Tax Systems plc

("Tax Systems", the "Group" or the "Company")

Interim results for the six months ended 30 June 2018

Tax Systems plc (AIM: TAX), a leading supplier of corporation tax software and services, is pleased to announce its unaudited interim results for the six months ended 30 June 2018.

Financial Highlights

- Year-on-year order intake growth of 22%, demonstrating successful delivery of growth strategy through investment in sales, marketing and pre-sales.
  - Year-on-year total revenue growth of 14% to £8.0m (H1 2017: £7.0m)
  - Year-on-year organic revenue growth of 9%
  - 89% of revenue is recurring from software licences,11% from professional services
- Gross margin of 92% (H1 2017: 91%)
- Year-on-year organic and comparable Adjusted EBITDA[1] growth of 9% to £3.7m (H1 2017: £3.4m)
  - Representing an Adjusted EBITDA[1] margin of 46% (H1 2017: 49%)
- Net debt[2] reduced ahead of target, to £17.5m at 30 June 2018 (15% reduction from £20.5m as at 31 December 2017)
- Conversion of Adjusted EBITDA[1] to operating cash flow before exceptional items of 91% (H1 2017: 98%)

Operational Highlights

- 11% increase in new annuity licence orders
- Annual recurring revenue (ARR) contract retention remains high at 95% (H1 2017: 95%)
- Year-on-year average professional services day rate growth of 20%
- Became Cyber Essentials[3] compliant as part of commitment to achieving highest status of operational standards

[1] Adjusted EBITDA is defined as operating profit or loss before exceptional items, depreciation, amortisation and share-based payments charge. Organic Adjusted EBITDA represents the Group's Adjusted EBITDA normalised for the timing effect of the acquisition of Osmo Data Technology Limited ("OSMO")

[2] 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

[3] Cyber Essentials is a Government-backed, industry-supported scheme to help organisations protect themselves against common online threats

Gavin Lyons, CEO, commented:

"It has been a strong first half for Tax Systems, and we are pleased to have delivered once again against our key strategic objectives, delivering 22% growth in order intake and reducing debt levels ahead of target. The operational progress made over the last two years has been pleasing with enhancements made across the breadth of the business. The focus now will be on maintaining these solid foundations while driving the business forward, both organically and through acquisition as we seek to expand our offering. With legislation driving market demand there is considerable scope to develop new solutions for further growth, especially for Making Tax Digital, and we remain confident in our outlook for the full financial year."

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

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About Tax Systems

Tax Systems is a leading provider of corporation tax software and services in the UK and Ireland. The business has a long track record of being a key supplier of corporation tax software and services to many of the largest companies and the accounting profession in the UK and Ireland.

Find out more at **www.taxsystems.com**

Chairman's Statement

Introduction

I am pleased to report on the Company's progress during the six months ended 30 June 2018 and subsequently.

During the period under review the Company performed well, increasing sales of existing products and services, and developing new modules and features for existing products while paying down our debt faster than required.

The management team led by CEO Gavin Lyons has successfully moved the business from where it was two years ago, namely a private company with no growth and products requiring updating, to one with an energised culture, focus on customers and a desire to create new state of the art products for our core markets.

We have invested in people and now have in place the infrastructure expected of a listed group looking to grow shareholder value through earnings enhancing acquisitions and the in-house development of new products.

We continue to have high levels of customer retention and satisfaction for our key Alphatax product.

The above has only been achieved as a result of the dedication of the Tax Systems staff and we once again thank them for their continued hard work.

New Products

Much of the development work of the past six months has been focused on new modules and features for existing products. However, the focus for the next six months and beyond is on the development of new solutions and the success of these products in 2019 will be a key indicator of the ultimate success of the Group strategy.

Growth by acquisition

We remain committed to moving into new areas of tax compliance and subsequently regulatory compliance more generally. During the period under review we decided not to pursue two acquisition possibilities (as announced at the time of the 2017 full year results) following detailed due diligence findings. We have a number of further acquisition possibilities under review and will update the market should these transactions complete.

Corporate Governance

A visit to the Company's website www.taxsystems.com will allow readers to see how we comply with the new QCA Corporate Governance Code.

