

Financial Statements

SmartFocus UK Limited

For the Year ended 31 December 2017

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Company No. 04064821

Company information

Company registration number	04064821
Registered office	The Space, 4 th Floor One Thomas Moore Square London E1W 1YN
Directors	C P Allan J S Gunn
Bankers	The Royal Bank of Scotland PLC 62/63 Threadneedle Street London EC2R 8LA
Solicitors	Bircham Dyson Bell LLP 50 Broadway London SW1H 0BL
Auditor	Grant Thornton UK LLP Chartered Accountants Registered Auditors 30 Finsbury Square London EC2P 2YU

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Strategic report

Principal activities and business review

SmartFocus UK Ltd (“the company”) is part of the SmartFocus Holdings Limited Group (“The Group”) and provides software solutions as part of the wider group.

SmartFocus UK Ltd is a retail focused marketing and analytics software company. The company offers a software solution to enable companies to plan, deliver, automate and measure the performance of their digital marketing campaigns. Each year our software executes more than seven and a half million marketing campaigns, manages more than sixteen billion customer records and delivers more than 48 billion personalised messages across the Group.

During the past couple of years the Group developed the **Message Cloud**, a digital marketing platform designed to offer brand marketers a holistic view of their customers and enable them to deliver more personalised marketing interactions and redefine context-driven markets for companies. The Message Cloud listens to and learns from customers using patented algorithms, unique location based marketing tools and provides a decision engine that creates contextualised messages triggered by customer behaviour, in particular:

- **Personalisation** enables the Message Cloud to target customers individually in real-time. The Message Cloud takes in to account customer’s behaviour and preferences and also their context - their location and device, the weather and time of day to ensure marketing messages are unique and relevant to every single moment.
- **Marketing Intelligence** enables the Message Cloud to aggregate and analyse information from all of a company’s touch points – email, web, analytics, in store point of sale, call centres and more – to provide a consistent view of customers.
- **Email** provides personalised messages for each customer, in real time, every time. The Message Cloud industry leading email deliverability provides personalised, context aware content that is reliable, intelligent and optimised when an email is opened not when it is sent.

The Group has a long term growth strategy to expand its presence in markets and countries where it can attain the necessary presence to allow for a successful customer relationship, summarised as follows:

- Expand the penetration within its current customer base by cross-selling new value added solutions.
- Increase customer satisfaction and retention by offering a more strategic and complete product suite.
- Investing in the development team to create, integrate and deliver these market-leading products.

Trading results

Company revenue was £8.3m (2016: £9.6m.). This decrease was due to the significant Group restructure programme that was undertaken during 2017, including changes to the Sales team which set back business pipelines by 6-9 months. The pipeline for 2018 is considered strong and revenue growth is expected in 2018.

A continued effort on cost management resulted in operating costs reducing from £24.0 million to £18.9 million in 2017; primarily due to the significant changes in headcount as part of the group restructure programme. These movements in turn have helped drive the reduction in operating loss before exceptional items by 41% from £8.2 million in 2016 to £4.8 million in 2017.

Strategic report (continued)

Trading results (continued)

	2017	2016	Change
	£m	£m	£m
Turnover	8.3	9.6	(1.3)
Operating loss before exceptional costs	(4.8)	(8.2)	3.4
Loss on ordinary activities before taxation	(6.5)	(8.9)	2.4

Principal risks and uncertainties

The Company benefits from a recurring and contracted subscription revenue stream. The Company manages competitive risk through long term contracts and by continually investing in support, account management and staff training.

The business is subject to a number of risks and uncertainties, including the following:

