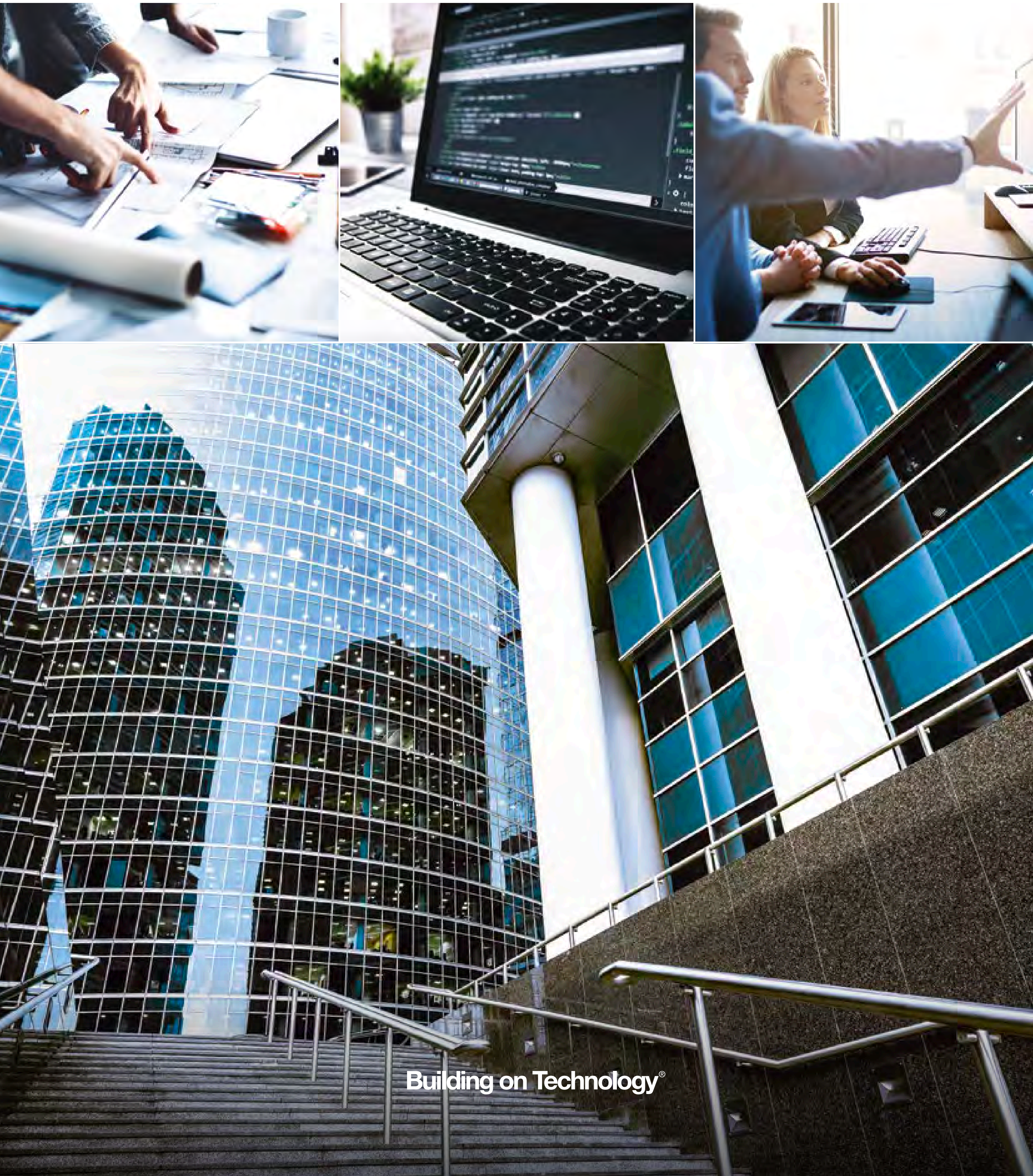
Elecosoft®

Interim Report 2018
for the six months ended 30 June 2018



Elecosoft plc is a market-leading provider of integrated software applications and related services to the global Architectural, Engineering, Construction and Owner/Operator ("AECO") industries worldwide.

Elecosoft plc is a well-established and profitable AIM listed software company with interests based principally in the UK, Sweden, Germany, Benelux and the US. Elecosoft delivers a strong portfolio of software for project management, estimation, visualisation, Building Information Modelling ("BIM"), information management and digital marketing disciplines. Elecosoft's software and services are used during early planning stages through to construction and property and maintenance management, driving the performance and day-to-day operations of its customers' businesses.

Elecosoft's software has been used in high-profile construction projects, including The Shard in London, Hong Kong International Airport, The Reichstag Dome in Berlin, Warsaw Metro in Poland, Jumeirah Park in Dubai and Tottenham Hotspur Football Stadium in London, and widely used on infrastructure projects by the Pennsylvania Department of Transportation.