Outlook

In summary we are on track to deliver meaningful shareholder value in the coming periods.

Clive Carver
Non-Executive Chairman

Chief Executive Officer's Review

I am pleased to present my review of the six months ended 30 June 2018. This was another strong period for the Group in which we have delivered continued organic growth and significant debt reduction, in line with our strategy.

Organic growth

Over the period, the team has delivered another strong increase in sales, with order intake increasing 22% in comparison to H1 2017. We achieved year-on-year total revenue growth of 14% (9% organic growth) and year-on-year organic Adjusted EBITDA growth of 9%.

This growth has come from both the UK & Irish territories as a result of our investment in sales, marketing and pre-sales. The quantity of new licences sold across the business, as well as upgrades and cross selling to existing customers, has increased and was in line with our expectations. Sales of professional services, which includes helping organisations ensure their accounts and tax computations are in the appropriate iXBRL format, were ahead of expectations.

OSMO, the acquisition made in April 2017, has performed in line with expectations, with its infrastructure now integrated into the Tax Systems platform as planned.

Retention

The Company continues to boast a very high rate of retention of annual recurring revenue (95%). Maintaining a first-class service for our established customer base is a vital part of our long-term success, and as such we are consistently innovating, analysing our customer successes and listening to customer feedback to ensure we can deliver the solutions and services they require in the evolving tax landscape.

Debt reduction

We are very pleased to have reduced the level of the Group's debt ahead of plan, having lowered our net debt level by £3m over just six months. Getting the right balance between developing the business, but not overstretching it by having too much leverage remains very much in focus, and the fact that we have been able to consistently report double digit debt reduction alongside a substantial business transformation is a great achievement.

Operations

Over the last two years a great deal of industry, time and investment has been put into the business and through this we have improved our culture, processes, systems and infrastructure. We need to operate to the high standards required by our blue-chip customer base, and are proud of the progress we have made.

Examples include the introduction of CRM systems, automatic price quote configuration, customer support technology and finance control tools. Maintaining the security of our customers' data is critical to the success of our business, and consequently another key focus of the first half was upgrading our infrastructure and policies for GDPR and cyber security. We were delighted to achieve the Cyber Essentials 2018 qualification in the period.

Goals and Strategy

Our goals are to grow organically in the UK and Ireland and either build, partner or acquire additional technology solutions that can service the demand of our existing and target customers.

The objective is to create a single integrated platform that can eventually be used for both market segment and international expansion, and we continue to actively evaluate acquisition opportunities which fit the requirements of our technology roadmap. The pool of potential opportunities is good, but we will only proceed where we believe a business is the right strategic fit and of a high enough quality to enhance both the Company's offering and shareholder value.

Outlook

The Group continues to focus on the execution of its strategy to deliver against its goals and vision and since the period end, the trading performance of the Company has continued to be strong. The business continually ensures our software incorporates the latest updates to tax legislation and the work to continually improve our operation will carry on through the implementation of further quality measures. A key focus for the period ahead and beyond will be on new products for VAT.

The Board remains confident in the ability of the business to deliver growth in shareholder value. With legislation driving market demand, as well as market-leading technology and solid business processes in place, there is considerable scope for further growth in the business.

Gavin Lyons
Chief Executive Officer

Financial Review

The Group has had a strong start to the year with a 14% increase in revenue compared to H1 2017, with underlying organic revenue growth of 9%.

The focus on net debt reduction has continued and, bolstered by the recovery of £1.4m of corporation tax, has reduced by £3m over the six months to £17.5m.