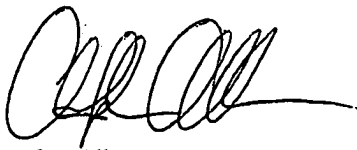
- Defects or errors in our software solutions could harm our reputation, resulting in significant costs to us and impair our ability to sell our solutions or keep our customers. To mitigate the risk, the Company continues to strengthen its quality assurance processes and tools using methodologies, test driven development and automated testing to limit defects that impact production platforms.
- The Company's operations involve the storage and transmission of client and consumer data. Security incidents could result in unauthorised access to, loss of, or unauthorised disclosure of this information, resulting in litigation, indemnity obligations and other possible liabilities, as well as negative publicity which could damage our reputation, impair our sales and harm the Company's business. To manage the risk, the Company monitors and implements technology, process and testing along with utilising third parties that identify vulnerabilities and works with industry associations like TrustE. In addition, as part of GDPR a number of new security measures have been put in place to ensure that encryption at rest and encryption in transit is in place for all personal data that it processes.
- Any violation of the Company's policies or misuse of our software solutions by our clients could damage our reputation and subject us to liability. We rely on contractual representations made to us by our clients that their use of our software solutions will comply with our policies and applicable law, including, without limitation, both our Acceptable User Policy and our Anti-Spam Policy. The Company actively monitors all customer activity and will immediately discontinue service if it notices any violation of policy.
- Catastrophic events may disrupt our business. The Company relies heavily on our network infrastructure and information technology systems for our business operations. A disruption or failure of these systems in the event of a tornado, earthquake, fire, cyber-attack, terrorist attack, power loss, telecommunications failure or other similar catastrophic event could cause system interruptions, delays in the delivery of our clients' digital marketing communications, reputational harm and loss of critical data, or could prevent us from providing our digital marketing solutions to our clients. The Company mitigates these risks by hosting all production activities in third party level one hosting facilities that have built the necessary environmental, electrical and fire prevention systems. Recently, the Company has successfully passed ISO 27001 Certification and has rolled out a number of policies and controls which have been designed to minimise business disruption.

Strategic report (continued)

Principal risks and uncertainties (continued)

- A significant portion of the Company's revenue and costs are in Euro and Dollars, and the Company is increasingly exposed to trading in other currencies. Management prepare cash flow forecasts by currency and attempt, where possible, to naturally hedge the Group's cash flow. Management will continue to carefully monitor the Company's cash flow and consider alternative arrangements if there is a material unhedged exposure.

On Behalf of the Board



C P Allan
Director

Date: 21 / 12 / 18

Report of the directors

The directors present their report and the financial statements of the company for the year ended 31 December 2017.

Results and dividends

The trading results for the year, and the company's financial position at the end of the year are shown in the attached financial statements. The directors have not recommended a dividend (2016: £Nil).

Going concern

The company is part of the SmartFocus Holdings Limited Group and is dependent upon the parent company for financial support. SmartFocus Holdings Limited has agreed to provide such support for a period at least twelve months from the approval of these accounts.

The group's majority shareholder, Francisco Partners II, has agreed to provide financial support to SmartFocus Holdings Limited for the same period. The directors therefore consider the group's financial resources to be sufficient to provide the required support and that the company is well placed to manage its business and competitive risks successfully. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

Directors

The directors who served the Company during the year and subsequently were as follows:

C P Allan
R Howell (resigned 18 January 2017)
J S Gunn (appointed 18 January 2017)

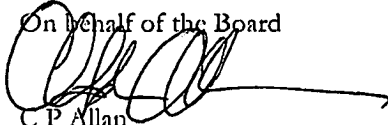
Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Group's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

Grant Thornton UK LLP have indicated their willingness to be reappointed for another term and appropriate arrangements are being made for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

On behalf of the Board



C P Allan

Director

Date: 21 / 12 / 18

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report and the Report of the Directors 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland.

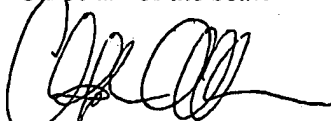
Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 any 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.

On behalf of the board



C P Allan
Director

Date: 21 / 12 / 18



Independent auditor's report to the members of SmartFocus UK Limited

Opinion

We have audited the financial statements of SmartFocus UK Limited (the 'company') for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 company 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.

Who we are reporting to

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.

Conclusions relating to going concern

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

- 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 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.

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.



Independent auditor's report to the members of SmartFocus UK Limited

Other information (continued)

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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the 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 strategic report and the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 7, 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 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 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



Independent auditor's report to the members of SmartFocus UK Limited

Auditor's responsibilities for the audit of the financial statements (continued)

audit conducted in accordance with the 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.

