

**Process Systems
Enterprise Limited**

FINANCIAL STATEMENTS

**For the Year ended
31 December 2016**

Registered number 03307708

Process Systems Enterprise Limited
FINANCIAL STATEMENTS

For the year ended 31 December 2016

Directors: R Longdon
C Pantelides
B McKenzie
M Matzopoulos
B Waldron
R Whitby Smith

Company secretary: B McKenzie

Company registration number: 03307708

Registered office: 5th Floor East
26-28 Hammersmith Grove
London
W6 7HA

Independent auditor: Grant Thornton UK LLP
Chartered Accountants & Statutory Auditor
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

Process Systems Enterprise Limited
FINANCIAL STATEMENTS

For the year ended 31 December 2016

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Process Systems Enterprise Limited

Group Strategic Report

For the year ended 31 December 2016

Business review

The principal activity of the Group ("PSE") is to provide Advanced Process Modelling technology and related model-based engineering and innovation services to the process industries around the world.

PSE's products are built on PSE's world-leading PSE gPROMS® platform technology. These products enable PSE's customers to explore the process decision space rapidly, reduce uncertainty and make better, faster and safe design and operating decisions through deeper understanding of their processes. This results in faster innovation, improved process and product designs, enhanced operations, reduced risk, more effective R&D and experimental campaigns, and better capture and transfer of corporate knowledge across the organisation. Results are achieved with relatively low investment compared to alternative approaches, with rapid returns.

PSE's global customer base of Fortune 500 process companies is served by operations in the UK, USA, Japan and Korea, with agencies in China, Taiwan and Malaysia. As a spin-out of Imperial College London, PSE has strong links to academia and its software is used in research and teaching in over 200 universities around the world.

Revenue for the year was £15.7m, which was a 15% increase on the previous period (2015: £13.7m). The profit for the year was £3.1m (2015: £2.4m).

The Group continues to invest profits from software licence revenues and consulting services into building presence in new markets, enhancing its sales and marketing expertise, product development and expanding its product portfolio.

Principal risks and uncertainties

Technology & competition

If a third party produces a more advanced solution with better market acceptance and/or improved functionality, or a similar solution with significantly lower cost, this could have a material adverse effect of the Group's business. The Group continues to invest over 30% of revenue per annum in R&D to maintain its products at the leading edge of Advanced Process Modelling technology.

Litigation risk

Technology-based companies are frequently subject to litigation with respect to patent and other intellectual property rights. Any litigation to determine the validity of third-party infringement claims or defined the Group's intellectual property could, at a minimum, be costly. There have been no substantive challenges to our IP position.

Price pressures and competition

In common with other business to business providers, the Group is subject to pricing pressures and these are greater where there are more real or perceived alternatives to PSE's products and services. The near-term success of the Group's business depends on customers understanding the benefit of advanced process modelling. The Group seeks to drive adoption and awareness of its product through marketing, strong educational programmes and compelling evidence from publicly available case studies. The continued growth in new and existing customers demonstrates that they increasingly understand the benefits to their businesses.

Process Systems Enterprise Limited

Group Strategic Report

For the year ended 31 December 2016

Economic environment

The Group's operating results and financing capacity could be adversely affected by the current world economic outlook. This can make it difficult to forecast and therefore plan accordingly. The Group offers customers incentives for longer term commitments and is moving its user base gradually towards operational activities.

Potential impact of Brexit

The outcome of the UK's Brexit vote to leave the European Union is unlikely to materially impact the Group at an operational level with around 11% of the Group's overall revenues derived from customers based in EU countries. However the Group's future development depends on attracting and retaining the best people. Its policy has been and continues to be to recruit the most talented candidates irrespective of their nationality and this has resulted in a significant number of EU nationals being employed in the UK. Whilst it is not expected that the Brexit negotiations will ultimately impact their employment status, the Group is encouraging and supporting its employees to take whatever action is appropriate to mitigate the potential risks.

Exchange rate risk

The Group operates in several countries and its results are impacted by changes in currency exchange rates. As far as possible revenues and costs in the same currency are offset and balances are maintained in various currency denominated accounts to mitigate the impact of currency fluctuations.

Financial key performance indicators

When we consider our future outlook and the goals we wish to achieve, we focus our attention on those areas of greatest significance to our business. We assess whether there are any potential sustainability issues relating to these areas and make a direct link between the sustainability challenges we face and our business strategy.

	2016 £	2015 £	Change £
Revenue	£15.7m	£13.7m	+ £2.0m
Net profit after tax	£3.1m	£2.4m	+ £0.7m
Cash Funds available	£2.6m	£2.0m	+ £0.6m

This report was approved by the board on behalf.