Our products

Visualisation	Interiormarket
CAD/Design	Arcon Evo™ o2c®
Engineering	Staircon® Statcon® Framing
Estimating	Bidcon®
Project Management	Powerproject®
Site Management	Sitecon® Memmo®
Information Management	Marketingmanager IconSystem®
Maintenance	ShireSystem

Overview

Financial Statements

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You can download the digital version of this report from: www.ir.elecosoft.com

Highlights

six months to 30 June 2018

Financial

Revenue (£'000)

10,554 +5%

2017: 10,010

Growth at constant exchange rates: +7%

Operating profit (£'000)

1,221 +15%

2017: 1,059

Growth at constant exchange rates: +17%

Operating profit before acquisition related costs (£'000)

1,544 +46%

2017: 1,059

Growth at constant exchange rates: +47%

Adjusted operating profit (£'000)

1,755 +34%

2017: 1,314

Growth at constant exchange rates: +35%

Earnings per share (basic, pence per share)

1.3 +18%

2017: 1.1

Growth at constant exchange rates: +21%

Adjusted earnings per share (pence per share)

1.8 +38%

2017: 1.3

Growth at constant exchange rates: +39%

Recurring revenue (£'000)

5,792 55% of revenue

2017: 54% of revenue

Cash generated in operations (£'000)

2,865 +26%

2017: 2,277

Net cash (£'000)

2,668

2017: 259

Operational

- Acquisition in July of Shire Systems, a leading UK provider of computerised maintenance management software ("CMMS")
- Increased adoption of Powerproject BIM including its adoption by Ballast Nedam, a leading Dutch construction company, as their standard 4D planning tool
- Release of a new retailer platform Pixmo for visualising ceramic tiles
- Showcased the pre-release version of Memmo®, Elecosoft's new site management software, alongside Powerproject® and Bidcon® at Nordbygg, Northern Europe's largest construction exhibition in Sweden
- Appointment of Mukul Mistry BSc as Corporate Development Director
- Appointment of David Dannhauser FCA as Non-Executive Director

Chairman's Statement

Revenue (£'000)

10,554 +5%

2017: 10,010

Growth at constant exchange rates: +7%

Operating profit (£'000)

1,221 +15%

2017: 1,059

Growth at constant exchange rates: +17%

"Elecosoft has performed well in the first half of 2018. Our revenue growth has accelerated, cash flow remains strong, we have made good progress with our software development and the acquisition of Shire Systems has broadened and strengthened our product portfolio."

Trading Performance

Unaudited revenues in the first half of 2018 were £10,554k (2017: £10,010k), and the rate of increase in revenue at constant currencies was 7% (2017 full year: 4%, excluding acquisitions).

The revenue profile of the Group remains strong. The proportion of revenues derived from recurring maintenance and support contracts, as well as subscription-based contracts, was 55% of revenues in the period (2017: 54%).

Unaudited operating profit for the period was £1,221k (2017: £1,059k), and is stated after deducting £323k of acquisition related expenses. Before deducting the £323k of acquisition related expenses, operating profit from trading was up 46%. Adjusted operating profit from trading, before charging acquisition related expenses and amortisation of acquired intangible assets was £1,755k (2017: £1,314k), up 34%, and the adjusted operating margin improved to 16.6% (2017: 13.1%). This improved profitability reflects the strength of our core business, the benefits of scale as the business grows, and a continuing focus on cost management.

After deducting interest charges in the period of £38k (2017: £52k), profit before tax was £1,183k (2017: £1,007k). The tax charge in the period was £225k (2017: £203k).

Unaudited profit for the financial period was £958k (2017: £804k), an increase of 19% compared with the prior period, and equivalent to basic earnings per share of 1.3 pence (2017: 1.1 pence), an increase of 18%. Adjusted earnings per share, before charging acquisition related expenses and amortisation of acquired intangible assets, was 1.8 pence per share (2017: 1.3 pence), an increase of 38%.

A reconciliation of adjusted profit measures to reported measures is presented in note 13.

Financial Performance

The Group generated cash from operations in the period of £2,865k (2017: 2,277k), an increase of 26% compared with the comparative period. Adjusted operating cash flow, after deducting capital expenditures of £621k (2017: £593k) and before acquisition related cash flows of £43k (2017: £nil), was £2,287k (2017: £1,684k), meaning that over the last twelve months the Group has converted 107% of adjusted operating profits into cash.

The strong cash flow generation of the business resulted in an improvement in our net cash position to £2,668k as at 30 June 2018, up from £1,031k at 31 December 2017.

Software Development

Software development expenditure in the period under review was broadly the same at £1,403k (2017: £1,398k) and represents the equivalent of 13% of revenue in the period (2017: 14%). We remain committed to the continued enhancement of our market-leading construction software portfolio offering to our customers worldwide.

Development expenditure that was capitalised in the period totalled £531k (2017: £494k). In the UK, Sweden and Germany, the major component of these software development projects have involved the introduction of SaaS web applications.

Operational Highlights

We continued to make progress toward our strategic priorities set out on page 16 of the 2017 Annual Report to expand our portfolio and to address additional phases of the building life cycle with the acquisition of Shire Systems.

We also continued to invest in research and development to expand our SaaS offerings and deliver best practice among development teams with the beta-release of our new SaaS site management tool Memmo® and our new SaaS project collaboration solution in the UK. We launched a new retailer platform Pixmo for the ceramic tile industry which produces room visualisations. We successfully exhibited at Nordbygg, Northern Europe's largest construction exhibition in Sweden, showcasing Memmo® alongside Powerproject® and Bidcon®. Powerproject BIM was chosen by Ballast Nedam, a leading Dutch construction company, as their standard 4D planning solution.

Elecosoft successfully increased UK licence sales by 30% compared to the same period in 2017. We experienced challenges in the US due to slower uptake through resellers however this shortfall has been somewhat offset by growth in other international markets, principally Australia.