Grant Thornton UK LLP

Steven Leith,
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

Date: 24 December 2018

Statement of comprehensive income

	Notes	2017 £	2016 £
Turnover	2	8,260,164	9,628,221
Other operating income	3	5,777,710	6,205,774
Operating charges	4,6,7	(18,872,090)	(24,003,353)
Operating loss before exceptional items		(4,834,216)	(8,169,358)
Exceptional items	5	(634,983)	(35,252)
Operating loss after exceptional items		(5,469,198)	(8,204,610)
Interest receivable	8	104,020	47,666
Interest payable	9	(1,125,801)	(704,052)
Loss from ordinary activities		(6,490,979)	(8,860,996)
Tax on loss on ordinary activities	10	(26,909)	(813,838)
Total comprehensive loss		(6,517,888)	(9,674,834)

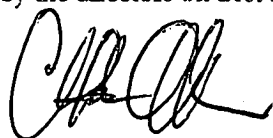
All activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the year as set out above.

Statement of financial position

	Notes	2017 £	2016 £
Fixed assets			
Intangible assets	12	22,887	91,119
Property, plant and equipment	11	1,005,601	1,320,107
		<u>1,028,488</u>	<u>1,411,226</u>
Current assets			
Debtors due within one year	13	3,643,904	3,614,391
Cash at bank and in hand		299,941	327,944
		<u>3,943,845</u>	<u>3,942,335</u>
Creditors: amounts falling due within one year	14	<u>(29,108,315)</u>	<u>(23,248,739)</u>
Provisions within one year	16	(180,000)	(180,000)
Net current liabilities		<u>(25,344,470)</u>	<u>(19,486,404)</u>
Total assets less current liabilities		<u>(24,315,982)</u>	<u>(18,075,178)</u>
Creditors: amounts falling due after more than one year	15	<u>(11,316)</u>	<u>(109,790)</u>
Net liabilities		<u>(24,327,297)</u>	<u>(18,184,968)</u>
Capital and reserves			
Called up share capital	17	1,110	1,110
Share premium		74,890	74,890
Share-based payment reserves		3,800,012	3,424,453
Profit and loss account		<u>(28,203,309)</u>	<u>(21,685,421)</u>
Shareholders' deficit		<u>(24,327,297)</u>	<u>(18,184,968)</u>

These financial statements have been prepared in accordance with FRS102. They were approved for issue by the directors on 21st December 2018 and are signed on their behalf by:



C P Allan

Director

Date: 21 / 12 / 18

Company Number: 04064821

Statement of changes in equity

	Share capital £	Share premium account £	Share- based payment reserves £	Profit and loss account £	Total £
Balance at 1 January 2016	1,110	74,890	2,960,891	(12,010,587)	(8,973,696)
Loss for the year	-	-	-	(9,674,834)	(9,674,834)
Share-base payment	-	-	463,562	-	463,562
Balance at 1 January 2017	1,110	74,890	3,424,453	(21,685,421)	(18,184,968)
Loss for the year	-	-	-	(6,517,888)	(6,517,888)
Share-base payment	-	-	375,559	-	375,559
At 31 December 2017	1,110	74,890	3,800,012	(28,203,309)	(24,327,297)

Notes to the financial statements

1) Principal accounting policies

Statutory information

SmartFocus UK Limited is a company domiciled in England and Wales, registration number 04064821. The registered office is The Space, 4th Floor, One Thomas Moore Square, London, E1W 1YN. The company is limited by shares.

The financial statements have been prepared under the historical cost convention and were prepared in compliance with Financial Reporting Standard 102 as it applies to the financial statements of the company for the year ended 31 December 2017.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and with applicable United Kingdom accounting standards. The presentation and functional currency of these financial statements is sterling.

The company has taken advantage of the exemption from the requirement to prepare consolidated financial statements available under s401 of the Companies Act 2006, as it is a wholly-owned subsidiary undertaking of SmartFocus Holdings Limited, a company incorporated in the United Kingdom, which prepares publicly available consolidated financial statements.

Cash Flow Statement

The company has taken advantage of the exemption in FRS 102.1.12(b) Reduced disclosures for subsidiaries. A statement of cashflows has not been prepared as the company is a member of a group where the parent, SmartFocus Holdings Limited, prepares publicly available consolidated financial statements and the company is included in the consolidation.

Related parties

The company has taken advantage of the exemption in FRS 102.1.12(c) Reduced disclosures for subsidiaries. Key management remuneration has not been disclosed as the company is a member of a group where the parent, SmartFocus Holdings Limited, prepares publicly available consolidated financial statements and the company is included in the consolidation.

The company has taken advantage of the exemption in FRS 102.33.1A not to disclose related party transactions with fellow wholly-owned subsidiary undertakings of SmartFocus Holdings Limited, which prepares publicly available consolidated financial statements.