9 JUNE 2017

and signed on its


C Pantelides
Director

Process Systems Enterprise Limited

Directors' Report

For the year ended 31 December 2016

The directors present their report and the audited financial statements for the year ended 31 December 2016.

Principal activity

The principal activity of the Group ("PSE") is to provide Advanced Process Modelling technology and related model-based engineering and innovation services to the process industries around the world.

Directors

The directors who served during the year were:

R Longdon
C Pantelides
B McKenzie
M Matzopoulos
B Waldron
R Whitby Smith

Directors' responsibilities statement

The directors are responsible for preparing the Directors' report, Group Strategic Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 and profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs 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.

Process Systems Enterprise Limited

Directors' Report

For the year ended 31 December 2016

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware, and;
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

Auditors

The auditors, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on
behalf

9 JUNE

2017 and signed on its



C Pantelides
Director

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
Process Systems Enterprise Limited**

We have audited the financial statements of Process Systems Enterprise Limited for the year ended 31 December 2016 which comprise the consolidated statement of profit or loss and other comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company statements of cash flows, the consolidated and parent company statements of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

Respective responsibilities of the directors and auditor

As explained more fully in the Directors' responsibilities statement set out on pages 3 and 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
Process Systems Enterprise Limited**

Opinion 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and Directors' Report has been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the group and parent company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Group Strategic Report and Directors' Report.

Matters on which we are required to report by exception

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

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



Sergio Cardoso

Senior statutory auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

London

Date: 9 June 2017

Process Systems Enterprise Limited

Consolidated Statement of profit or loss and other comprehensive income

For the year ended 31 December 2016

	Note	2016 £	2015 £
Revenue	3	15,747,433	13,744,833
Cost of sales		<u>(5,184,597)</u>	<u>(5,318,589)</u>
Gross profit		10,562,836	8,426,244
Administrative expenses		<u>(7,692,877)</u>	<u>(6,414,642)</u>
Profit from operations	4	2,869,959	2,011,602
Interest receivable and similar income	7	323	107
Interest payable and similar charges	8	<u>(421)</u>	<u>(1,131)</u>
Profit on ordinary activities before taxation		2,869,861	2,010,578
Tax on profit on ordinary activities	9	<u>221,090</u>	<u>381,166</u>
Profit for the year		3,090,951	2,391,744
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Currency translation differences		(15,684)	(10,229)
Other comprehensive income for the year		<u>(15,684)</u>	<u>(10,229)</u>
Total comprehensive income		<u>3,075,267</u>	<u>2,381,515</u>
Profit for the year attributable to			
Equity holders of the group		3,090,951	2,388,361
Non-controlling interests		-	3,383
		<u>3,090,951</u>	<u>2,391,744</u>
Total comprehensive income attributable to			
Equity holders of the group		3,075,267	2,378,132
Non-controlling interests		-	3,383
		<u>3,075,267</u>	<u>2,381,515</u>

All amounts relate to continuing operations.

The notes on pages 14 to 29 form part of these financial statements.

Process Systems Enterprise Limited
Consolidated Statement of Financial Position


As at 31 December 2016

	Note	2016 £	2015 £
Non-current assets			
Intangible assets	11	6,485,480	4,642,750
Plant, property and equipment	12	<u>369,599</u>	<u>427,833</u>
		6,855,079	5,070,583
Current assets			
Trade and other receivables	15	6,172,982	5,199,836
Cash and cash equivalents		<u>2,621,138</u>	<u>1,967,120</u>
		8,794,120	7,166,956
Current liabilities	16	<u>(4,402,314)</u>	<u>(4,096,153)</u>
Net current assets		4,391,806	3,070,803
Total assets less current liabilities		<u>11,246,885</u>	<u>8,141,386</u>
Non-current liabilities			
Deferred tax	10	(718,198)	(688,043)
Provisions for liabilities	17	(120,000)	(120,000)
Net assets		<u>10,408,687</u>	<u>7,333,343</u>
Equity			
Share capital	18	115,505	115,504
Share premium	22	2,208,916	2,208,840
Retained earnings		<u>8,084,266</u>	<u>4,998,678</u>
Shareholders' funds		10,408,687	7,323,022
Non-controlling interests		-	10,321
Total equity		<u>10,408,687</u>	<u>7,333,343</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 9 June 2017.



B McKenzie
Director



C Pantelides
Director

Registered number 03307708

The notes on pages 14 to 29 form part of these financial statements.