Results summary

	H1 2018	H1 2017	FY 2017
	£'m	£'m	£'m
Revenue	**8.0**	7.0	15.1
Cost of sales	**(0.6)**	(0.6)	(1.1)
Gross profit	**7.4**	6.4	14.0
Other administrative expenses	**(3.7)**	(3.0)	(7.0)
Adjusted EBITDA	**3.7**	3.4	7.0
Amortisation and depreciation	**(3.3)**	(3.1)	(6.3)
Share-based payments	**(0.2)**	-	(0.2)
Exceptional items (transaction and restructuring costs)	**(0.2)**	(1.0)	(0.7)
Operating loss	**(0.0)**	(0.7)	(0.2)
Net finance charges	**(0.8)**	(0.8)	(1.7)
Loss before tax	**(0.8)**	(1.5)	(1.9)

The results for the six months ended 30 June 2017 comprise the results for Tax Systems plc and Tax Computer Systems Limited ("TCSL") for the six months together with the results for OSMO for the three-month period from the date of acquisition.

Revenue and gross margin

With effect from 1 January 2017, the Group has early adopted the new reporting standard on revenue recognition, IFRS 15 'Revenue from Contracts with Customers'. Previously, the licence fee element of software licence agreements was recognised in the month in which the agreement commenced. This is now accounted for evenly over the period of the licence term and the results for the periods are all presented under IFRS 15.

Revenue for the period amounted to £8.0m (H1 2017: £7.0m) from a mixture of software sales and services mostly to large blue-chip corporates and major accountancy firms. 89% (H1 2017: 92%) of revenue is from the licenced software solutions and the balance represents fees from professional services. The high percentage of revenue from licenced software solutions provides the Group with a strong recurring revenue model with licence terms ranging from 1 year to 5 years.

Revenue from professional services was particularly strong in the first half of the current financial year at £0.8m (H1 2017: £0.6m).

89% (H1 2017: 89%) of revenue is derived in the UK with the rest from Ireland.

Gross profit amounted to £7.4m (H1 2017: £6.4m) after accounting for cost of sales which comprised directly attributable staff costs and third-party hosting costs. The corresponding gross margin is 92% (H1 2017: 91%).

Operating costs

Total operating costs for the six months to 30 June 2018 were £7.4m (H1 2017: £7.1m) and comprised:

	H1 2018	H1 2017	FY 2017
	£'m	£'m	£'m
Other administrative expenses	**3.7**	3.0	7.0
Transaction and restructuring costs	**0.2**	1.0	0.7
Share-based payments	**0.2**	-	0.2
Amortisation and depreciation	**3.3**	3.1	6.3
Total operating costs	**7.4**	7.1	14.2

Transaction and restructuring costs in the period represented legal and professional fees incurred on aborted acquisitions, together with further restructuring costs in respect of redundancy costs and systems conversion

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

Amortisation comprises £2.2m on customer contracts, £0.8m on intellectual property rights, £0.3m for capitalised development costs.

At 30 June 2018 the Company employed 91 staff.

Operating loss and Adjusted EBITDA

The Group uses alternative non-Generally Accepted Accounting Practice ('non-GAAP') financial measures which are not defined within IFRS. The Directors use these measures in order to assess the underlying operational performance of the Group and, as such, these measures are important and should be considered alongside the IFRS measures. Adjusted EBITDA is stated before exceptional items, impairments and share-based payment charges.

Adjusted EBITDA for the six months amounted to £3.7m (H1 2017: £3.4m). A reconciliation of operating loss to Adjusted EBITDA is as follows:

	H1 2018	H1 2017	FY 2017
	£'m	£'m	£'m
Operating loss	**(0.0)**	(0.7)	(0.2)
Amortisation and depreciation	**3.3**	3.1	6.3
EBITDA	**3.3**	2.4	6.1
Share-based payments	**0.2**	-	0.2
Transaction and restructuring costs	**0.2**	1.0	0.7
Adjusted EBITDA	**3.7**	3.4	7.0

The operating loss for the period was £0.0m (H1 FY17: £0.7m).

Net finance costs

Net finance costs for the period amounted to £0.8m (H1 2017: £0.8m), principally made up of interest payable on bank borrowings and unsecured loan notes of £0.5m, together with an effective interest charge of £0.3m on the equity element of the loan notes.

Loss before tax

The Group reported a loss before tax of £0.8m for the six months to 30 June 2018 reduced from £1.5m for the same period in 2017.

Tax
The tax credit for the period was £0.8m (H1 2017: £0.7m), which primarily related to the release of the deferred tax liability in relation to acquired intangible assets.