Share based payments

The company has taken advantage of the exemption in FRS 102.1.12(d) Reduced disclosures for subsidiaries. Certain share based payment transactions have not been presented as the company is a member of a group where the parent, SmartFocus Holdings Limited, prepares publicly available consolidated financial statements and the company is included in the consolidation.

Going concern

The financial position of the company, its cash flows, liquidity position and borrowing facilities are described in the financial statements. The company is part of the SmartFocus Holdings Limited Group and is dependent upon the group for financial support. SmartFocus Holdings Limited has agreed to provide such support for a period at least twelve months from the approval of these accounts.

Notes to the financial statements (continued)

1) Principal accounting policies (continued)

Going concern (continued)

The group's majority shareholder, Francisco Partners II, has agreed to provide financial support to SmartFocus Holdings Limited for the same period. The directors therefore consider the group's financial resources to be sufficient to provide the required support and that the company is well placed to manage its business and competitive risks successfully. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

Revenue recognition

Revenue is generated through the sale of subscriptions and related hosting of the company's SaaS solutions and the delivery of professional services.

Invoiced amounts are reflected on the balance sheet as accounts receivable or as cash when collected, and as deferred revenue, until earned and recognised as revenue rateably on a straight-line basis over the performance year. Accordingly, deferred revenue represents the amount billed to clients that has not yet been earned or recognised as revenue, pursuant to agreements entered into in current and prior years, and does not reflect that portion of a contract to be invoiced to clients on a periodic basis for which payment is not yet due. Subscription and hosting revenue is based on volume of contracted utilisation, level of functionality, number of interactive marketing channels, number of users and level of customer support. Utilisation levels are based on the volume of email messages. If clients exceed the specified volume of utilisation, additional fees are billed for the excess volume and are included in subscription revenue in the year in which the excess volume occurs. If clients use less than the minimum contracted utilisation, no rollover credit or refunds are given.

Subscription fees are recognised provided that an enforceable contract has been signed by both parties, access to our SaaS solutions has been granted to the client, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow into the company and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. Revenue from utilisation above the contracted level is recognised in the year in which the utilisation occurs.

Professional Services revenue consists primarily of fees associated with training, implementation, integration, deliverability, campaign services and strategic consulting. Professional Services are not required for clients to utilise the company's SaaS solutions. Depending upon the nature of the engagement, the company may provide Professional Services over the term of the SaaS subscription or in connection with discrete projects. Revenue from professional services engagements is recognised over the year of performance and is typically contracted on a fixed-fee basis.

Exceptional costs

The company considers exceptional costs as those that are non-recurring and are triggered by an unusual event outside of the normal course of business operation. Such costs are separated out to allow the reader of the accounts to identify those costs that can be reasonably assessed as one-off and would not be expected in future periods.

Notes to the financial statements (continued)

Fixed assets

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

Equipment	-	2 – 3 years
Fixtures & Fittings	-	5 years

Intangible fixed assets and amortisation

Intangible fixed assets are stated at cost less amortisation and any impairment losses assessed at the end of each accounting period.

Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of intangible assets. Leased assets are amortised over the shorter of the lease term and their useful lives. The estimated useful lives are 2-3 years.

Research and development

Expenditure on research and development is written off against profits in the year in which it is incurred. All eligible costs are included in claims for R&D tax credits and thus not capitalised.

Fixed asset impairments

The carrying values of tangible and intangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value 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 net realisable value and value in use. For the purpose of assessing impairment, assets and liabilities are grouped at the lowest level for which income is generated that is largely independent of the other income streams (income-generating units). Assets that previously suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Finance lease agreements

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated in accordance with the above depreciation policies. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account to produce a constant rate of charge on the balance of capital repayments outstanding, and the capital element, which reduces the outstanding obligation for future instalments.

Notes to the financial statements (continued)

Operating lease agreements

Rentals applicable to operating leases, where substantially all of the benefits and risks of ownership remain with the lessor, are charged against profits on a straight line basis over the year of the lease.

Pension costs

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the profit and loss account.

Taxation

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exception.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the years in which the timing differences reverse, based on the tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the financial statements (continued)

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction.