Acquisition and Financing of Shire Systems Ltd

On 4 July 2018 Elecosoft completed the acquisition of Shire Systems Limited, a leading UK provider of computerised maintenance management software ("CMMS"), for a total consideration of £6.3m in cash, comprising an enterprise value of £5.1m on a cash and debt-free basis, and an estimated £1.2m net cash, subject to a review satisfactory to Elecosoft of the cash, debt and working capital of Shire as shown in the completion accounts.

The acquisition represents a significant advancement in Elecosoft's successful strategy of investing in synergistic software products and technologies to strengthen its construction software portfolio. It will extend Elecosoft's software portfolio beyond early stage project planning, design and construction applications, to asset maintenance management applications for plant and equipment and building life cycle maintenance management. As at the end of 2017 Shire boasted over 800 active customers and 3,500 users of its products including organisations engaged in a diverse range of industries. Shire Systems reported unaudited revenues of £1.9m for the year to 31 December 2017, and unaudited profit before tax of £0.7m, adjusted to add back £0.3m of exceptional vendor remuneration.

The acquisition was financed by incremental borrowings of £6m as part of a new five-year fixed term loan of £8m from Barclays Bank, which consolidated Elecosoft's outstanding borrowings from Barclays of £2m. The Directors consider that in the absence of unforeseen circumstances, the Group will be in a position to comfortably service and repay its medium-term Sterling borrowings in accordance with their terms.

My colleagues and I extend a warm welcome to the Shire Systems team who bring extensive knowledge and experience to the Elecosoft Group.

Board and Management

I was pleased to announce in February the appointment of David Dannhauser, FCA, as a Non-Executive Director. David has been CFO of a number of listed companies in the past 20 years, including the position of CFO at Elecosoft from 1994 to 2010, at which time he was closely involved in the establishment and development of the Group's software activities, which today form the core of Elecosoft's software operations. He has also advised a number of companies on their capital raising, M&A and strategic planning activities.

In June Mukul Mistry was appointed to the Board as Corporate Development Director. Mukul has extensive international experience in the software industry, having previously served on the board of systems integration and services business HTSA Pty Ltd in South Africa and advised the boards of a number of international software technology companies on their strategic development. I believe that Mukul's international experience and technical background will be invaluable to us as we focus increasingly on the development and strategic direction of Elecosoft.

I am sad to also report that Simon Morgan has resigned as Finance Director of Elecosoft in order to pursue opportunities elsewhere. He will be replaced by Ben Moralee, who has been with Elecosoft since March 2018 working on a number of projects, including the successful acquisition of Shire Systems. I am delighted to welcome Ben to the Board. The whole Board and I are very grateful for Simon's contribution to the business over the last year and wish him every success with his future career.

Interim Dividend

Having regards to Elecosoft's strong trading performance and cash generation in the period under review, the Board has decided to declare an increased interim scrip dividend of 0.28 pence per ordinary share (2017: 0.20 pence), or alternative cash dividend of 0.28 pence per ordinary share (2017: 0.20 pence), an increase of 40%, covered 4.6 times by unaudited earnings for the period of 1.3 pence per ordinary share.

The scrip reference price is 84.8 pence, calculated from the average of the closing price for an ordinary share of the Company as derived from the daily official list of the London Stock Exchange during the period of five dealing days ending 10 September 2018. The interim dividend will be paid on 31 October 2018 to shareholders on the register at the close of business on 21 September 2018 and the ex-dividend date will be 20 September 2018. The cash alternative election will close at 5pm on 17 October 2018.

Outlook

Elecosoft is a people business, and I am pleased to say that every unit, whether in the UK, Sweden, the Netherlands, Germany or the US, has performed well in the period under review. We have also made good progress with new software development initiatives in the period and also with our branding and sales reach.

Approximately a third of our revenue in the first half of 2018 was earned in the UK, with two thirds in Scandinavia, elsewhere in Europe, Australia or the US. The majority of our operating profits are earned in, and employees based in, Sweden, Germany, the Netherlands, Belgium and the United States. This, combined with the recurring nature of our revenues, means that I believe we remain resilient to any potential effects of Brexit.

We continue to see significant opportunities particularly in construction, but also in other related sectors that we currently serve, as we further develop our software to improve the timeliness, cost-efficiency and risk profiles of our customers' projects. The launch of products such as Memmo, our new site management tool, and the addition of Shire Systems' CMMS software further enhances our position as a market-leading provider of software across all the phases of a construction project and the lifecycle of a building.

My colleagues and I look forward with confidence to the future.

John Ketteley
Executive Chairman
11 September 2018

Condensed Consolidated Income Statement

for the financial period ended 30 June 2018

	Notes	Six months to 30 June 2018 (unaudited) £'000	Six months to 30 June 2017 (unaudited) £'000	Year ended 31 December 2017 £'000
Revenue	3,4	**10,554**	10,010	19,996
Cost of sales		**(1,230)**	(1,293)	(2,421)
Gross profit		**9,324**	8,717	17,575
Amortisation and impairment of intangible assets		**(435)**	(420)	(1,035)
Acquisition related expenses		**(323)**	—	—
Other selling and administrative expenses		**(7,345)**	(7,238)	(14,179)
Selling and administrative expenses		**(8,103)**	(7,658)	(15,214)
Operating profit	4,5	**1,221**	1,059	2,361
Finance cost	6	**(38)**	(52)	(107)
Profit before tax		**1,183**	1,007	2,254
Tax		**(225)**	(203)	(357)
Profit for the financial period		**958**	804	1,897
Attributable to:				
Equity holders of the parent		**958**	804	1,897
Earnings per share (pence per share)				
Basic earnings per share	7	**1.3p**	1.1p	2.5p
Diluted earnings per share	7	**1.2p**	1.0p	2.5p