Capitalised development costs
The Group capitalised £0.9m (H1 2017: £0.6m) of development costs in the period reflecting the on-going investment required for developing our core tax software products and the development of new products.

Cash flow and net debt
The Group generated £3.1m (H1 2017: £2.4m) of cash from operating activities after exceptional items during the period. The key components of the Group's cash flow were:

	H1 2018 £'m	H1 2017 £'m	FY 2017 £'m
Adjusted EBITDA	**3.7**	3.4	7.0
Exceptional items	**(0.2)**	(1.0)	(0.7)
Net change in working capital	**(0.4)**	-	0.6
Operating cash flow	**3.1**	2.4	6.9
Net interest paid	**(0.5)**	(0.7)	(1.2)
Tax received/(paid)	**1.4**	(0.3)	(0.4)
Capital expenditure	**(1.0)**	(0.9)	(1.6)
Free cash flow	**3.0**	0.5	3.7
Acquisitions	**-**	2.4	2.4
Repayment of bank borrowings	**(2.9)**	(0.9)	(4.8)
Net change in cash flow	**0.1**	2.0	1.3
Cash at start of period/year	**3.5**	2.2	2.2
Cash at end of period/year	**3.6**	4.2	3.5

The acceleration in reduction of net debt continued over the period with a reduction of £3.0m over the six months. At 30 June 2018 net debt was £17.5m (30 June 2017: £23.6m; 31 December 2017: £20.5m) and comprised the following:

	H1 2018 £'m	H1 2017 £'m	FY 2017 £'m
Term loans and revolving credit facilities	**(11.4)**	(18.2)	(14.3)
BGF loan notes	**(10.0)**	(10.0)	(10.0)
Gross debt	**(21.4)**	(28.2)	(24.3)
Loan arrangement fees	**0.3**	0.4	0.3
Cash	**3.6**	4.2	3.5
Net debt	**(17.5)**	(23.6)	(20.5)

Kevin Goggin
Chief Financial Officer

Condensed Consolidated Statement of Comprehensive Income

	Note	**Six months ended 30 June 2018 (unaudited) £'000**	Six months ended 30 June 2017 (unaudited) £'000	Year ended 31 December 2017 (audited) £'000
Revenue	4	**7,989**	7,016	15,109
Cost of sales		**(636)**	(627)	(1,138)
Gross profit		**7,353**	6,389	13,971
Administrative expenses		**(7,397)**	(7,081)	(14,205)
Operating loss	5	**(44)**	(692)	(234)
Finance income	6	**5**	4	14
Finance costs	6	**(765)**	(839)	(1,661)
Loss before income tax		**(804)**	(1,527)	(1,881)
Income tax	7	**761**	737	1,411
Loss for the period/year attributable to the owners of the parent		**(43)**	(790)	(470)
Other comprehensive income/(expense) that may be reclassified subsequently to profit or loss:				
Currency translation differences on consolidation		**2**	2	(1)
Total comprehensive expense for the period/year attributable to the owners of the parent		**(41)**	(788)	(471)
Loss per share attributable to owners of the parent during the period/year (expressed in pence per share):				
- basic and diluted	8	**(0.05p)**	(1.01p)	(0.59p)

Non-GAAP measure: Adjusted EBITDA		**£'000**	£'000	£'000
Operating loss	5	**(44)**	(692)	(234)
Amortisation and depreciation	5	**3,380**	3,099	6,369
Operating profit before share-based payments and exceptional items		**3,336**	2,407	6,135
Share-based payments		**163**	37	188
Exceptional items	5	**190**	962	680
Adjusted EBITDA[1]		**3,689**	3,406	7,003