Process Systems Enterprise Limited
Parent Company Statement of Financial Position

As at 31 December 2016

	Note	2016 £	2015 £
Non-current assets			
Intangible assets	11	6,485,480	4,642,750
Plant, property and equipment	12	321,788	380,553
Investments	3	41,246	33,864
		<u>6,848,514</u>	<u>5,057,167</u>
Current assets			
Trade and other receivables	15	6,141,430	5,550,657
Cash and cash equivalents		<u>2,114,097</u>	<u>1,278,947</u>
		<u>8,255,527</u>	<u>6,829,604</u>
Current liabilities	16	<u>(4,031,916)</u>	<u>(3,857,797)</u>
Net current assets		<u>4,223,611</u>	<u>2,971,807</u>
Total assets less current liabilities		<u>11,072,125</u>	<u>8,028,974</u>
Non-current liabilities			
Deferred tax	10	(718,198)	(688,043)
Provisions for liabilities	17	<u>(120,000)</u>	<u>(120,000)</u>
Net assets		<u>10,233,927</u>	<u>7,220,931</u>
Equity			
Share capital	18	115,505	115,504
Share premium	20	2,208,916	2,208,840
Retained earnings		<u>7,909,506</u>	<u>4,896,587</u>
Shareholders' funds		<u>10,233,927</u>	<u>7,220,931</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 9 JUNE 2017.



B McKenzie
Director



C Pantelides
Director

The notes on pages 14 to 29 form part of these financial statements.

Process Systems Enterprise Limited
Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 £	2015 £
Cash flow from operating activities			
Profit for the year		3,090,951	2,391,744
Adjustments for:			
Currency translation differences		(37,790)	(10,229)
Depreciation of property, plant and equipment	12	201,829	173,465
Amortisation of intangible assets	11	3,253,145	2,080,223
Loss on disposal of property, plant and equipment	12	-	398
Interest received	7	(323)	(107)
Interest paid	8	421	1,131
Increase in provisions	17	-	120,000
Taxation		117,822	131,548
Operating cash flows before movements in working capital		6,626,055	4,888,173
(Increase) in receivables		(1,060,813)	(1,414,067)
Increase in payables		306,161	912,339
Net cash inflow from operating activities		5,871,403	4,386,445
Cash flow from investing activities			
Purchase of plant, property and equipment	12	(121,489)	(67,075)
Purchase of intangible assets	11	(5,095,875)	(3,793,353)
Interest received	7	323	107
Net cash outflow from investing activities		(5,217,041)	(3,860,321)
Cash flow from financing activities			
Share capital issued and paid	18	77	-
Interest paid	8	(421)	(1,131)
Net cash outflow from financing activities		(344)	(1,131)
Net increase in cash and cash equivalents		654,018	524,993
Cash and cash equivalents at beginning of year		1,967,120	1,442,127
Cash and cash equivalents at end of year		2,621,138	1,967,120

The notes on pages 14 to 29 form part of these financial statements.

Process Systems Enterprise Limited
Parent Company Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 £	2015 £
Cash flow from operating activities			
Profit for the year		3,012,919	2,225,956
Adjustments for:			
Depreciation of property, plant and equipment	12	178,105	178,641
Amortisation of intangible assets	11	3,253,145	2,080,223
(Gain) on disposal of property, plant and equipment	12	-	(398)
Interest paid	8	421	1,045
Increase in provisions	17	-	120,000
Taxation		117,821	131,548
Operating cash flows before movements in working capital		6,562,411	4,737,015
(Increase) in receivables		(678,440)	(1,647,712)
Increase in payables		174,120	804,237
Net cash inflow from operating activities		6,058,091	3,893,540
Cash flow from investing activities			
Purchase of plant, property and equipment	12	(119,340)	(67,075)
Purchase of intangible assets	11	(5,095,875)	(3,793,353)
Investment in subsidiaries and investments	13	(7,382)	-
Net cash outflow from investing activities		(5,222,597)	(3,860,428)
Cash flow from financing activities			
Share capital issued and paid	18	77	-
Interest paid	8	(421)	(1,045)
Net cash outflow from financing activities		(344)	(1,045)
Net increase in cash and cash equivalents		835,150	32,067
Cash and cash equivalents at beginning of year		1,278,947	1,246,880
Cash and cash equivalents at end of year		2,114,097	1,278,947

The notes on pages 14 to 29 form part of these financial statements.