Critical accounting judgements and key sources of estimation uncertainty

In preparing the consolidated financial statements, management has to make judgements on how to apply these accounting policies. The areas which, in the view of management, require the most critical accounting judgements are described below. The Company is required to use estimates in applying certain of the Company's accounting policies. The areas which, in the view of management, include the most significant estimates are described below.

Cost of revenue

Cost of subscription revenue consists primarily of wages and benefits for software operations personnel, as well as depreciation, licensing, maintenance and support for hardware and software used in production, and co-location facilities, bandwidth and infrastructure expenses. The expenses related to co-location, bandwidth and infrastructure are affected by the number of clients using the Company's software solutions, the complexity and frequency of their use, the level of utilization and the amount of stored data. Cost of professional services revenue primarily consists of wages and benefits for services personnel, certain services that are outsourced and operational overhead costs.

Deferred taxes

In recognising deferred tax assets and liabilities management makes judgements about likely future taxable profits. The carrying values of current tax and deferred tax assets and liabilities are disclosed separately in the consolidated balance sheet.

Finite life intangible assets

Other intangible assets include the Company's aggregate amounts spent on the acquisition of licences, computer software, backlog, customer relationships, and development costs. These assets arise from both separate purchases and from acquisition as part of business combinations. The fair value of these assets is determined by discounting estimated future net cash flows generated by the asset where no active market for the assets exists. The use of different assumptions for the expectations of future cash flows and the discount rate would change the valuation of the intangible assets. The relative size of the Company's intangible assets, excluding goodwill, makes the judgements surrounding the estimated useful lives critical to the Company's financial position and performance.

Estimation of useful life

The useful life used to amortise intangible assets relates to the expected future performance of the assets acquired and the Company's judgement of the period over which economic benefit will be derived from the asset. The basis for determining the useful life for the most significant categories of intangible assets is as follows:

Licences

The estimated useful life is generally the term of the licence unless there is a presumption of renewal at negligible cost. Using the licence term reflects the period over which the Company will receive economic benefit. For technology specific licences with a presumption of renewal at negligible cost, the estimated useful economic life reflects the Company's expectation of the period over which the Company will continue to receive economic benefit from the licence. The economic lives are periodically reviewed taking into consideration such factors as changes in technology. Historically any changes to economic lives have not been material following these reviews.

Notes to the financial statements (continued)

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

Customer bases

The estimated useful life principally reflects the Company's view of the average economic life of the customer base and is assessed by reference to customer churn rates. An increase in churn rates may lead to a reduction in the estimated useful life and an increase in the amortisation charge. Historically changes to the estimated useful lives have not had a significant impact on the Company's results and financial position.

Provisions

Provisions are recorded on the balance sheet where there is a possibility that the benefits from the related asset will not be recovered in the future, or where it is likely that a future outflow will occur as a direct result of a historic event that occurred during the year. Any provision relating to a long term liability shall be discounted to its net present value.

Impairment of tangible and intangible assets

At each reporting date, the Company reviews the carrying amounts of its goodwill, tangible and intangible assets and intangible assets not yet available for use to determine whether there is any indication that those assets have suffered an impairment loss. If any indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit/product to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of the fair value, less costs to sell, and the value in use. In assessing value in use, the estimated future cash flows, which are based on budgeted figures, are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Trade Receivables

The Company accounts for impairments of trade receivables by recording allowances for doubtful accounts on an individual receivable basis. The assessment of whether a receivable is collectible is inherently judgmental and requires the use of assumptions about customer defaults that could change significantly. Judgement is required when the Company evaluates available information about a particular customer's financial situation to determine whether it is probable that a credit loss will occur and the amount of such loss is reasonably estimable and thus an allowance for that specific account is necessary.

Notes to the financial statements (continued)

2) Turnover

The turnover, which is stated net of value added tax and represents amounts invoiced to third parties, and profit before tax are attributable to the one principal activity of the company.

Turnover recognised in the income statement is analysed as follows:

	2017 £	2016 £
Sale of software subscription and services	<u>8,260,164</u>	<u>9,628,221</u>

Management have taken the decision not to disclose the split of revenue between the software licences and of professional services as it would be prejudicial to the interests of the company.

