Elecosoft®

Interim Report 2019

For the six months ended 30 June 2019

Introduction

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

Elecosoft's interests are based principally in the United Kingdom, Sweden, Germany, Benelux and the US. Elecosoft delivers a well-established portfolio of software to support different stages of the building lifecycle from architecture, design and visualisation, engineering, construction and building management and maintenance. Elecosoft's software and services are used during early planning stages through to construction and facilities management, driving the performance and day-to-day operations of its customers' businesses. Elecosoft's software has been used on high-profile construction projects, to name a few: The Shard in London, the Victoria and Albert Museum in London, Hong Kong International Airport, The Reichstag Dome in Berlin, Warsaw Metro in Poland and the Jumeirah Park in Dubai, and widely used on infrastructure projects by the Pennsylvania Department of Transportation.

Overview

Financial Statements

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www.ir.elecosoft.com

Our products

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

Highlights
six months to 30 June 2019

Financial

	Six months to 30 June 2019 (unaudited) £'000	2018 (restated) (unaudited) £'000	Change
Revenue	**12,711**	10,554	+20%
Recurring maintenance support and subscription revenue	**7,157**	5,792	+24%
Operating profit	**1,746**	1,250	+40%
Adjusted operating profit*	**2,138**	1,784	+20%
Profit before tax	**1,567**	1,168	+34%
Basic earnings per share (pence per share)	**1.6**	1.2	+33%
Adjusted earnings per share** (pence per share)	**2.0**	1.8	+11%
Cash generated in operation	**3,130**	3,137	0%

* Adjusted to exclude acquisition related expenses and amortisation of acquired intangible assets.

** Adjusted earnings per share represents adjusted profit after tax, divided by a weighted average number of shares.

Operational

- Elecosoft products Powerproject SaaS, IconSystem and ShireSystem listed on G-Cloud 11, the Crown Commercial Service's ("CCS") digital marketplace, a service for supply of cloud applications and public sector procurement
- Release of highly anticipated Powerproject XV, the latest version of the market-leading project management software
- Release of ShireSystem software version 3.2.6 and the development of a new mobile application for iOS users
- Increased adoption of IconSystem software into sectors outside of its traditional retail market
- Development of an integrated key product set from Active Online and ESIGN for their joint customer offering providing synergistic opportunities
- Milestone for Elecosoft in July celebrating 80 years of being incorporated in the UK

Executive Chairman's Statement

> "Elecosoft has shown resilience in the period by improving operating profit and strengthening its financial position."

Trading Performance

Unaudited revenues in the first half of 2019 were £12,711,000 (2018: £10,554,000), an increase of 20%, or 22% at constant currencies.

Elecosoft's revenue profile also remains strong. Revenues derived from recurring maintenance, support contracts and other subscription-based contracts was 56% of revenues in the period (2018: 55%). Unaudited operating profit for the period was £1,746,000 (2018: £1,250,000) and is stated after deducting £97,000 (2018: £323,000) of acquisition and corporate finance related costs.

Unaudited operating profit before charging acquisition and corporate finance related expenses (£97,000 (2018: £323,000)) and amortisation of acquired intangible assets of £295,000 (2018: £211,000) was £2,138,000 (2018: £1,784,000), an increase of 20%, reflecting the continuing strength of our core business, and our continuing focus on cost management.

Unaudited profit for the period before tax was £1,567,000 (2018: £1,168,000). Unaudited profit after tax for the period was £1,288,000 (2018: £943,000), an increase of 36% compared with the comparable prior period in 2018, equivalent to basic earnings per share for the period of 1.6 pence (2018: 1.2 pence), an increase of 33%.

Elecosoft's management also uses performance measures which are not defined by IFRS to monitor the Group's performance. These additional performance measures are set out in note 14 and reconciled to reported IFRS measurements. Adjusted earnings per share for the period were 2.0 pence per share (2018: 1.8 pence), an increase of 11%.

Financial Performance

The Group generated cash from operations in the period of £3,130,000 (2018: £3,137,000).

Management has worked hard in the period and with good effect to improve the Group's already strong financial position. As a consequence, the Group's net bank debt position of £1,814,000 at 31 December 2018 was reduced in the period and as at 30 June 2019 the Group had a net bank debt position of £198,000.

Elecosoft also implemented IFRS 16 using the Full Retrospective Approach. Accordingly, right-of-use assets and finance lease liabilities have been included on the Group's balance sheet for all comparable periods.