Process Systems Enterprise Limited
Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Share Capital £	Share premium £	Retained earnings £	Total attributable to owners of the parent £	Non- controlling interest £	Total equity £
Balance at 1 January 2015	115,504	2,208,840	2,620,546	4,944,890	6,939	4,951,829
Other comprehensive income	-	-	(10,229)	(10,229)	-	(10,229)
Profit for the year	-	-	2,388,361	2,388,361	3,382	2,391,743
Total comprehensive income for the year	-	-	2,378,132	2,378,132	3,382	2,381,514
Balance at 31 December 2015 and 1 January 2016	115,504	2,208,840	4,998,678	7,323,022	10,321	7,333,343
Shares issued	1	76	-	77	-	77
Total transactions with owners	1	76	-	77	-	77
Acquisition of Non- controlling interests	-	-	10,321	10,321	(10,321)	-
Other comprehensive income	-	-	(15,684)	(15,684)	-	(15,684)
Profit for the year	-	-	3,090,951	3,090,951	-	3,090,951
Total comprehensive income for the year	-	-	3,085,588	3,085,588	(10,321)	3,075,267
Balance at 31 December 2016	115,505	2,208,916	8,084,266	10,408,687	-	10,408,687

The notes on pages 14 to 29 form part of these financial statements.

Process Systems Enterprise Limited
Parent Company Statement of Changes in Equity

For the year ended 31 December 2016

	Share Capital £	Share premium £	Retained earnings £	Total equity £
Balance at 1 January 2015	115,504	2,208,840	2,670,631	4,994,975
Profit for the year	-	-	2,225,956	2,225,956
Total comprehensive income for the year	-	-	2,225,956	2,225,956
Balance at 31 December 2015 and 1 January 2016	115,504	2,208,840	4,896,587	7,220,931
Shares issued	1	76	-	77
Total transactions with owners	1	76	-	77
Profit for the year	-	-	3,012,919	3,012,919
Total comprehensive income for the year	-	-	3,012,919	3,012,919
Balance at 31 December 2016	115,505	2,208,916	7,909,506	10,233,927

The notes on pages 14 to 29 form part of these financial statements.

Process Systems Enterprise Limited

Notes To The Financial Statements

For the year ended 31 December 2016

1 General information

Process Systems Enterprise Limited is a private company limited by shares, registered, incorporated and domiciled in England. The company's registered office is 5th Floor East, 26-28 Hammersmith Grove, London, W6 7HA.

2 Accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applied in accordance with the provisions of the Companies Act 2006. The principal accounting policies adopted by the company are set out below.

The financial statements are presented in Sterling (£).

The company has taken advantage of the exemption contained within section 408 of the Companies Act 2006 not to present its own Profit and loss account.

The profit for the year dealt with in the accounts of the company was £3,012,919 (2015: £2,225,956).

Basis of Preparation of financial statements

The consolidated financial statements have been prepared in accordance with IFRS as adopted for use in the European Union, including International Accounting Standards (IAS) and International Financial Reporting Standards Interpretations Committee (IFRSIC) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS as adopted by The European Union. The consolidated financial statements have been prepared under the historical cost convention.

Going concern

After reviewing the group's forecasts and projections, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. The group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

Basis of consolidation

The financial statements consolidate the revenue, costs, assets and liabilities and cash flows of the Company and its subsidiaries, being those entities that the Group is deemed to have control over. It will be deemed to have controls when it has power over the entity, is exposed to or has rights to variable returns from the entity and has the ability to use its power over the entity to affect the amount of the entity's returns.

Intercompany transactions, balances and unrealised gains and losses on transactions between group companies are eliminated.

Revenue

Revenue represents amounts receivable for goods and services net of VAT.

In addition to the main technology deliverable, software licences are generally sold including an element of post-sales support, maintenance and upgrade performance obligations. The accounting policy in respect of licences is to recognise revenue as the individual performance obligations are met. Revenues from product support agreements are recognised over the support period.

Revenue associated with time and materials contracts is recognised as the costs are incurred. Revenue in relation to fixed price consulting is recognised on a percentage completion basis.

Process Systems Enterprise Limited

Notes To The Financial Statements

For the year ended 31 December 2016

Intangible assets

Intangible assets are stated at cost less amortisation. Amortisation is disclosed in the administrative expenses cost on the statement of profit and loss and other comprehensive income. Amortisation is provided at rates calculated to write off the cost, over their expected useful lives on the following basis:

Software	3-5 years straight line
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Plant, property and equipment

Plant, property and equipment are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following basis:

Land and Buildings	5 years straight line
Fixtures, fittings and equipment	5 years straight line
Computer Equipment	2-3 years straight line

Investments

Investments in subsidiaries are valued at cost less provision for impairment.

Operating leases

Rentals payable under operating leases are charged to the statement of income on a straight line basis over the lease term. Incentives provided by the lessor are credited to the income statement on a straight line basis over the minimum lease term.