Geographical information

	2017 £	2016 £
Turnover by geographical market:		
United Kingdom	7,432,016	7,905,607
Europe	343,333	673,666
Rest of the World	484,815	1,048,948
	<u>8,260,164</u>	<u>9,628,221</u>

3) Other operating income

	2017 £	2016 £
Intercompany income relating to management recharges and royalties due on sales made by group subsidiaries	<u>5,777,710</u>	<u>6,205,774</u>

Notes to the financial statements (continued)

4) Operating loss

	2017	2016
	£	£
This is stated after charging:		
Depreciation of property, plant and equipment	519,694	349,013
Amortisation of intangible fixed assets	68,232	73,693
Operating lease rentals – land and buildings	772,618	1,106,920
Auditors remuneration: Audit services	20,538	20,538
Non-audit services	-	10,321
Transfer pricing and other intercompany recharges	2,764,232	3,267,291
R&D expense	1,640,478	3,680,506
Share-based payment charge	375,559	463,562
Net loss on foreign exchange	878,332	1,204,402
	<u>878,332</u>	<u>1,204,402</u>

5) Exceptional costs

Management deem exceptional costs to be non-recurring significant expenses, incurred outside the normal operations of the company.

	2017	2016
	£	£
Restructuring ⁽¹⁾	634,983	35,252
	<u>634,983</u>	<u>35,252</u>

(1) During 2017, £634,983 (2016: £35,252) was incurred relating to company restructuring activities being severance payments to employees.

6) Directors and employees

The average monthly number of employees (including directors) during the year was:

	2017	2016
	No.	No.
G&A	24	32
Support and Technical Services	22	16
Internal IT	2	2
Marketing	4	12
Professional services	17	23
Sales	16	29
R&D	16	39
Total average headcount	<u>101</u>	<u>153</u>

Notes to the financial statements (continued)

6) Directors and employees (continued)

The aggregate payroll costs of the above were:

	2017	2016
	£	£
Wages and salaries	7,003,115	8,976,315
Social security costs	873,741	1,142,216
Other pension costs	250,354	268,712
	<u>8,127,210</u>	<u>10,387,243</u>

The company operates a stakeholder defined contribution pension scheme for the benefit of the employees and directors. The assets of the scheme are administered by an independent pensions provider (see note 19).

7) Directors' emoluments

	2017	2016
	£	£
Emoluments for qualifying services:		
Wages and salaries	355,000	237,465
Social security costs	47,303	36,059
Other pension and post-retirement benefit costs	13,583	7,667
	<u>415,886</u>	<u>281,191</u>

	2017	2016
	£	£
In respect of the highest paid director:		
Wages and salaries	270,000	175,798
Social security costs	36,136	23,141
Other pension and post-retirement benefit costs	11,458	7,667
	<u>317,594</u>	<u>206,606</u>

8) Interest receivable

	2017	2016
	£	£
Interest receivable on intercompany loans ⁽¹⁾	<u>104,020</u>	<u>47,666</u>

(1) Interest is received at a rate of 4.5% on all non-trading intercompany debts.

Notes to the financial statements (continued)

9) Interest payable

	2017	2016
	£	£
Interest payable to group companies ⁽¹⁾	1,094,986	642,239
Interest payable on overdraft	212	31,111
Interest on finance lease	30,603	30,702
	<u>1,125,801</u>	<u>704,052</u>

(1) Interest is charged at a rate of 4.5% on all non-trading intercompany debts.

10) Tax

(a) Tax on loss on ordinary activity – the tax (credit)/charge is made up as follows:

	2017	2016
	£	£
Current tax		
UK corporation tax on the loss for the year	-	-
Prior period tax credit	-	813,838
Deferred tax:		
Origination and reversal of timing differences (note 10(c))	-	-
	<u>-</u>	<u>813,838</u>

(b) The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are explained below:

	2017	2016
	£	£
Loss on ordinary activities before tax	(6,490,979)	(8,860,996)
Loss on ordinary activities at the standard rate of corporation tax in the UK	<u>(1,249,513)</u>	<u>(1,772,199)</u>
Effects of:		
Expenses not deductible for tax purposes	29,664	116,423
Income not taxable for tax purposes	(64,174)	(3,435)
Capital allowances in excess of depreciation	-	(12)
Change in tax rates	-	406,207
Short term timing differences	-	-
R&D tax credit	-	-
R&D enhanced deduction	-	-
Tax losses arising/unutilised in the year	1,284,023	1,253,016
Adjustments in respect of prior years	-	813,838
Total tax for year (note 10(a))	<u>-</u>	<u>813,838</u>

Notes to the financial statements (continued)

10) Tax

(c) Movement on deferred taxation balance in year

	2017	2016
	£	£
Opening balance	-	-
Charge to profit and loss account	-	-
Closing balance (note 16)	-	-
	<u>-</u>	<u>-</u>

(d) Factors that may affect future tax charges

Finance Act 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. Following these changes, deferred tax balances were reduced from 20% to 18%. The impact of this change on deferred tax balances is included in these financial statements. In accordance with the Finance Act 2016 which was enacted on 15 September 2016, this rate will reduce further to 17%.