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

Condensed Consolidated Statement of Financial Position

	Note	**As at 30 June 2018 (unaudited) £'000**	As at 30 June 2017 (unaudited) £'000	As at 31 December 2017 (audited) £'000
ASSETS				
Non-current assets				
Property, plant and equipment		**329**	405	331
Intangible assets	9	**77,054**	82,009	79,481
Deferred tax assets		**3**	14	3
		77,386	82,428	79,815
Current assets				
Trade and other receivables	10	**5,429**	3,544	3,173
Current tax assets		**487**	1,035	1,920
Cash and cash equivalents	11	**3,605**	4,180	3,468
		9,521	8,759	8,561
Total assets		**86,907**	91,187	88,376
LIABILITIES				
Current liabilities				
Trade and other payables	12	**(11,732)**	(9,604)	(9,850)
Current tax liabilities		**(157)**	(14)	(116)
Provisions		**(24)**	-	(24)
Financial liabilities	13	**(1,730)**	(1,730)	(1,730)
		(13,643)	(11,348)	(11,720)
Non-current liabilities				
Provisions		**(51)**	-	(33)
Financial liabilities	13	**(17,331)**	(23,639)	(19,985)
Deferred tax liabilities		**(8,552)**	(9,389)	(9,359)
Total liabilities		**(39,577)**	(44,376)	(41,097)
Net assets		**47,330**	46,811	47,279
EQUITY				
Capital and reserves attributable to owners of the parent				
Ordinary shares	14	**807**	807	807
Share premium	14	**53,936**	53,925	53,936
Foreign exchange reserve		**62**	63	60
Other reserves		**3,715**	3,283	3,623
Accumulated losses		**(11,190)**	(11,267)	(11,147)
Total equity		**47,330**	46,811	47,279

Condensed Consolidated Statement of Changes in Equity

	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
Six months to 30 June 2017									
Balance at 1 January 2017, as previously reported		760	50,775	784	2,624	38	(7,155)	61	47,887
Change in accounting policy		-	-	-	-	-	(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 six months		-	-	-	-	-	(790)	-	(790)
Other comprehensive income		-	-	-	-	-	-	2	2
Total comprehensive (expense)/income		-	-	-	-	-	(790)	2	(788)
Issue of Ordinary shares (net of expenses)	14	47	3,150	-	-	-	-	-	3,197
Reserves transfer for loan notes		-	-	-	(200)	-	200	-	-
Share-based payments		-	-	-	-	37	-	-	37
Balance at 30 June 2017		807	53,925	784	2,424	75	(11,267)	63	46,811
Twelve months to 31 December 2017									
Balance at 1 January 2017		760	50,775	784	2,624	38	(7,155)	61	47,887
Change in accounting policy		-	-	-	-	-	(3,522)	-	(3,522)
Balance at 1 January 2018, 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)	14	47	3,150	-	-	-	-	-	3,197
Recognition of warrants		-	11	(11)	-	-	-	-	-
Share-based payments		-	-	-	-	188	-	-	188
Balance at 31 December 2017		807	53,936	773	2,624	226	(11,147)	60	47,279
Six months to 30 June 2018									
Balance at 1 January 2018		807	53,936	773	2,624	226	(11,147)	60	47,279
Change in accounting policy		-	-	-	-	-	-	-	-
Balance at 1 January 2018, as restated		807	53,936	773	2,624	226	(11,147)	60	47,279
Loss for the six months		-	-	-	-	-	(43)	-	(43)
Other comprehensive income		-	-	-	-	-	-	2	2
Total comprehensive (expense)/income		-	-	-	-	-	(43)	2	(41)
Share based payment relating to prior year business combinations		-	-	-	-	(71)	-	-	(71)
Share-based payments		-	-	-	-	163	-	-	163
Balance at 30 June 2018		**807**	**53,936**	**773**	**2,624**	**318**	**(11,190)**	**62**	**47,330**