Foreign currencies

In preparing the financial statements, transactions in foreign currencies are recognised at the spot rate at the dates of the transactions, or at an average rate where this rate approximates the actual rate at the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences are recognised in statement of comprehensive income in the period in which they arise.

Research and development

Research and development expenditure is capitalised in the year in which it is incurred and carried on the statement of financial position as a non-current asset, providing management can demonstrate all of the following;

- the technical feasibility of completing the intangible asset so that it will be available for use or sale.
 - its intention to complete the intangible asset and use or sell it.
 - its ability to use or sell the intangible asset.
 - how the intangible asset will generate probable future economic benefits.
 - the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
 - its ability to measure reliably the expenditure attributable to the intangible asset during its development.
- Any costs that do not meet this definition are expensed to the statement of income.

Process Systems Enterprise Limited

Notes To The Financial Statements

For the year ended 31 December 2016

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss (FVTPL), held to maturity investments, available for sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The group has no assets at FVTPL, held-to-maturity investments or available for sale financial assets.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

The company has intra-group loans made at below market interest rates. The intra-group loans made have a demand feature which requires the loans to be paid immediately on demand at the principal amount and therefore management do not consider that there is a material difference on the fair value of these loans at inception.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

With the exception of available for sale investments, if, in a subsequent period, an amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available for sale investments, any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income.

Process Systems Enterprise Limited

Notes To The Financial Statements

For the year ended 31 December 2016

Financial liabilities and equity instruments

Classification as liability or equity

Financial instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included in the income statement line items "finance costs" or "finance income".

Other financial liabilities, including trade payables, borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Trade receivables

Trade receivables are recognised at fair value, less provisions for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and probability that the debtor will enter bankruptcy or financial reorganisation are considered indicators that the trade receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

Trade payables

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

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Process Systems Enterprise Limited

Notes To The Financial Statements

For the year ended 31 December 2016

Pensions

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year. The Group has no legal or constructive obligation to make any further payments to the plan other than the contributions due.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Current tax is charged to the statement of profit or loss and other comprehensive income.

Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income credits to the group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the statement of profit or loss and other comprehensive income.

Significant judgements and estimates

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgments and estimates have been made include:

Intangible asset additions consist of time costs associated with development of new products. For employees who do not submit timesheets, the amount of time spent on these products is estimated. Management is of the opinion that the value of the intangible assets as at 31 December 2016 is reasonable.

The carrying value of intangible assets is compared against an estimated market value of the product for indicators of impairment. This estimate is based on historical and projected sales values. Management is of the opinion that no impairment is considered necessary as at 31 December 2016.

Intangibles are amortised based on the useful economic life of the product. This life is estimated by management based on the level of development required to maintain the product. Management is of the opinion that amortisation of the intangible assets for 2016 is appropriate.

Accrued income is based on stage of completion for contracts in progress over the year end. Stage of completion is estimated by project managers based on their knowledge of the project and from previous experience. Management is of the opinion that accrued income as at 31 December 2016 is appropriate.

Process Systems Enterprise Limited

Notes To The Financial Statements

For the year ended 31 December 2016

3 Revenue

The whole of the revenue is attributable to the principal activity of the group.

A geographical analysis of revenue is as follows:

	2016 £	2015 £
United Kingdom	3,248,187	2,294,079
Americas	5,401,690	5,191,736
Europe, Middle East & Africa (excluding UK)	3,358,093	3,204,924
Asia	3,739,463	3,054,094
	<u>15,747,433</u>	<u>13,744,833</u>

4 Operating profit

The operating profit is stated after charging:

	2016 £	2015 £
Depreciation of plant, property and equipment: owned by the group	201,829	173,465
Amortisation of software owned by the group	3,253,145	2,080,223
Auditor's remuneration	20,700	19,350
Auditor's remuneration – tax compliance fee	6,500	9,500
Operating lease rentals: other operating leases	429,598	391,855
Difference on foreign exchange	<u>(448,041)</u>	<u>(23,180)</u>

5 Staff costs

Staff costs, including directors' remuneration, were as follows:

	2016 £	2015 £
Wages and salaries	9,686,358	8,421,424
Social security costs	818,033	768,991
Other pension costs	420,444	335,350
	<u>10,924,835</u>	<u>9,525,765</u>

Of the above costs £3,184,922 (2015: £2,370,845) has been capitalised as an intangible asset.