Condensed Consolidated Statement of Comprehensive Income

for the financial period ended 30 June 2018

	Six months to 30 June 2018 (unaudited) £'000	Six months to 30 June 2017 (unaudited) £'000	Year ended 31 December 2017 £'000
Profit for the period	**958**	804	1,897
Other comprehensive income:			
Items that will be reclassified subsequently to profit or loss:			
Translation differences on foreign operations	**(70)**	(23)	14
Other comprehensive (loss)/income net of tax	**(70)**	(23)	14
Total comprehensive income for the period	**888**	781	1,911
Attributable to:			
Equity holders of the parent	**888**	781	1,911

Condensed Consolidated Statement of Changes in Equity

for the financial period ended 30 June 2018

	Share capital £'000	Merger reserve £'000	Translation reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2018	**774**	**575**	**(66)**	**(283)**	**10,486**	**11,486**
Dividends	**—**	**—**	**—**	**—**	**(110)**	**(110)**
Share-based payments	**—**	**—**	**—**	**52**	**—**	**52**
Issue of share capital	**5**	**(5)**	**—**	**—**	**—**	**—**
Transactions with owners	**5**	**(5)**	**—**	**52**	**(110)**	**(58)**
Profit for the period	**—**	**—**	**—**	**—**	**958**	**958**
Other comprehensive income:						
Exchange differences on translation of net investments in foreign operations	**—**	**—**	**(70)**	**—**	**—**	**(70)**
Total comprehensive income for the period	**—**	**—**	**(70)**	**—**	**958**	**888**
At 30 June 2018 (unaudited)	**779**	**570**	**(136)**	**(231)**	**11,334**	**12,316**

	Share capital £'000	Merger reserve £'000	Translation reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2017	771	578	(80)	(339)	8,786	9,716
Dividends	—	—	—	—	(135)	(135)
Share-based payments	—	—	—	6	—	6
Transactions with owners	—	—	—	6	(135)	(129)
Profit for the period	—	—	—	—	804	804
Other comprehensive income:						
Exchange differences on translation of net investments in foreign operations	—	—	(23)	—	—	(23)
Total comprehensive income for the period	—	—	(23)	—	804	781
At 30 June 2017 (unaudited)	771	578	(103)	(333)	9,455	10,368

	Share capital £'000	Merger reserve £'000	Translation reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2017	771	578	(80)	(339)	8,786	9,716
Dividends	—	—	—	—	(197)	(197)
Share-based payments	—	—	—	56	—	56
Issue of share capital	3	(3)	—	—	—	—
Transactions with owners	3	(3)	—	56	(197)	(141)
Profit for the period	—	—	—	—	1,897	1,897
Other comprehensive income:						
Exchange differences on translation of net investments in foreign operations	—	—	14	—	—	14
Total comprehensive income for the period	—	—	14	—	1,897	1,911
At 31 December 2017	774	575	(66)	(283)	10,486	11,486

Condensed Consolidated Balance Sheet

at 30 June 2018

	Notes	30 June 2018 (unaudited) £'000	30 June 2017 (unaudited) £'000	31 December 2017 £'000
Non-current assets				
Goodwill		**11,439**	11,487	11,480
Other intangible assets	9	**3,545**	3,434	3,432
Property, plant and equipment		**759**	786	833
Deferred tax assets		**202**	—	219
Total non-current assets		**15,945**	15,707	15,964
Current assets				
Inventories		**8**	3	16
Trade and other receivables		**2,838**	2,871	3,738
Current tax assets		**36**	77	37
Cash and cash equivalents	10	**5,253**	3,510	4,737
Total current assets		**8,135**	6,461	8,528
Total assets		**24,080**	22,168	24,492
Current liabilities				
Bank overdraft	10	**(335)**	(179)	(1,012)
Borrowings	10	**(790)**	(790)	(790)
Obligations under finance leases		**(109)**	(123)	(120)
Trade and other payables		**(1,152)**	(1,050)	(1,496)
Provisions		**(209)**	(243)	(209)
Current tax liabilities		**(137)**	(233)	(241)
Accruals and deferred income	11	**(6,930)**	(6,398)	(6,592)
Total current liabilities		**(9,662)**	(9,016)	(10,460)
Non-current liabilities				
Borrowings	10	**(1,185)**	(1,975)	(1,580)
Obligations under finance leases		**(166)**	(184)	(204)
Deferred tax liabilities		**(710)**	(584)	(721)
Non-current provisions		**(41)**	(41)	(41)
Total non-current liabilities		**(2,102)**	(2,784)	(2,546)
Total liabilities		**(11,764)**	(11,800)	(13,006)
Net assets		**12,316**	10,368	11,486
Equity				
Share capital		**779**	771	774
Merger reserve		**570**	578	575
Translation reserve		**(136)**	(103)	(66)
Other reserve		**(231)**	(333)	(283)
Retained earnings		**11,334**	9,455	10,486
Equity attributable to shareholders of the parent		**12,316**	10,368	11,486