Condensed Consolidated Cash Flow Statements

	Note	**Six months ended 30 June 2018 (unaudited) £'000**	Six months ended 30 June 2017 (unaudited) £'000	Year ended 31 December 2017 (audited) £'000
Cash flows from operating activities				
Cash generated by operations, before exceptional expenses	15	**3,364**	3,325	7,540
Exceptional expenses		**(294)**	(920)	(680)
Cash generated by operations after exceptional items		**3,070**	2,405	6,860
Net income tax received/(paid)		**1,428**	(309)	(433)
Net cash from operating activities		**4,498**	2,096	6,427
Investing activities				
Acquisition of subsidiary, net of cash acquired		**-**	2,384	2,384
Interest received		**5**	4	14
Purchases of property, plant and equipment		**(47)**	(367)	(351)
Purchase and capitalisation of intangible assets		**(904)**	(576)	(1,249)
Net cash (used in)/generated from investing activities		**(946)**	1,445	798
Financing activities				
Interest paid		**(520)**	(661)	(1,171)
Repayments of long-term borrowings		**(2,900)**	(900)	(4,800)
Net cash used in financing activities		**(3,420)**	(1,561)	(5,971)
Net increase in cash and cash equivalents		**132**	1,980	1,254
Cash and cash equivalents at beginning of the period/year		**3,468**	2,200	2,200
Effect of exchange rate changes		**5**	-	14
Cash and cash equivalents at end of the period/year		**3,605**	4,180	3,468

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 six months ended 30 June 2018, 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 the registered address is Magna House, 18-32 London Road, Staines-upon-Thames TW18 4BP.

The condensed consolidated interim financial information was approved for issue by the Board on 31 August 2018.

The condensed consolidated interim financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2017 were approved by the Board on 20 April 2018 and delivered to the Registrar of Companies. The Auditors' report on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

The condensed consolidated interim financial information is neither audited nor reviewed by the auditors and the results of the operations for the six months ended 30 June 2018 are not necessarily indicative of the operating results for future operating periods.

2. Basis of preparation

The condensed consolidated interim financial information in this report has been prepared under the measurement principles of International Financial Reporting Standards ('IFRS') as adopted by the European Union ('IFRS as adopted by the EU'), using accounting policies and methods of computation consistent with those set out in the Company's 2017 Annual Report and Accounts. The 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. As permitted by AIM rules, the Group has not applied IAS 34 'Interim reporting' in preparing this interim report.

In 2017 the Company reviewed the way that it accounted for revenue from software licences and had early adopted the new reporting standard on revenue recognition, IFRS 15 ' Revenue from Contracts with Customers'. Previously the Company recognised the licence fee element of software licence agreements in the month in which the agreement commenced. Under IFRS 15 this is now accounted for evenly over the period of the licence term. The Company has applied the change in accounting policy by using a modified retrospective approach and a cumulative adjustment was recognised through retained earnings at 1 January 2017 in relation to agreements which still required performance by the Company at that date. The results contained in this announcement have all been accounted for under IFRS 15.

Based on projections prepared of the Group's anticipated future results, the Directors have reasonable expectations that the Group will have adequate resources to continue in existence for the foreseeable future. Therefore, the Directors continue to adopt the going concern basis in preparing this financial information.

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 16referred 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 majority of the Group's operating lease commitments, approximately £1,074,000 on an undiscounted basis, would be brought on to the balance sheet and depreciated separately. There will be no net 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.

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 2018 that have a material impact on the Group's consolidated financial statements.

3. 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.

a) 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

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 time.

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.

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 contracts 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.

Deferred 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

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 Guernsey Limited.

b) Accounting estimates

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.

Share-based payments

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.

4. 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 Adjusted 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.

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.

	Six months ended 30 June 2018 £'000	Six months ended 30 June 2017 £'000	Year ended 31 December 2017 £'000
United Kingdom	**6,987**	6,213	13,200
Ireland	**1,002**	803	1,909
Total	**7,989**	7,016	15,109

Products and services

	Six months ended 30 June 2018 £'000	Six months ended 30 June 2017 £'000	Year ended 31 December 2017 £'000
Revenue from licenced software solutions	**7,146**	6,463	13,523
Fees from professional services	**843**	553	1,586
Total	**7,989**	7,016	15,109

5. Operating loss

This is stated after charging:

	Note	**Six months ended 30 June 2018 £'000**	Six months ended 30 June 2017 £'000	Year ended 31 December 2017 £'000
Depreciation		**50**	18	65
Amortisation of capitalised development costs	9	**324**	124	350
Amortisation of other intangible assets	9	**3,006**	2,957	5,954
Research and development costs expensed		**290**	237	398

Exceptional items comprise:

	Six months ended 30 June 2018 £'000	Six months ended 30 June 2017 £'000	Year ended 31 December 2017 £'000
Exceptional income	**-**	-	(581)
Restructuring costs	**92**	773	1,057
Acquisition related costs	**98**	189	204
	190	962	680

The exceptional income in 2017 relates to an amount received in respect of a recovery of VAT costs treated as irrecoverable within exceptional items in prior years.