Process Systems Enterprise Limited**Notes To The Financial Statements**

For the year ended 31 December 2016

Staff costs (continued)

The average monthly number of employees, including the directors, during the year was as follows:

	2016 Number	2015 Number
Sales & marketing	45	40
Technical	90	82
Administration	20	17
	<u>155</u>	<u>139</u>

6 Directors' remuneration

	2016 £	2015 £
Remuneration	<u>559,676</u>	<u>469,952</u>
Company pension contributions to defined contribution pension schemes	<u>113,435</u>	<u>264,025</u>

During the year, retirement benefits were accruing to 3 directors (2015: 3) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £236,210 (2015: £142,950).

The value of the company's contributions paid to a contribution pension scheme in respect of the highest paid director amounted to £17,442 (2015: £143,452).

The statutory directors are the only members of the management team who meet the definition of key management personnel.

7 Finance income

	2016 £	2015 £
Interest income on financial assets carried at amortised cost	<u>323</u>	<u>107</u>

8 Finance costs

Finance cost includes all interest-related income and expenses, other than those arising from financial assets at fair value through profit or loss. The following amounts have been included in the income statement line for the reporting periods presented:

	2016 £	2015 £
Interest on bank loans and overdrafts	421	1,045
Other interest payable	-	86
	<u>421</u>	<u>1,131</u>

Process Systems Enterprise Limited

Notes To The Financial Statements

For the year ended 31 December 2016

9 Taxation

	2016 £	2015 £
Analysis of tax credit in the year		
Current tax (see note below)		
United Kingdom corporation tax credit for the year	(287,072)	(350,476)
Adjustments in respect of prior periods	9,798	(130,732)
Foreign tax on income for the year	26,029	-
Total current tax	(251,245)	(481,208)
Deferred tax		
Origination and reversal of timing differences	71,999	124,642
Adjustments in respect of prior periods	(3,832)	37,574
Effect of tax rate change on opening balance	(38,012)	(62,174)
Total deferred tax	30,155	100,042
Tax on profit on ordinary activities	(221,090)	(381,166)
Factors affecting tax charge for the year		
The tax assessed for the year is lower than (2015: - lower than) the standard rate of corporation tax in the United Kingdom 20% (2015: 20.25%). The differences are explained below:		
Profit on ordinary activities before tax	2,869,861	2,010,578
Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 20% (2015: 20.25%)	573,972	407,142
Effect of:		
Fixed asset differences	16,080	-
Expenses not deductible for tax purposes	1,117	8,631
Other permanent differences	(4,983)	-
Additional deduction for research and development expenditure	(881,540)	(731,167)
Surrender of tax losses for research and development tax credit refund	108,889	136,684
Foreign tax credits	24,554	-
Adjustments to tax charge in respect of prior periods	9,798	(130,732)
Adjustments to tax charge in respect of previous periods - deferred tax	(3,832)	-
Adjustment of deferred tax to average tax rate	(50,718)	(84,954)
Effect of overseas tax rates	-	-
Movement in unrecognised deferred tax	(14,427)	13,230
Current tax credit for the year (see note above)	(221,090)	(381,166)

Process Systems Enterprise Limited

Notes To The Financial Statements

For the year ended 31 December 2016

10 Deferred taxation assets and liabilities

Recognised deferred tax liabilities during the year are as follows:

	2016 £	2015 £
Accelerated capital allowances	724,663	694,176
Short term timing differences	(6,465)	(6,133)
	<u>718,198</u>	<u>688,043</u>

11 Intangible assets

	Software £
Group and Company	
Cost	
At 1 January 2016	9,472,862
Additions	5,095,875
At 31 December 2016	<u>14,568,737</u>
Amortisation	
At 1 January 2016	4,830,112
Charged in the year	3,253,145
At 31 December 2016	<u>8,083,257</u>
Net book amount at 31 December 2016	<u>6,485,480</u>
Net book amount at 31 December 2015	<u>4,642,750</u>