Condensed Consolidated Statement of Cash Flows

for the financial period ended 30 June 2018

	Six months to 30 June 2018 (unaudited) £'000	Six months to 30 June 2017 (unaudited) £'000	Year ended 31 December 2017 £'000
Cash flows from operating activities			
Profit before tax	**1,183**	1,007	2,254
Net finance costs	**38**	52	107
Depreciation charge	**124**	119	247
Amortisation charge	**435**	420	1,035
Profit on sale of property, plant and equipment	**(5)**	(8)	(15)
Share-based payment charge	**52**	6	56
Decrease in provisions	**—**	(5)	(20)
Cash generated in operations before working capital movements	**1,827**	1,591	3,664
Decrease/(increase) in trade and other receivables	**916**	890	(65)
Decrease/(increase) in inventories and work in progress	**7**	8	(5)
Increase/(decrease) in trade and other payables	**115**	(212)	573
Cash generated in operations	**2,865**	2,277	4,167
Interest paid	**(38)**	(54)	(98)
Net income tax paid	**(314)**	(50)	(251)
Net cash inflow from operating activities	**2,513**	2,173	3,818
Investing activities			
Purchase of intangible assets	**(551)**	(531)	(1,154)
Purchase of property, plant and equipment	**(70)**	(62)	(180)
Proceeds from sale of property, plant, equipment and intangible assets	**47**	96	161
Net cash outflow from investing activities	**(574)**	(497)	(1,173)
Financing activities			
Repayment of bank loans	**(395)**	(395)	(790)
Repayments of obligations under finance leases	**(75)**	(133)	(226)
Equity dividends paid	**(110)**	(135)	(197)
Net cash outflow from financing activities	**(580)**	(663)	(1,213)
Net increase in cash and cash equivalents	**1,359**	1,013	1,432
Cash and cash equivalents at beginning of period	**3,725**	2,237	2,237
Effects of changes in foreign exchange rates	**(166)**	81	56
Cash and cash equivalents at end of period	**4,918**	3,331	3,725
Cash and cash equivalents comprise:			
Cash and short-term deposits	**5,253**	3,510	4,737
Bank overdrafts	**(335)**	(179)	(1,012)
	4,918	3,331	3,725

Notes to the Condensed Consolidated Interim Financial Information

1. General information

The company is a public limited company incorporated and domiciled in the UK. The address of its registered office is 66 Clifton Street, London, EC2A 4HB.

The company is listed on the Alternative Investment Market ("AIM").

The condensed consolidated interim financial information does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The Group's consolidated financial statements for the year ended 31 December 2017 have been filed at Companies House. The audit report was not qualified and did not contain a statement under section 498(2) or section 498(3) of the Companies Act 2006.

2. Basis of preparation

The condensed consolidated interim financial information for the six months to 30 June 2018 has been prepared in accordance with the accounting policies which will be applied in the financial statements for the year ended 31 December 2018. These accounting policies are drawn up in accordance with International Accounting Standards ("IAS") and International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board and as adopted for use in the European Union, that are effective at 30 June 2018.

The condensed consolidated interim financial information is unaudited. They do not include all the information and disclosures required in the annual financial statements, and therefore should be read in conjunction with the Group's published financial statements for the year ended 31 December 2017. The comparative figures for the year ended 31 December 2017 are not the Company's statutory accounts for that period but have been extracted from these accounts.

The Directors, having considered the Group's current financial resources, have concluded that they are adequate for the Group's present requirements. Therefore, the condensed consolidated interim financial information has been prepared on the going concern basis.

The Group has adopted new accounting pronouncements, which have become effective this year, as follows:

IFRS 15 "Revenue from Contracts with Customers". IFRS 15 "Revenue from Contracts with Customers" and the related clarifications to IFRS 15 "Revenue from Contracts with Customers" (hereinafter referred to as "IFRS 15") replace IAS 18 "Revenue", IAS 11 "Construction Contracts", and several revenue-related Interpretations. A review of Elecosoft's existing products and contracts has concluded that the adoption of IFRS 15 has no impact on the results or financial position of the Group.

IFRS 9 "Financial Instruments". IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets, as well as containing new requirements on the application of hedge accounting. The adoption of IFRS 9 has had no impact on the results or financial position of the Group.

Furthermore, new standards, new interpretations and amendments to standards and interpretations that have been issued but are not effective for the current period have not been adopted early.

Estimates

Application of the Group's accounting policies in preparing condensed consolidated interim financial information requires management to make judgements and estimates that affect the reported amount of assets and liabilities, revenues and expenses. Actual results may ultimately differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

Risks and uncertainties

A summary of the Group's principal risks and uncertainties was set out on pages 24 to 25 of the 2017 Annual Report and Accounts. The Board considers that these risks and uncertainties are still relevant to the current financial year and the impact of changes in the UK economy is reviewed in the Chairman's Statement contained in this report.

The Interim Report was approved by the Directors on 11 September 2018.

3. Revenue

Revenue disclosed in the income statement is analysed as follows:

	Six months to 30 June		Year ended 31 December
	2018 £'000	2017 £'000	2017 £'000
Licence sales	**2,771**	2,585	5,135
Recurring maintenance, support and subscription revenue	**5,792**	5,384	11,018
Services income	**1,991**	2,041	3,843
	10,554	10,010	19,996

The categories of revenue have been updated to include subscription-based revenue in recurring maintenance, support and subscription revenue, and prior period amounts have been restated accordingly.

Revenue is recognised for each category as follows:

> Licence sales – recognised on delivery of the software licence.

> Maintenance, support and subscriptions – recognised systematically over the contractual period of contract.

> Services – recognised on delivery of the service.

4. Segmental information

Operating segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to the segments and to assess their performance.

