to consultancy services provided by Paul Gibson, a partner and shareholder in MXC Capital Limited.

The Company was charged £nil (2016: £69,000) by Intronovo Limited, Grahame Benson's service company in connection to consultancy services provided. Grahame Benson resigned as a director on 3 April 2017.

Corporate finance advisory and transaction services totalling £152,000 (2016: £2,040,000) were purchased from MXC Capital Markets LLP, a subsidiary of MXC Capital Limited during the year.

At 31 December 2017, non-interest bearing loans of £92,000 (2016: £41,000), £21,000 (2016: £41,000) and £21,000 (2016: £nil) were outstanding to Gavin Lyons, Paul Gibson and Kevin Goggin respectively to cover upfront tax liabilities incurred when awards were made under the LTIP. The loans are repayable on exercise of the awards. However, in the event of the performance conditions not being met, the loans shall be written off. A loan of £19,000 made to Grahame Benson in 2016 was written off during the year following the cancellation of his LTIP award.

Company

Subsidiaries

Amounts receivable from subsidiaries total £124,000 (2016: £746,000), which are payable on demand.

30. Acquisitions

During the year the Company finalised the acquisition of TCSL and acquired the entire share capital of OSMO. Details of these acquisitions are set out below. Sensitivity analysis on the carrying value of goodwill is set out in note 12.

The cash flow in respect of acquisitions comprises the net recovery of the monies held as restricted cash at 31 December 2017, less the cash on acquisition of OSMO as follows:

	2017 **£'000**
Recovery of restricted cash	**2,000**
Final costs of acquisition of TCSL	**(87)**
Cash on acquisition of OSMO	**471**
	2,384

Notes to the Financial Statements

for the year ended 31 December 2017

30. Acquisitions (continued)

Tax Computer Systems Limited

On 26 July 2016, the Company completed the acquisition of the entire share capital of TCSL, a leading supplier of tax software and services to the large corporate sector and the accounting profession in the UK and Ireland for an enterprise value of £73,000,000 settled entirely in cash from the proceeds from the equity placing of new ordinary shares, banking borrowings and loan notes. The acquisition constituted a reverse takeover under the AIM Rules for Companies. The acquisition method of accounting has been used as the Company is the acquirer, the consideration was paid wholly in cash and the former shareholders of TCSL exited the business on acquisition and have no interest in the enlarged group.

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

	Provisional fair value £'000	Fair value adjustments £'000	Final fair value £'000
Property, plant and equipment	33	–	33
Intangible assets	58,350	–	58,350
Cash	1,012	–	1,012
Trade and other receivables	2,782	–	2,782
Trade and other payables	(3,447)	(87)	(3,534)
Corporation tax	(269)	–	(269)
Deferred tax liabilities	(10,388)	–	(10,388)
Total	**48,073**	**(87)**	**47,986**
Consideration	73,000	–	73,000
Fair value of net assets acquired	(48,073)	87	(47,986)
Goodwill recognised	**24,927**	**87**	**25,014**
Consideration satisfied by:			
– Cash consideration	73,000	–	73,000
– Escrow payment/(recovery)	2,000	(1,913)	87
– Cash and cash equivalents acquired	(1,012)	–	(1,012)
Total net cash outflow on acquisition	**73,988**	**(1,913)**	**72,075**

No adjustments for accounting policy alignments were required. The provisional fair values above represent those recorded at 31 December 2016. The fair value adjustments arose during the year and represent the adjustment to the final settlement of the escrow funds, which were treated as restricted cash at 31 December 2016.

£58,350,000 of customer related and intellectual property rights intangible assets were capitalised as part of the acquisition of TCSL and will be amortised over ten years. A deferred tax liability of £10,386,000 on the capitalisation of the intangible assets was created on acquisition.

30. Acquisitions (continued)

Osmo Data Technology Limited

On 3 April 2017, the Company completed the acquisition of the entire share capital of OSMO, a supplier of software solutions to the financial services industry in return for the issue of 4,701,492 ordinary shares in the Company, which valued OSMO at £3,197,000.

OSMO contributed revenue of £1,027,000 and a loss after tax of £193,000 to the Group for the period from acquisition to 31 December 2017.

If the acquisition had occurred on 1 January 2017, combined Group revenue and loss after tax for the year would have been £15,420,784 and £500,000.

The Group made this acquisition in order to gain automation technology to extract data from accounting packages into its core tax technologies.

One-off costs relating to the acquisition of £204,000 have been recognised in the Consolidated Statement of Comprehensive Income within 'Exceptional items'.