Acquisition related costs in the period represented legal and professional fees on aborted acquisitions. The Group incurred further restructuring costs in respect of redundancy costs and systems conversions.

Acquisition related costs in 2017 represented professional fees, broker fees and due diligence costs relating to the acquisition of Osmo Data Technology Limited. Restructuring costs were principally redundancy and termination costs associated with the prior acquisition of Tax Computer Systems Limited.

6. Finance income and expenses

	Six months ended 30 June 2018 £'000	Six months ended 30 June 2017 £'000	Year ended 31 December 2017 £'000
Finance income			
Interest income on short-term deposits	**-**	4	-
Net foreign exchange gains on financing activities	**5**	-	14
	5	4	14
Finance costs			
Interest payable on bank borrowings and loan notes	**(518)**	(592)	(1,169)
Effective interest on equity element of loan notes	**(200)**	(200)	(399)
Amortisation of debt arrangement fees	**(47)**	(47)	(93)
	(765)	(839)	(1,661)
Net finance costs	**(760)**	(835)	(1,647)

7. Tax

	Six months ended 30 June 2018 £'000	Six months ended 30 June 2017 £'000	Year ended 31 December 2017 £'000
Current tax			
Current tax	**(55)**	(124)	4
Adjustments in respect of prior years	**9**	-	1,358
Total current tax	**(46)**	(124)	1,362
Deferred tax			
Deferred tax	**807**	861	49
Total deferred tax	**807**	861	49
Total tax credit in the Statement of Comprehensive Income	**761**	737	1,411

8. 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 period. As the Group is loss-making, any LTIP awards in issue are considered to be 'anti-dilutive'. As such, there is no separate calculation for diluted loss per share.

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

	Six months ended 30 June 2018 £'000	Six months ended 30 June 2017 £'000	Year ended 31 December 2017 £'000
Loss attributable to owners of the parent	**(43)**	(790)	(470)
Weighted average number of shares (thousands)	**80,703**	78,288	79,505
Loss per share (pence)	**(0.05)**	(1.01)	(0.59)

9. Intangible assets

	Goodwill £'000	Customer contracts £'000	Intellectual property rights £'000	Software licences £'000	Capitalised development costs £'000	Total £'000
Six months to 30 June 2017						
Cost						
As at 1 January 2017	24,927	43,475	14,875	-	417	83,694
Additions	-	-	-	-	576	576
Acquisitions	1,788	645	946	-	-	3,379
As at 30 June 2017	26,715	44,120	15,821	-	993	87,649
Accumulated amortisation						
As at 1 January 2017	-	1,882	644	-	33	2,559
Charge	-	2,190	767	-	124	3,081
As at 30 June 2017	-	4,072	1,411	-	157	5,640
Net book value						
As at 1 January 2017	24,927	41,593	14,231	-	384	81,135
As at 30 June 2017	26,715	40,048	14,410	-	836	82,009
Twelve months to 31 December 2017						
Cost						
As at 1 January 2017	24,927	43,475	14,875	-	417	83,694
Additions	-	-	-	51	1,198	1,249
Acquisitions	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

Six months to 30 June 2018

Cost						
As at 1 January 2018	26,737	44,120	15,821	51	1,615	88,344
Exchange differences	-	-	-	(1)	-	(1)
Additions	-	-	-	41	863	904
As at 30 June 2018	**26,737**	**44,120**	**15,821**	**91**	**2,478**	**89,247**
Accumulated amortisation						
As at 1 January 2018	-	6,278	2,202	-	383	8,863
Charge	-	2,206	791	9	324	3,330
As at 30 June 2018	**-**	**8,484**	**2,993**	**9**	**707**	**12,193**
Net book value						
As at 1 January 2018	26,737	37,842	13,619	51	1,232	79,481
As at 30 June 2018	**26,737**	**35,636**	**12,828**	**82**	**1,771**	**77,054**