The chief operating decision maker has been identified as the Executive Directors. The Group revenue is derived entirely from the sale of software licences, software maintenance and support and related services. Consequently, the Executive Directors review the three revenue streams, but, as the costs are not recorded in the same way, the information is presented as one segment and as such the information is presented in line with management information.

	Six months to 30 June		Year ended 31 December
	2018 £'000	2017 £'000	2017 £'000
Revenue	**10,554**	10,010	19,996
Adjusted EBITDA	**2,103**	1,598	3,643
Amortisation and impairment of purchased intangible assets	**(224)**	(165)	(623)
Depreciation	**(124)**	(119)	(247)
Adjusted operating profit	**1,755**	1,314	2,773
Amortisation of acquired intangible assets	**(211)**	(255)	(412)
Acquisition related expenses	**(323)**	—	—
Operating profit	**1,221**	1,059	2,361
Finance cost	**(38)**	(52)	(107)
Segment profit before tax	**1,183**	1,007	2,254
Tax	**(225)**	(203)	(357)
Segment profit after tax	**958**	804	1,897

Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation, and is adjusted to exclude acquisition related expenses.

Notes to the Condensed Consolidated Interim Financial Information continued

4. Segmental information continued

Geographical, product and sales channel information

Revenue by geographical segment represents revenue from external customers based upon the geographical location of the customer.

	Six months to 30 June		Year ended 31 December
	2018 £'000	2017 £'000	2017 £'000
UK	**3,732**	3,325	6,468
Scandinavia	**3,593**	3,638	7,239
Germany	**1,479**	1,565	3,066
USA	**337**	350	656
Rest of Europe	**1,160**	999	2,178
Rest of World	**253**	133	389
	10,554	10,010	19,996

Revenue by product group represents revenue from external customers.

	Six months to 30 June		Year ended 31 December
	2018 £'000	2017 £'000	2017 £'000
Project management	**5,015**	4,559	9,161
Site management	**219**	225	460
Estimating	**1,464**	1,521	2,973
Engineering	**1,225**	1,070	2,008
CAD/Design	**1,052**	1,164	2,352
Information management	**595**	492	1,044
Visualisation	**984**	979	1,998
	10,554	10,010	19,996

The Group utilises resellers to access certain markets. Revenue by sales channel represents revenue from external customers.

	Six months to 30 June		Year ended 31 December
	2018 £'000	2017 £'000	2017 £'000
Direct	**9,945**	9,398	18,780
Reseller	**609**	612	1,216
	10,554	10,010	19,996

5. Operating profit

Operating profit for the period is after charging the following items:

	Six months to 30 June		Year ended 31 December
	2018 £'000	2017 £'000	2017 £'000
Software product development	**872**	904	1,694
Depreciation of property, plant and equipment	**124**	119	247
Amortisation of acquired intangible assets	**211**	255	412
Amortisation of other intangible assets	**224**	165	401
Impairment of other intangible assets	**—**	—	222
Receipt from administrators of a former group company	**—**	—	(166)
Profit on disposal of property, plant and equipment	**(6)**	(8)	(15)
Foreign exchange losses	**24**	13	55
Acquisition related expenses	**323**	—	—

6. Finance cost

Finance costs disclosed in the income statement are set out below:

	Six months to 30 June		Year ended 31 December
	2018 £'000	2017 £'000	2017 £'000
Finance costs:			
Bank overdraft and loan interest	**(35)**	(49)	(101)
Finance leases and hire purchase contracts	**(3)**	(3)	(6)
Total finance cost	**(38)**	(52)	(107)

7. Earnings per share

The calculations of the earnings per share are based on profit after tax attributable to the ordinary equity shareholders of the Company and the weighted average number of shares in issue for the reporting period.

	Six months to 30 June						Year ended 31 December 2017		
	2018			2017					
	Profit attributable to shareholders (£'000)	**Weighted average number of shares (millions)**	**EPS (p)**	Profit attributable to shareholders (£'000)	Weighted average number of shares (millions)	EPS (p)	Profit attributable to shareholders (£'000)	Weighted average number of shares (millions)	EPS (p)
Basic earnings per share	**958**	**76.6**	**1.3**	804	76.2	1.1	1,897	76.3	2.5
Diluted earnings per share	**958**	**77.2**	**1.2**	804	77.2	1.0	1,897	76.7	2.5
Adjusted earnings per share	**1,416**	**76.6**	**1.8**	1,008	76.2	1.3	2,188	76.3	2.9

Shares held by the Employee Share Ownership Trust are excluded from the weighted average number of shares in the period. Adjusted profit attributable to shareholders is reconciled to reported profit attributable to shareholders in note 13.

Notes to the Condensed Consolidated Interim Financial Information continued

8. Dividends

Dividends paid in the six months to 30 June 2018 comprised the 2017 final dividend of 0.40 pence per ordinary share (2017: 0.20 pence per ordinary share).

The 2017 final dividend was declared as a scrip dividend, with a scrip reference price of 49.6 pence per ordinary share, with shareholders having the opportunity to receive an alternative cash dividend of 0.40 pence per share.