The company has losses carried forward of £27,208,167 (2016: £20,537,918) on which deferred tax assets have not been recognised.

11) Property, plant and equipment

	Computer equipment £	Computer equipment (leased) £	Fixtures, fittings and equipment £	Total £
Cost				
At 1 January 2016	1,308,309	126,669	1,154,050	2,589,028
Additions	258,180	313,336	825,678	1,397,194
Disposals	(1,223,976)	-	(1,044,510)	(2,268,486)
At 1 January 2017	342,513	440,005	935,218	1,717,736
Additions	191,119	-	14,069	205,188
Disposals	-	-	-	-
At 31 December 2017	533,632	440,005	949,287	1,922,924
Depreciation				
At 1 January 2016	1,180,179	29,770	947,587	2,157,536
Charge for the year	125,645	122,311	101,057	349,013
On Disposals	(1,215,992)	-	(892,928)	(2,108,920)
At 1 January 2017	89,832	152,081	155,716	397,629
Charge for the year	203,307	146,688	169,719	519,694
On Disposals	-	-	-	-
At 31 December 2017	293,139	298,749	325,435	917,323
Net book value				
At 31 December 2017	240,493	141,256	632,852	1,005,601
At 31 December 2016	252,681	287,924	779,502	1,320,107

During 2017 there was a total loss of £nil (2016: £159,114) recognised on disposal of fixed assets. This loss is included in operating costs.

Notes to the financial statements (continued)

12) Intangible fixed assets

	Software licences £
Cost	
At 1 January 2016	277,422
Additions	-
At 1 January 2017	<u>277,422</u>
Additions	-
At 31 December 2017	<u>277,422</u>
Amortisation	
At 1 January 2016	112,610
Charge for the year	73,693
At 1 January 2017	<u>186,303</u>
Charge for the year	68,232
At 31 December 2017	<u>254,535</u>
Net book value	
At 31 December 2017	<u>22,887</u>
At 31 December 2016	<u><u>91,119</u></u>

13) Debtors

	2017 £	2016 £
Debtors due within one year		
Trade debtors	1,206,483	1,936,634
Prepayments and accrued income	956,552	667,848
R&D tax receivable	735,459	473,458
VAT	44,690	-
Other debtors	700,720	536,451
	<u>3,643,904</u>	<u><u>3,614,391</u></u>

An impairment provision of £1.5m (2016: £513k) was recognised against trade debtors.

Notes to the financial statements (continued)

14) Creditor amounts falling due within one year

	2017	2016
	£	£
Trade creditors	1,988,560	1,778,837
Corporation tax	38,771	11,863
Taxation and social security	241,795	1,105,827
Deferred income	909,228	1,045,612
Accruals	2,714,880	1,725,897
Other creditors	572,927	929,805
Amounts owed to Group undertakings	22,642,154	16,650,898
	<u>29,108,315</u>	<u>23,248,739</u>

Intergroup liabilities are due on demand from the lender. Interest is charged at 4.5%

15) Creditors: amounts falling due after more than one year

	2017	2016
	£	£
Finance lease obligation (see note 18)	<u>11,316</u>	<u>109,790</u>

16) Provision for liabilities

	Dilapidations	Total
	£	£
At 1 January 2016	397,307	397,307
Reversal	(217,307)	(217,307)
At 1 January 2017	<u>180,000</u>	<u>180,000</u>
Reversal	-	-
At 31 December 2017	<u>180,000</u>	<u>180,000</u>
Analysed as:		
Current	<u>180,000</u>	<u>180,000</u>
At 31 December 2017	<u>180,000</u>	<u>180,000</u>

During the year management has reviewed the estimate for future dilapidation payments, this resulted in a release of nil (2016: £217,307) against the brought forward provision. The relevant operating lease expired in June 2016 (see note 18).