The Directors made an initial provisional assessment of the fair values of the assets and liabilities at 3 April 2017. The acquisition had the following effect on the Group's assets and liabilities:

	Provisional fair value £'000
Property, plant and equipment	14
Intangible assets	1,591
Cash	471
Trade and other receivables	149
Trade and other payables	(523)
Provisions	(10)
Corporation tax	84
Deferred tax liabilities	(302)
Total	**1,474**
Consideration	3,197
Fair value of net assets acquired	(1,474)
Provisional goodwill recognised	**1,723**
Provisional consideration satisfied by:	
– Issuance of shares	3,197
– Cash and cash equivalents acquired	(471)
	2,726

No adjustments for accounting policy alignments were required.

Notes to the Financial Statements

for the year ended 31 December 2017

30. Acquisitions (continued)

Osmo Data Technology Limited (continued)

The intangible assets capitalised as part of the acquisition of OSMO can be analysed as follows:

	£'000
Customer relationships – amortised over ten years	645
Technology related intangibles - amortised over ten years	946
	1,591

The calculation of provisional fair values of consideration, assets and liabilities such as goodwill and intangible assets as well as the assessment of any impairment to fair values generally, involve estimations of likely future cash flows delivering from or accruing to those assets and liabilities.

The fair value of receivables acquired, which principally comprised trade receivables, were not different from the gross contractual amounts. The best estimate of contractual cashflows not expected to be collected is £nil.

Goodwill arose on this acquisition because the consideration paid effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Judgement is also involved in selecting appropriate discount rates for determining the present value of those future cash flows. Final fair values may differ materially from those provisional values stated.

31. Company statement of comprehensive income

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income and related notes. The loss for the financial year of the Company was £1,777,000 (2016: £4,026,000).

32. Adoption of IFRS 15 and change in accounting policy

The Group is a leading provider of corporation tax software and services in the UK and Ireland. The Group licenses its proprietary tax compliance software to corporate customers and accounting and tax advisory practices to facilitate the tax compliance process – from data extraction, collection and management to compliance reporting through different calculation engines embedded in the Group's range of products.

Licenced software solutions

Customers predominantly enter into software licences to use the Group's software products. Software licences are contractual arrangements whereby the customer purchases the right to continuously exploit the licenced functionality of the Group's products, including the right to be kept continuously updated and supported by the Group, over a fixed term of predominantly, 12 months.

Revenue from the sale of software licences, including the provision of access, continuous software upgrades and support represents approximately 90% of the group's revenues.

The sale of the software licence itself is not considered to be distinct from the provision of access and continuous software upgrades and support, which are not considered to be separate performance obligations. The Group's software licences are therefore considered to be right of access arrangements with control of goods and services transferred to customers over the period of the contractual arrangement. The Group therefore considers that the delivery of access to software products constitutes a single performance obligation satisfied over time.

32. Adoption of IFRS 15 and change in accounting policy (continued)

Professional services

The Group also derives revenues from the sale of professional services separate to its' licensed software products. The most significant components of professional services revenues are currently derived from iXBRL tagging and from projects involving implementation and installation management and the provision of technical support.

Revenue from the sale of professional services represents approximately 10% of the Group's revenues.

Contracts with customers for the sale of professional services are predominantly of a short duration and have specific outcomes which the Group considers to comprise its performance obligations. Contracts for the sale of professional services can be contracted on a time and materials or fixed fee basis. Revenue from both types of contract are recognised on fulfilment of the relevant performance obligation and are invoiced on the agreed basis; either time and materials or fixed fee.

The Group's revenues are disaggregated by service and geography as set out in note 5.

Accounting policy change

The Group has reviewed the way that it accounts for revenues from contracts with customers and has elected to early adopt the new reporting standard on revenue recognition, IFRS 15.

Following its review, the Company has changed its accounting policy with respect to revenue from the sale of software licences, including the provision of access, continuous software upgrades and support in order to recognise revenue evenly over the period of the licence. Previously the Group's accounting policy for the sale of software licences had been to recognise revenue predominantly on commencement of the licence period.

The new accounting policy most closely reflects the substance of the arrangements to provide access and services over the period of the licence.

Effect of accounting policy change

The Group has applied the change in accounting policy by using a modified retrospective approach as permitted by IFRS 15, in which the comparative results for 2016 have not been restated. Instead, a cumulative adjustment has been recognised through retained earnings at 1 January 2017 in relation to agreements which still required performance by the Group at that date as follows:

	As previously reported £'000	Accounting adjustments £'000	Adjusted balance £'000
Deferred tax asset	13	831	844
Trade and other receivables	2,880	412	3,292
Deferred income	(1,518)	(4,765)	(6,283)

Deferred income will unwind through the Consolidated Statement of Comprehensive Income within a twelve month period and is expected to be replaced by a similar level of deferral into future periods.