Scrip dividends were issued in the six months to 30 June 2018 as follows:

	Six months to 30 June				Year ended 31 December	
Ordinary shares	**2018 shares issued**	**2018 £'000**	2017 shares issued	2017 £'000	2017 shares issued	2017 £'000
Declared and paid during the year						
Interim – current year	**–**	**–**	–	–	204,629	89
Final – previous year	**414,178**	**205**	146,721	57	146,721	57
	414,178	**205**	146,721	57	351,350	146

Cash dividends of £110,000 (2017: £133,000) were paid in the six months to 30 June 2018 as follows:

	Six months to 30 June				Year ended 31 December	
Ordinary shares	**2018 pence per share**	**2018 £'000**	2017 pence per share	2017 £'000	2017 pence per share	2017 £'000
Declared and paid during the year						
Interim – current year	**–**	**–**	–	–	0.20	64
Final – previous year	**0.40**	**110**	0.25	133	0.25	133
	0.40	**110**	0.25	133	0.45	197

The Directors have recommended the payment of an interim scrip dividend of 0.28 pence per ordinary share, or an alternative cash dividend of 0.28 pence per ordinary share (2017 interim: 0.20 pence). The scrip reference price is 84.8 pence, calculated from the average of the closing price for an ordinary share of the Company as derived from the official list of the London Stock Exchange during the period of five dealing days ending 10 September 2018. The interim dividend will be paid on 31 October 2018 to shareholders registered at the close of business on 21 September 2018. The ex-dividend date will be 20 September 2018. The cash alternative election will close at 5pm on 17 October 2018.

9. Other intangible assets

Other intangible assets comprise capitalised development costs, acquired customer relationships and purchased intangible assets. Additions in the six months to 30 June 2018 represent purchased intangible assets of £20,000 (2017: £37,000) and internal development costs capitalised of £531,000 (2017: £494,000). Internal development relates to software development projects that meet the accounting policy criteria for capitalisation.

10. Cash and borrowings

The net cash position of the Group as at 30 June 2018 is set out below.

	30 June 2018 £'000	30 June 2017 £'000	31 December 2017 £'000
Cash and cash equivalents	**5,253**	3,510	4,737
Bank overdraft and borrowings	**(2,310)**	(2,944)	(3,382)
Obligations under finance leases	**(275)**	(307)	(324)
	2,668	259	1,031
Maturity profile of borrowings			
In one year or less	**(1,125)**	(969)	(1,802)
Between one and two years	**(790)**	(790)	(790)
Between two and five years	**(395)**	(1,185)	(790)
	(2,310)	(2,944)	(3,382)

On 4 July 2018 the Group refinanced its existing borrowings into a new five-year fixed term loan of £8m with Barclays Bank. The new facility was used to finance the acquisition of Shire Systems Ltd for £5.1m on a cash and debt-free basis.

The new facility is repayable over five years, with equal quarterly instalments of £0.4m, commencing from October 2018. The interest rate has been fixed for three years at 3.768%. The Group also retains its existing £1.0m overdraft facility. Security provided to the bank comprises a cross guarantee and debenture between Elecosoft plc and certain Group subsidiaries.

11. Accruals and deferred income

	30 June 2018 £'000	30 June 2017 £'000	31 December 2017 £'000
Accruals	**2,030**	1,760	1,803
Deferred income	**4,900**	4,638	4,789
	6,930	6,398	6,592

Deferred income represents income from software maintenance and support contracts and is taken to revenue in the income statement on a straight-line basis in line with the service and obligations over the term of the contract.

12. Related party disclosures

Transactions between Group undertakings, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The Directors of the Company had no material transactions with the Company during the six months to 30 June 2018, other than as a result of service agreements. An amount of £36,250 (2017: £nil) was paid to JHB Ketteley & Co Limited under a lease for occupation by the Group of its London head office and £2,500 (2017: £3,000) was paid to JHB Ketteley & Co Limited for a contribution to the office costs at Burnham-on-Crouch.

Notes to the Condensed Consolidated Interim Financial Information continued

13. Additional performance measures

The Group uses adjusted figures, which are not defined by Generally Accepted Accounting Principles ("GAAP") such as IFRS. Adjusted figures and underlying growth rates are presented as additional performance measures used by management, as they provide relevant information in assessing the Group's performance, position and cash flows. We believe that these measures enable investors to track more clearly the core operational performance of the Group, by separating out items of income or expenditure relating to acquisitions, disposals and capital items. Our management uses these financial measures, along with IFRS financial measures, in evaluating the operating performance of the Group.

	Six months to 30 June		Year ended 31 December
	2018 £'000	2017 £'000	2017 £'000
Operating profit	**1,221**	1,059	2,361
Acquisition related expenses	**323**	—	—
Amortisation of acquired intangible assets	**211**	255	412
Adjusted operating profit	**1,755**	1,314	2,773
Profit before tax	**1,183**	1,007	2,254
Acquisition related expenses	**323**	—	—
Amortisation of acquired intangible assets	**211**	255	412
Adjusted profit before tax	**1,717**	1,262	2,666
Tax charge	**(225)**	(203)	(357)
Acquisition related expenses	**(40)**	—	—
Amortisation of acquired intangible assets	**(36)**	(51)	(121)
Adjusted tax charge	**(301)**	(254)	(478)
Profit after tax	**958**	804	1,897
Acquisition related expenses	**283**	—	—
Amortisation of acquired intangible assets	**175**	204	291
Adjusted profit after tax	**1,416**	1,008	2,188
Cash generated in operations	**2,865**	2,277	4,167
Purchase of intangible assets	**(551)**	(531)	(1,154)
Purchase of property, plant and equipment	**(70)**	(62)	(180)
Acquisition related expenses	**43**	—	—
Adjusted operating cash flow	**2,287**	1,684	2,833

14. Post balance sheet events

On 4 July 2018, the Group acquired Shire Systems Limited ("Shire Systems"), a profitable leading UK provider of computerised maintenance management software ("CMMS"), from Shiresoft Ltd, for a total consideration of £6.3m in cash, comprising an enterprise value of £5.1m on a cash and debt-free basis, and an estimated £1.2m net cash, subject to review of the completion accounts and working capital. Professional and other fees of £0.3m in relation to the acquisition were expensed in the period to 30 June 2018 as acquisition related expenses.