Our software portfolio and our software teams are the lifeblood of our business worldwide. Software development expenditure in the period amounted to £1,524,000 (2018: £1,423,000) and reflect our continuing efforts to enhance our software offering to the market, the equivalent of 12% (2018: 13%) of software revenue in the period. Software development expenditure capitalised in the period totalled £633,000 (2018: £551,000), mainly relating to Powerproject XV, which has been released in the UK.

In addition to continuing enhancement of our existing software programs, there in no doubt that the completion and release of Powerproject XV was an outstanding achievement by our software teams.

Our Swedish colleagues are also to be congratulated on the development and release of the latest module of Elecosoft's Bidcon estimation tool that provides combined climate and cost calculations using two different cost bases, one for buildings and one for civil engineering projects of a new and revolutionary climate module of software program.

Operational Highlights

Elecosoft continues to make progress towards achieving its strategic objectives of producing software to address all phases of the building lifecycle and in doing so to invest in research and development of new products and technologies.

We are very pleased to have a number of our leading software programs listed on the HMRC Government's G-Cloud 11 framework, because we now have the opportunity to work with the public sector and to provide them with our cloud-based Project Planning, Project Management, Building Information Management and Maintenance Management software and related services. Thus the public sector will now be able to take advantage of the efficiencies that Elecosoft's solutions are able to deliver.

As mentioned above, we released in the period Powerproject XV, the latest and highly anticipated version of Powerproject, which has been designed for use by planners and project managers across the whole spectrum of the planning and construction management sector.

Powerproject XV has a completely refreshed user interface and was created for the sophisticated project planner, enabling them to visualise plans in 4D with realistic real-time project simulations. Its Schedule Quality Check feature also assures the quality and integrity of the planners' schedules, and allows the planners to communicate effectively across teams with better control over the presentation of their plans.

In the first half of this year Active Online and E-Sign have jointly exhibited at key trade fairs Bau and Domotex and have integrated key product sets for a customer offering that leverages the synergies of both companies' technologies. They have successfully acquired joint customers in the first half of the year for this combined product offering. Additionally both companies have acquired new customers across North America.

IconSystem has had a strong start to the year with the successful on boarding of two new customers, and has increased the adoption of IconSystem software into sectors outside of its traditional retail market as part of its strategic objective to diversify outside the retail space.

ShireSystem continues to increase Elecosoft's coverage of software solutions across the lifecycle of property assets and facilities. I am pleased to report the successful release in H1 of this year of its latest version of the ShireSystem software v3.2.6 which has been positively received by customers and is continuously being developed in conjunction with customer feedback. It is also finalising the development of a new mobile application for iOS users to be released late in September.

Elecosoft is fortunate to have been incorporated for 80 years and this really is a cause for celebration. We are pleased to have been able to evolve as a company during that time, and we are also very fortunate to have had such a loyal and resilient workforce over the years.

Interim Dividend

Having regard to Elecosoft's strong performance and cash generation in the period under review, the Board has decided to declare an increased interim scrip dividend of 0.30 pence per Ordinary Share (2018: 0.28 pence), or alternative cash dividend of 0.30 pence per Ordinary Share (2018: 0.28 pence), an increase of 7%.

The scrip reference price is 77.9 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 20 September 2019. The interim dividend will be paid on 31 October 2019 to shareholders on the register at the close of business on 4 October 2019 and the ex-dividend date will be 3 October 2019. The cash alternative election will close at 5pm on 21 October 2019.

Outlook

Brexit continues to be a disruptive factor in our markets, and in the construction industry in particular.

The construction and retail sectors are being affected by prevailing uncertainties and macro-economic weaknesses, with signs of delays and hesitation in orders, but Elecosoft remains resilient.

We have experienced some slowing of the momentum in some of our markets but we continue to experience increasing acceptance of our software and services outside the EU and the UK and this is encouraging. Much of our software is aimed at delivering ease of use and efficiencies to our customers, to enable them to reduce their own and their customers' costs in difficult markets.

We significantly improved our operating profit and strengthened our financial position in the period, despite having to operate in markets that have been less buoyant than they have been for some time. That said, the positive performance of Elecosoft in the first six months of 2019; the spread of the markets that we serve worldwide; the innovative and increasingly synergistic content of Elecosoft's software range; our highly regarded and profitable worldwide training and support facilities; and the strength of our financial position, are all factors which, in the absence of unforeseen circumstances, lead me to be cautiously optimistic regarding the outlook for the remainder of the year.