Notes to the Financial Statements

for the year ended 31 December 2017

32. Adoption of IFRS 15 and change in accounting policy (continued)

Effect of accounting policy change (continued)

If the acquisition of TCSL had occurred on 1 January 2016 and IFRS 15 had been applied at that time, the revenue for TCSL would have been as follows:

	2017	2016
	£'000	£'000
Software	**12,680**	11,910
Professional services	**1,402**	979
Proforma revenue	**14,082**	12,889

The following summary consolidated statements of comprehensive income and financial position summarise the impact of adopting IFRS15 on the Group for the year ended 31 December 2017:

Consolidated Statement of Comprehensive Income

	As reported 2017 £'000	Adjustments £'000	Without adoption of IFRS 15 £'000
Revenue	15,109	333	15,442
Cost of sales	(1,138)	–	(1,138)
Gross profit	13,971	333	14,304
Administration expenses	(14,205)	–	(14,205)
Operating (loss)/profit	(234)	333	99
Finance income	14	–	14
Finance costs	(1,661)	–	(1,661)
Loss before income tax	(1,881)	333	(1,548)
Income tax	1,411	(63)	1,348
Loss for the year attributable to owners of the parent	(470)	270	(200)
Currency translation differences on consolidation	(1)	–	(1)
Total comprehensive expense for the year attributable to owners of the parent	(471)	270	(201)

32. Adoption of IFRS 15 and change in accounting policy (continued)

Consolidated statement of financial position

	As reported 2017 £'000	Adjustments £'000	Without adoption of IFRS 15 £'000
Non-current assets			
Property, plant and equipment	331	–	331
Intangible assets	79,481	–	79,481
Deferred tax assets	3	–	3
	79,815	–	79,815
Current assets			
Trade and other receivables	3,173	–	3,173
Current tax assets	1,920	–	1,920
Cash and cash equivalents	3,468	–	3,468
Total assets	88,376	–	88,376
Current liabilities			
Trade and other payables	(2,995)	–	(2,995)
Deferred income	(6,855)	4,686	(2,169)
Current tax liabilities	(116)	(894)	(1,010)
Provisions	(24)	–	(24)
Borrowings	(1,730)	–	(1,730)
	(11,720)	3,792	(7,928)
Non-current liabilities			
Provisions	(33)	–	(33)
Borrowings	(19,985)	–	(19,985)
Deferred tax liabilities	(9,359)	–	(9,359)
Total liabilities	(41,097)	3,792	(37,305)
Net assets	47,279	3,792	51,071
Ordinary shares	807	–	807
Share premium	53,936	–	53,936
Foreign exchange reserve	60	–	60
Other reserves	3,623	–	3,623
Accumulated losses	(11,147)	3,792	(7,355)
Total equity	47,279	3,792	51,071

Notes to the Financial Statements

for the year ended 31 December 2017

32. Adoption of IFRS 15 and change in accounting policy (continued)

Performance obligations

The Group's contracts with customers typically cover a period of 12 months. In the judgement of management, the Group satisfies the performance obligations under these contracts over time. The consideration for these contracts is agreed in advance with the customer and is fixed. Payment for software is typically made annually in advance.

A summary of contract balances in the year ended 31 December 2017 is as follows:

	£'000
Revenue from agreements in progress at 1 January 2017 recognised in the current year	6,283
Contracts commenced in the year	15,526
Revenue from agreements entered into in the current year deferred into subsequent years at 31 December 2017	(6,700)
Revenue recognised in the year ended 31 December 2017	**15,109**

No practical expedients have been applied on transition to IFRS 15.

No amounts have been recognised in relation to assets derived from costs to obtain or fulfil customer contracts.

Company information

DIRECTORS:	Clive Carver, Non-Executive Chairman Gavin Lyons, Chief Executive Officer Kevin Goggin, Chief Financial Officer Linda Beal, Non-Executive Director Paul Gibson, Non-Executive Director
SECRETARY:	Kevin Goggin
REGISTERED OFFICE:	Magna House 18-32 London Road Staines-Upon-Thames TW18 4BP
COMPANY NUMBER:	04998151
BANKERS:	HSBC Bank plc 8 Canada Square London E14 5HQ
SOLICITORS:	K&L Gates LLP One New Change London EC4M 5HQ
NOMINATED ADVISER:	finnCap Limited 60 New Broad Street London EC4M 9AF
FINANCIAL ADVISER:	MXC Capital Markets LLP 25 Victoria Street London SW1H 0EX
AUDITORS:	Crowe Clark Whitehill LLP St Bride's House 10 Salisbury Square London EC4Y 8EH

Perivan Financial Print 248502

TAX SYSTEMS