Shire Systems reported revenues of £1.9m for the year to 31 December 2017, and profit before tax of £0.7m, adjusted to add back £0.3m of exceptional vendor remuneration. Net assets reported at 31 December 2017 were £1.1m. Unaudited management accounts of Shire Systems for the first six months of 2018 show revenue of £1.2m and profit before tax of £0.5m, after adjusting for revenue deferrals to align with Generally Accepted Accounting Principles. The acquisition was financed by a new five-year fixed term loan, as set out in note 10.

The Group is in the process of determining the fair values of the acquired assets and assumed liabilities of Shire Systems. The valuation is expected to be completed before year end.

15. Exchange rates

The following exchange rates have been applied in preparing the condensed consolidated financial statements:

	Income statement Six months to 30 June		Balance sheet As at 30 June		Year to 31 December 2017	
	2018	2017	**2018**	2017	Income statement	Balance sheet
Swedish Krona to Sterling	**11.58**	11.15	**11.81**	10.96	11.03	11.08
Euro to Sterling	**1.14**	1.16	**1.13**	1.14	1.14	1.13
US Dollar to Sterling	**1.37**	1.27	**1.32**	1.30	1.30	1.35

Board of Directors

John Ketteley FCA

Executive Chairman

Appointed Executive Chairman in 1997, John Ketteley has an investment banking background as an Executive Director at SG Warburg & Co Ltd, Managing Director of Rea Brothers plc and Executive Director of Barclays De Zoete Wedd. He was also formerly Non-Executive Chairman of BTP plc, Country Casuals plc and Prolific Income plc.

Jonathan Hunter BBus. BMm

Chief Operating Officer

Appointed in June 2016, Jonathan has worked for the Elecosoft Group for over a decade. Previous roles include Marketing Manager for the Building Systems division and General Manager of Group Marketing. Jonathan played a fundamental role in the transition to a software group during and post divestment of the Building Systems division and led the rebranding of Elecosoft in 2015. He identified and played a major part in the acquisition of ICON and Shire Systems, and in December 2017 Jonathan was appointed Chief Operating Officer.

Anders Karlsson

Managing Director of Elecosoft Sweden

Appointed in March 2017. Anders has over 20 years of business development experience from various companies in different management positions. He was initially appointed as Managing Director of Consultec Byggprogram AB in August 2005 and then rejoined the Group again as the Managing Director of Elecosoft Consultec AB in November 2014, after a four-year session as the CEO of an international digital signage company.

Mukul Mistry BSc

Corporate Development Director

Appointed in June 2018, Mukul has 20 years of experience in the technology industry spanning continents, industries and a range of niche and mainstream technology specialities. His technical exposure is across a variety of operational and core systems in CRM, finance, data management, reporting, and analytics. Mukul holds qualifications in Solid State and Nuclear Physics and Mathematics, with certifications in industry vendor software, Economics, and Fintech.

Ben Moralee FCA

Group Finance Director

Appointed September 2018, Ben has been Interim Deputy Finance Director of the Company since March 2018. Ben has extensive experience in international finance positions having previously been International Financial Controller for Serena Software Europe Limited (part of Micro Focus PLC), for ten years, as well as the Head of Finance (Interim) at Figleaves (part of N Brown Group PLC). Ben is a chartered accountant, having qualified with Deloitte, and a Fellow of the Institute of Chartered Accountants in England and Wales.

Serena Lang MBA

Non-Executive Director

Appointed as a Non-Executive Director in December 2014, Serena was appointed Non-Executive Deputy Chairman in May 2017 and is Chairman of the Remuneration Committee. Serena's distinguished and multifaceted career includes working as an Executive Consultant at E&Y, where she was heavily involved in client M&A and integration activities, then onto BP's group leadership team where she was VP Transformation in the downstream and latterly onto Invensys Plc (now part of Schneider Electric) running the highly profitable £130m North Europe and Africa Division of their international software and process businesses as well as being the VP in charge of the BP account globally.

Kevin Craig

Non-Executive Director

Appointed as a Non-Executive Director in March 2017, Kevin is founder and CEO of the Political Lobbying and Media Relations Ltd ("PLMR") communications agency. He has served over eleven years to date as a councillor in London local government and formerly worked for Saatchi & Saatchi (Rowland Company) and DLA Piper. He is also a Non-Executive Director of Company Shop, the UK's leading food and surplus redistribution company.

David Dannhauser FCA

Non-Executive Director

Appointed as a Non-Executive Director in February 2018. David is Chairman of the Audit Committee, and has been CFO of a number of listed companies in the past 20 years, including the position of CFO at Elecosoft from 1994 to 2010, at which time he was closely involved in the establishment and development of the Group's software activities, which today form the core of Elecosoft's software operations. He has also advised a number of companies on their capital raising, M&A and strategic planning activities. From 2011 to 2013, David was a Non-Executive Director of Altitude Group plc, the AIM-listed provider of SaaS solutions for the promotional products and print industries in North America and the UK.

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