John Ketteley
Executive Chairman
24 September 2019

Condensed Consolidated Income Statement

for the financial period ended 30 June 2019

	Notes	Six months to 30 June 2019 (unaudited) £'000	Six months to 30 June 2018 (restated) (unaudited) £'000	Year ended 31 December 2018 (restated) £'000
Revenue	3,4	**12,711**	10,554	22,220
Cost of sales		**(1,319)**	(1,230)	(2,684)
Gross profit		**11,392**	9,324	19,536
Amortisation and impairment of intangible assets		**(653)**	(435)	(1,124)
Acquisition and corporate finance related expenses		**(97)**	(323)	(689)
Other selling and administrative expenses		**(8,896)**	(7,316)	(15,056)
Selling and administrative expenses		**(9,646)**	(8,074)	(16,869)
Operating profit	4,5	**1,746**	1,250	2,667
Finance cost	6	**(179)**	(82)	(281)
Profit before tax		**1,567**	1,168	2,386
Tax		**(279)**	(225)	(598)
Profit for the financial period		**1,288**	943	1,788
Attributable to:				
Equity holders of the parent		**1,288**	943	1,788
Earnings per share (pence per share)				
Basic earnings per share	7	**1.6p**	1.2p	2.3p
Diluted earnings per share	7	**1.6p**	1.2p	2.3p

Condensed Consolidated Statement of Comprehensive Income

for the financial period ended 30 June 2019

	Six months to 30 June 2019 (unaudited) £'000	Six months to 30 June 2018 (restated) (unaudited) £'000	Year ended 31 December 2018 (restated) £'000
Profit for the period	**1,288**	943	1,788
Other comprehensive income:			
Items that will be reclassified subsequently to profit or loss:			
Translation differences on foreign operations	**8**	(70)	(82)
Other comprehensive income/(loss) net of tax	**8**	(70)	(82)
Total comprehensive income for the period	**1,296**	873	1,706
Attributable to:			
Equity holders of the parent	**1,296**	873	1,706

Condensed Consolidated Statement of Changes in Equity
for the financial period ended 30 June 2019

	Share capital £'000	Share premium £'000	Merger reserve £'000	Translation reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2019 (restated)	**818**	**2,049**	**1,004**	**(148)**	**(177)**	**11,966**	**15,512**
Dividends	**—**	**—**	**—**	**—**	**—**	**(141)**	**(141)**
Share-based payments	**—**	**—**	**—**	**—**	**12**	**—**	**12**
Issue of share capital	**2**	**—**	**(2)**	**—**	**—**	**—**	**—**
Transactions with owners	**2**	**—**	**(2)**	**—**	**12**	**(141)**	**(129)**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**1,288**	**1,288**
Other comprehensive income:							
Exchange differences on translation of net investments in foreign operations	**1**	**—**	**—**	**8**	**—**	**—**	**9**
Total comprehensive income for the period	**1**	**—**	**—**	**8**	**—**	**1,288**	**1,297**
At 30 June 2019 (unaudited)	**821**	**2,049**	**1,002**	**(140)**	**(165)**	**13,113**	**16,680**

	Share capital £'000	Share premium £'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
Adjustments for prior periods (IFRS 16)	—	—	—	—	—	(121)	(121)
At 1 January 2018 (restated)	774	—	575	(66)	(283)	10,365	11,365
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	—	—	—	—	—	943	943
Other comprehensive income:							
Exchange differences on translation of net investments in foreign operations	—	—	—	(70)	—	—	(70)
Total comprehensive income for the period	—	—	—	(70)	—	943	873
At 30 June 2018 (restated unaudited)	779	—	570	(136)	(231)	11,198	12,180

	Share capital £'000	Share premium £'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
Adjustments for prior periods (IFRS 16)	—	—	—	—	—	(121)	(121)
At 1 January 2018 (restated)	774	—	575	(66)	(283)	10,365	11,365
Dividends	—	—	—	—	—	(188)	(188)
Share-based payments	—	—	—	—	106	—	106
Issue of share capital	44	2,050	429	—	—	—	2,523
Transactions with owners	44	2,050	429	—	106	(188)	2,441
Profit for the period	—	—	—	—	—	1,788	1,788
Other comprehensive income:							
Exchange differences on translation of net investments in foreign operations	—	—	—	(82)	—	—	(82)
Other	—	(1)	—	—	—	1	—
Total comprehensive income for the period	—	(1)	—	(82)	—	1,789	1,706
At 31 December 2018 (restated)	818	2,049	1,004	(148)	(177)	11,966	15,512