Process Systems Enterprise Limited
Notes To The Financial Statements

For the year ended 31 December 2016

12 Plant, property and equipment

	Land and buildings £	Fixtures, fittings and computer equipment £	Total £
Group			
Cost			
At 1 January 2016	397,602	586,578	984,180
Additions	34,569	86,920	121,489
Foreign Exchange	-	(62,193)	(62,193)
At 31 December 2016	<u>432,171</u>	<u>611,305</u>	<u>1,043,476</u>
Depreciation			
At 1 January 2016	141,506	414,841	556,347
Charged in the year	80,398	121,431	201,829
Foreign exchange		(84,299)	(84,299)
At 31 December 2016	<u>221,904</u>	<u>451,973</u>	<u>673,877</u>
Net book amount at 31 December 2016	<u>210,267</u>	<u>159,332</u>	<u>369,599</u>
Net book amount at 31 December 2015	<u>256,096</u>	<u>171,737</u>	<u>427,833</u>
	Land and buildings £	Fixtures, fittings and computer equipment £	Total £
Company			
Cost			
At 1 January 2016	397,602	347,317	744,919
Additions	34,568	84,772	119,340
At 31 December 2016	<u>432,170</u>	<u>432,089</u>	<u>864,259</u>
Depreciation			
At 1 January 2016	141,505	222,861	364,366
Provided in the year	80,398	97,707	178,105
At 31 December 2016	<u>221,903</u>	<u>320,568</u>	<u>542,471</u>
Net book amount at 31 December 2016	<u>210,267</u>	<u>111,521</u>	<u>321,788</u>
Net book amount at 31 December 2015	<u>256,097</u>	<u>124,456</u>	<u>380,553</u>

Process Systems Enterprise Limited**Notes To The Financial Statements**

For the year ended 31 December 2016

13 Fixed asset investments

	Investments in subsidiary companies £
Company	
Cost or valuation	
At 1 January 2016	33,864
Additions	7,382
At 31 December 2016	<u>41,246</u>
Net book value	
At 31 December 2016	<u><u>41,246</u></u>
At 31 December 2015	<u><u>33,864</u></u>

14 Subsidiary undertakings

The parent company holds more than 20% of the share capital of the following undertakings:

Company name	Registered office	Percentage shareholding	
		2016	2015
PSE Inc	3 Wing Drive Suite 103, Cedar Knolls New Jersey NJ 07927 USA	100	100
PSE Korea	15F Noonoppi Daejeon Center 1028 Doonsan 2-dong, Seo-gu Daejeon 302-828 South Korea	100	100
PSE Oil & Gas Limited	5 th Floor East 26-28 Hammersmith Grove London W6 7HA United Kingdom	100	100
BlueWatt Engineering Sarl	EPFL Innovation Park Bâtiment D 1015 Lausanne Switzerland	100	50

In the year, the parent company increased their shareholding in BlueWatt Engineering Sarl by 50%.

In 2015, BlueWatt Engineering SARL was fully consolidated as the directors considered they had ultimate control over the decision making process in that entity through their representation on the board.

The principal activity of all subsidiaries is sale and support of gPROMS based software products and provision of consulting services.

Process Systems Enterprise Limited

Notes To The Financial Statements

For the year ended 31 December 2016

15 Trade and other receivables

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Trade receivables	4,376,525	3,969,332	3,606,135	2,906,847
Amounts owed by other group undertakings	-	-	797,463	1,445,931
Other debtors	33,149	32,243	3,583	6,435
Prepayments and accrued income	1,476,236	823,522	1,447,177	816,705
Tax recoverable	287,072	374,739	287,072	374,739
	<u>6,172,982</u>	<u>5,199,836</u>	<u>6,141,430</u>	<u>5,550,657</u>

16 Current liabilities

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Trade payables	610,336	547,029	456,986	542,269
Other taxation and social security	219,919	406,580	187,120	356,937
Other creditors	-	104,445	-	104,445
Accruals and deferred income	3,572,059	3,038,099	3,387,810	2,854,146
	<u>4,402,314</u>	<u>4,096,153</u>	<u>4,031,916</u>	<u>3,857,797</u>

17 Provisions for liabilities

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Dilapidations provision	120,000	120,000	120,000	120,000
	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>

18 Share capital

	2016	2015
	£	£
Allotted, called up and fully paid		
11,550,500 Ordinary shares of £0.01 each	<u>115,505</u>	<u>115,504</u>

During the year, 100 ordinary shares of £0.01 each were issued for £77 in total resulting in £76 being transferred to the share premium account.

Rights attaching to ordinary shares

Ordinary shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

Process Systems Enterprise Limited

Notes To The Financial Statements

For the year ended 31 December 2016

19 Share option plan

The company has a share option scheme for all employees and directors. Options are exercisable at a price determined based on the estimated market value at the time of issue.

The options vest over 3 years. There are no specific performance criteria attached to the exercise of options. The options are settled in equity once exercised. Options are generally forfeited if the employee leaves the company. Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year as follows:

	2016 Number	2016 WAEP
Outstanding at the beginning of the year	1,513,480	£0.97
Granted during the year	-	-
Exercised during the year	100	£0.77
Forfeited during the year	-	-
	<hr/>	<hr/>
Outstanding at the year end	<u>1,513,380</u>	<u>£0.97</u>
Exercisable at the year end	<u>1,469,380</u>	<u>£0.96</u>

The share options outstanding at the year end have a weighted average remaining contractual life of 4.39 years and weighted average exercise price of £0.97 with a range of exercise prices from £0.77 to £1.34.