17) Share capital

	2017	2017	2016	2016
	No.	£	No.	£
Allotted, called up and fully paid				
1,110 Ordinary shares of £1 each	<u>1,110</u>	<u>1,110</u>	<u>1,110</u>	<u>1,110</u>

Notes to the financial statements (continued)

18) Obligations under leases

Finance lease obligations

During the year the company purchased equipment under a finance lease arrangement:

	2017	2016
	£	£
Amounts payable:		
Not later than one year ⁽¹⁾	138,996	182,693
Later than one year and not later than five years	11,315	150,259
	<u>150,311</u>	<u>332,952</u>
Less: Finance charges allocated to future years	(40,529)	(76,460)
	<u>109,782</u>	<u>256,492</u>

Present value of minimum lease payment due:

	2017	2016
	£	£
Current	101,975	146,702
Non-current	7,808	109,790
	<u>109,783</u>	<u>256,492</u>

(1) Current finance lease liability included in other creditors amounts falling due within one year.

(2) The prevailing interest rate on finance leases is 33%.

Operating lease obligations

At 31 December 2017 the company had annual commitments under non-cancellable operating leases as set out below:

	Land & buildings 2017	Land & Buildings 2016
	£	£
Within one year	786,906	534,139
Within 2 – 5 years	4,196,832	4,006,044
Over 5 years	3,147,624	4,273,114
	<u>8,131,362</u>	<u>8,813,297</u>

19) Pension

The company operates a defined contribution pension scheme. Contributions for the year totaled £250,354 (2016: £268,712) and have been charged to the profit and loss account. Included within Taxation and social security are outstanding pension contributions of £31,124 (2016: £42,365).

20) Contingent liabilities

There were no contingent liabilities as at 31 December 2017 or 31 December 2016.

Notes to the financial statements (continued)

21) Capital commitments

There were no capital commitments at 31 December 2017 or 31 December 2016.

22) Share based payments

Cash settled scheme

During the year an incentive scheme triggered by a change of control event was introduced and this replaced the share awards previously granted. Management has exercised judgment and considered this arrangement to meet the definition of a cash settled share based payment as the scheme is linked to the equity of the business. The scheme is implemented in the parent company but the employees are employed by the subsidiaries. As such, management has made the judgement to continue to recognise the share based payment charge in accordance with FRS 102 Section 26: Share based payment.

23) Related party transactions

As a wholly-owned subsidiary of SmartFocus Holdings Limited, the company is exempt from the requirements of FRS 102.33.1A to disclose transactions with other members of the group headed by SmartFocus Holdings Limited on the grounds that group accounts are publicly available.

24) Financial risk management

The Company has exposures to two main areas of risk - foreign exchange currency exposure, liquidity risk and customer credit exposure.

Liquidity risk

The objective of the Company in managing liquidity risk is to ensure that it can meet its financial obligations as and when they fall due. The Company expects to meet its financial obligations through operating cash flows. In the event that the operating cash flows would not cover all the financial obligations the Company has receives financial support from its parent entity SmartFocus Holdings Limited.

Customer credit exposure

The Company offers credit terms to its customers which allow payment of the debt after delivery of the service. Therefore, the Company is at risk to the extent that its customers may be unable to pay their debt on the specified due date. This risk is mitigated by the strong on-going customer relationships and by credit checking, both new and "at-risk" customers.

Foreign exchange transactional currency exposure

To a lesser extent the Company is exposed to currency exchange rate risk due to a proportion of its receivables and operating expenses being denominated in non-Sterling currencies. The net exposure of each currency is naturally hedged by maintaining foreign currency bank accounts. Due to the immaterial nature of the transactions no further active management is deemed necessary.

25) Financial assets and liabilities

	2017	2016
	£	£
Financial assets measured at amortised cost	1,907,203	2,473,085
Financial liabilities measured at amortised cost	<u>(30,489,425)</u>	<u>(25,701,831)</u>

Notes to the financial statements (continued)

26) Ultimate parent company

The ultimate parent undertaking of this company is SmartFocus Holdings Limited, registered in England and Wales (company registration number: 07588241).

The largest and smallest group of undertakings for which group accounts have been drawn up is that headed by SmartFocus Holdings limited. Copies of the group accounts can be obtained from Floor 2, The Space, 4th Floor, One Thomas Moore Square, London, E1W 1YN.