10. Trade and other receivables

	30 June 2018	30 June 2017	31 December 2017
	£'000	£'000	£'000
Trade receivables	**3,891**	2,463	2,637
Other receivables	**231**	468	251
Accrued income	**920**	402	155
Prepayments	**387**	211	130
Total trade and other receivables due within one year	**5,429**	3,544	3,173

11. Net debt

	Note	**30 June 2018**	30 June 2017	31 December 2017
		£'000	£'000	£'000
Cash at bank and in hand		**3,605**	4,180	3,468
Bank loans and loan notes	13	**(19,061)**	(25,369)	(21,715)
Equity element of loan notes		**(2,025)**	(2,424)	(2,225)
Net debt		**(17,481)**	(23,613)	(20,472)

12. Trade and other payables

	30 June 2018	30 June 2017	31 December 2017
	£'000	£'000	£'000
Trade payables	**383**	201	226
Other taxes and social security	**1,144**	952	855

Accruals	**1,659**	1,095	1,859
Deferred income	**8,441**	7,027	6,855
Other payables	**105**	329	55
Trade and other payables due within one year	**11,732**	9,604	9,850

13. Borrowings

	30 June 2018	30 June 2017	31 December 2017
	£'000	£'000	£'000
Due within one year			
Bank loans	**1,730**	1,730	1,730
Borrowings due within one year	**1,730**	1,730	1,730
Due after one year			
Bank loans	**9,460**	16,190	12,325
Loan notes	**7,871**	7,449	7,660
Borrowings due after one year	**17,331**	23,639	19,985
Total Borrowings	**19,061**	25,369	21,715

The Group has revolving and term loan facilities, which are available until 30 June 2021. The term loan is amortised evenly over the five-year term.

The Company has a £10,000,000 unsecured fixed rate loan notes agreement with the BGF. 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 option 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 fair value of the equity element was credited to Other Reserves.

14. Ordinary shares, share premium and other reserves

Allotted and fully paid £0.01 nominal value shares:

	Number of shares	Ordinary shares	Share premium	Total
	'000	£'000	£'000	£'000
As at 1 January 2017	76,001	760	50,775	51,535
Issue of new shares	4,702	47	3,150	3,197
Issue of warrants	-	-	11	11
As at 1 January 2018	80,703	807	53,936	54,743
Issue of new shares	-	-	-	-
As at 30 June 2018	**80,703**	**807**	**53,936**	54,743

As at 1 January 2017	76,001	760	50,775	51,535
Issue of new shares	4,702	47	3,150	3,197
As at 30 June 2017	80,703	807	53,925	54,732

Share capital and share premium

At 30 June 2018 the share capital of Tax Systems plc consisted of 80,703,381 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 3 April 2017 the Company issued 4,701,492 Ordinary shares as consideration for the acquisition of the entire share capital of OSMO.

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

	Six months ended 30 June 2018 £'000	Six months ended 30 June 2017 £'000	Year ended 31 December 2017 £'000
Loss before income tax	**(804)**	(1,527)	(1,881)
Adjustments for:			
Depreciation of property, plant and equipment	**50**	18	65
Amortisation of intangible assets	**3,330**	3,081	6,304
Share-based payments	**163**	37	188
Finance costs - net	**760**	835	1,647
Operating cash flows before movements in working capital	**3,499**	2,444	6,323
(Increase)/decrease in receivables	**(2,256)**	(103)	268
Increase in payables	**1,913**	22	222
Increase in provisions	**18**	-	47
Operating cash flows after movements in working capital	**3,174**	2,363	6,860
Exceptional expenses	**190**	962	680
Cash generated by operations, before exceptional expenses	**3,364**	3,325	7,540

16. Commitments, contingencies and guarantees

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.

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.

17. Acquisitions

Osmo Data Technology Limited ("OSMO")

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.

There have been no changes made to the fair values of the assets and liabilities of OSMO as previously disclosed.

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