20 Pensions

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension cost charge represents contributions payable by the group to the fund and amounted to £420,444 (2015: £335,350). There are no outstanding contributions at the balance sheet date (2015: £nil).

Process Systems Enterprise Limited

Notes To The Financial Statements

For the year ended 31 December 2016

21 Operating lease commitments

At 31 December 2016, the group had annual commitments under non-cancellable leases as follows:

Group	Land and buildings		Other	
	2016	2015	2016	2015
Expiry date:	£	£	£	£
Within 1 year	423,844	442,484	5,754	5,754
Between two and five years	414,233	838,077	2,876	8,630
	<u>838,077</u>	<u>1,280,561</u>	<u>8,630</u>	<u>14,384</u>

At 31 December 2016, the company had annual commitments under non-cancellable operating leases as follows:

Company	Land and buildings		Other	
	2016	2015	2016	2015
Expiry date:	£	£	£	£
Within 1 year	343,591	343,591	5,754	5,754
Between two and five years	400,857	744,448	2,876	8,630
	<u>744,448</u>	<u>1,088,039</u>	<u>8,630</u>	<u>14,384</u>

22 Reserves

Share premium

Share premium is the amount by which the fair value of the consideration received for shares exceeds the nominal value of the shares issued set off for associated transaction costs.

Non-controlling interests

Non-controlling interests in 2015 related to a third party's 50% interest in BlueWatt Engineering Sarl.

Process Systems Enterprise Limited

Notes To The Financial Statements

For the year ended 31 December 2016

23 Related party transactions

The Group has taken advantage of the exemptions contained within IAS 24 (Related Party Disclosures) from the requirement to disclose transactions between Group companies as these have been eliminated on consolidation.

During the year, Brian McKenzie exercised 100 options to acquire shares in the company at a price of £0.77 per share.

During the year to 31 December 2016, the company entered into transactions with the following:

Ayresome Limited – a company controlled by B J Waldron, a company director.

Redino Limited – a company controlled by R Longdon, a company director.

Albion Ventures LLP – a company shareholder. R Whitby Smith, a company director, is a partner of Albion Ventures LLP.

	2016 £	2015 £
Consultancy fees paid to Redino Limited	20,000	10,000
Consultancy fees paid to Ayresome Limited	4,000	4,000
Consultancy fees paid to Albion Ventures LLP	<u>16,000</u>	<u>16,000</u>

24 Summary of financial assets and liabilities by category

The carrying amounts of the group's financial assets and liabilities as recognised at the balance sheet date of the reporting periods under review may also be categorised as follows.

Financial assets by category

The IAS 39 categories of financial assets included in the balance sheet and the headings in which they are included are as follows:

	2016 £	2015 £
Current assets		
Loans and receivables	4,696,746	4,376,314
Cash and cash equivalents	<u>2,621,138</u>	<u>1,967,120</u>
	<u>7,317,884</u>	<u>6,343,434</u>

Financial liabilities by category

The IAS 39 categories of financial liabilities included in the balance sheet and the headings in which they are included are as follows:

	2016 £	2015 £
Financial liabilities measured at amortised cost	<u>830,255</u>	<u>953,609</u>
	<u>830,255</u>	<u>953,609</u>

Process Systems Enterprise Limited

Notes To The Financial Statements

For the year ended 31 December 2016

25 Capital management policies and procedures

The group's capital management objectives are:

- to ensure the group's ability to continue as a going concern
- to provide for future adequate returns to shareholders

The group monitors capital on the basis of the carrying amount of equity less unrestricted cash and cash equivalents.

The group manages its capital structure and makes adjustments to it in light of changes in economic conditions and its project development strategy. To maintain or adjust the capital structure, the group may issue new shares or agree further borrowings.

Capital for the reporting periods under review is summarised as follows:

	2016 £	2015 £
Total equity	10,408,687	7,333,343
Less unrestricted cash and cash equivalents	(2,621,138)	(1,967,120)
Capital	<u>7,787,549</u>	<u>5,366,223</u>

26 Fair value of financial instruments

Group

The group has no material financial instruments that are carried at fair value.

Company

The company has no material financial instruments that are carried at fair value.

27 Controlling party

For the year ended 31 December 2016, no single individual was deemed to have effective control of the group.

28 Capital commitments

The group had no capital commitments as at 31 December 2016 or 31 December 2015.

29 Contingent assets and liabilities

There were no material contingent assets or liabilities at 31 December 2016 or 31 December 2015.