Condensed Consolidated Balance Sheet
at 30 June 2019

	Notes	30 June 2019 (unaudited) £'000	30 June 2018 (restated) (unaudited) £'000	31 December 2018 (restated) £'000
Non-current assets				
Goodwill		**15,684**	11,439	15,746
Other intangible assets	9	**7,445**	3,545	7,536
Property, plant and equipment		**1,152**	759	1,203
Right-of-use assets	12	**1,817**	2,010	2,153
Deferred tax assets		**155**	202	139
Total non-current assets		**26,253**	17,955	26,777
Current assets				
Inventories		**85**	8	8
Trade and other receivables		**3,920**	2,838	4,491
Current tax assets		**54**	36	54
Cash and cash equivalents	10	**6,763**	5,253	6,036
Total current assets		**10,822**	8,135	10,589
Total assets		**37,075**	26,090	37,366
Current liabilities				
Bank overdraft and borrowings	10	**(1,647)**	(1,125)	(1,648)
Lease liabilities	10,12	**(579)**	(511)	(652)
Trade and other payables		**(1,304)**	(1,152)	(1,600)
Provisions		**(144)**	(209)	(144)
Current tax liabilities		**(375)**	(137)	(343)
Accruals and deferred income	11	**(7,786)**	(6,930)	(7,713)
Total current liabilities		**(11,835)**	(10,064)	(12,100)
Non-current liabilities				
Borrowings	10	**(5,314)**	(1,185)	(6,202)
Lease liabilities	10,12	**(1,740)**	(1,910)	(1,958)
Deferred tax liabilities		**(1,465)**	(710)	(1,553)
Non-current provisions		**(41)**	(41)	(41)
Total non-current liabilities		**(8,560)**	(3,846)	(9,754)
Total liabilities		**(20,395)**	(13,910)	(21,854)
Net assets		**16,680**	12,180	15,512
Equity				
Share capital		**821**	779	818
Share premium account		**2,049**	—	2,049
Merger reserve		**1,002**	570	1,004
Translation reserve		**(140)**	(136)	(148)
Other reserve		**(165)**	(231)	(177)
Retained earnings		**13,113**	11,198	11,966
Equity attributable to shareholders of the parent		**16,680**	12,180	15,512

Condensed Consolidated Statement of Cash Flows
for the financial period ended 30 June 2019

	Six months to 30 June 2019 (unaudited) £'000	Six months to 30 June 2018 (restated) (unaudited) £'000	Year ended 31 December 2018 (restated) £'000
Cash flows from operating activities			
Profit before tax	**1,567**	1,168	2,386
Net finance costs	**179**	82	281
Depreciation charge	**450**	367	777
Amortisation charge	**653**	435	1,124
Profit on sale of property, plant and equipment	**(4)**	(5)	(16)
Share-based payment charge	**12**	52	106
Decrease in provisions	**—**	—	(63)
Cash generated in operations before working capital movements	**2,857**	2,099	4,595
Decrease/(increase) in trade and other receivables	**571**	916	(753)
Decrease/(increase) in inventories and work in progress	**(75)**	7	15
Increase/(decrease) in trade and other payables and accruals and deferred income	**(223)**	115	1,160
Cash generated in operations	**3,130**	3,137	5,017
Interest paid	**(150)**	(38)	(151)
Net income tax paid	**(239)**	(314)	(618)
Net cash inflow from operating activities	**2,741**	2,785	4,248
Investing activities			
Purchase of intangible assets	**(633)**	(551)	(1,064)
Purchase of property, plant and equipment	**(50)**	(70)	(123)
Acquisition of subsidiary undertakings net of cash acquired	**—**	—	(7,169)
Proceeds from sale of property, plant, equipment and intangible assets	**53**	47	83
Net cash outflow from investing activities	**(630)**	(574)	(8,273)
Financing activities			
Proceeds from new bank loan	**—**	—	6,025
Repayment of bank loans	**(823)**	(395)	(807)
Repayments of leasing liabilities	**(392)**	(340)	(701)
Issue of share capital	**—**	—	2,083
Equity dividends paid	**(141)**	(110)	(188)
Net cash (outflow)/inflow from financing activities	**(1,356)**	(845)	6,412
Net increase in cash and cash equivalents	**755**	1,366	2,387
Cash and cash equivalents at beginning of period	**6,036**	3,725	3,725
Effects of changes in foreign exchange rates	**(28)**	(173)	(76)
Cash and cash equivalents at end of period	**6,763**	4,918	6,036
Cash and cash equivalents comprise:			
Cash and short-term deposits	**6,763**	5,253	6,036
Bank overdrafts	**—**	(335)	—
	6,763	4,918	6,036

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 2018 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 statements for the six months to 30 June 2019 have been prepared in accordance with the accounting policies which will be applied in the twelve-month financial statements to 31 December 2019. 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 2019.

The condensed consolidated interim financial statements are 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 2018. The comparative figures for the year ended 31 December 2018 are not the Company's statutory accounts for that period but have been extracted from these accounts. The accounting policies applied in these interim financial statements are the same as those applied in the annual financial statements for the year ended 31 December 2018, with the exception that IFRS 16 has been adopted for the first time in these financial statements.

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:

Leases

The Group has adopted IFRS 16 "Leases" (hereinafter referred to as "IFRS 16") with effect from 1 January 2019 under which leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability.

The new standard has been applied using the Full Retrospective Approach which requires application of the new standard to each prior reporting period presented as required by IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

Further information on the impact of the new policy is disclosed in note 12.

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains, a lease. A lease is defined as "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration".

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability.

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

2. Basis of preparation continued

Leases continued

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

In the statement of financial position, for these interim accounts, the right-of-use assets and lease liabilities have been included separately in the statement.

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 statements 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 these condensed consolidated interim financial statements, 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 2018.

Risks and uncertainties

A summary of the Group's principal risks and uncertainties was set out on page 14 of the 2018 Annual Report and Accounts. The Board considers 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 23 September 2019.

3. Revenue

Revenue disclosed in the income statement is analysed as follows:

	Six months to 30 June		Year to 31 December
	2019 £'000	2018 £'000	2018 £'000
Licence sales	**3,010**	2,771	5,271
Recurring maintenance, support and subscription revenue	**7,157**	5,792	12,595
Services income	**2,544**	1,991	4,354
	12,711	10,554	22,220

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 adjusted to conform them to the current year presentation.

Revenue is recognised for each category as follows:

- Licence sales – recognised at the point of transfer (delivery) of the licence to a customer.
- Maintenance, support and subscriptions – as these services are provided over the term of the contract, revenue is recognised over the life of the contract.
- Services – recognised on delivery of the service.

Notes to the Condensed Consolidated Interim Financial Information continued

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
	2019 £'000	2018 (restated) £'000	2018 (restated) £'000
Revenue	**12,711**	10,554	22,220
Adjusted EBITDA	**2,946**	2,375	5,257
Amortisation and impairment of purchased intangible assets	**(358)**	(224)	(529)
Depreciation	**(450)**	(367)	(777)
Adjusted operating profit	**2,138**	1,784	3,951
Amortisation of acquired intangible assets	**(295)**	(211)	(595)
Acquisition and corporate finance related expenses	**(97)**	(323)	(689)
Operating profit	**1,746**	1,250	2,667
Net finance cost	**(179)**	(82)	(281)
Segment profit before tax	**1,567**	1,168	2,386
Tax	**(279)**	(225)	(598)
Segment profit after tax	**1,288**	943	1,788
Operating profit	**1,746**	1,250	2,667
Amortisation of intangible assets	**653**	435	1,124
Depreciation charge	**450**	367	777
Acquisition and corporate finance related expenses	**97**	323	689
Adjusted EBITDA	**2,946**	2,375	5,257

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
	2019 £'000	2018 £'000	2018 £'000
UK	**4,704**	3,732	8,227
Scandinavia	**3,380**	3,593	6,772
Germany	**2,206**	1,479	3,442
USA	**442**	337	777
Rest of Europe	**1,717**	1,160	2,482
Rest of World	**262**	253	520
	12,711	10,554	22,220

Revenue by product group represents revenue from external customers.

	Six months to 30 June		Year ended 31 December
	2019 £'000	2018 £'000	2018 £'000
Project Management	**5,104**	5,015	9,774
Site Management	**192**	219	411
Estimating	**1,403**	1,464	2,843
Engineering	**1,100**	1,225	2,350
CAD/Design	**1,037**	1,052	2,070
Information Management	**710**	595	1,180
Visualisation	**2,020**	984	2,395
Maintenance Management	**1,145**	—	1,197
	12,711	10,554	22,220

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
	2019 £'000	2018 £'000	2018 £'000
Direct	**12,077**	9,945	20,950
Reseller	**634**	609	1,270
	12,711	10,554	22,220

Notes to the Condensed Consolidated Interim Financial Information continued

5. Operating profit

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

	Six months to 30 June 2019 £'000	Six months to 30 June 2018 (restated) £'000	Year ended 31 December 2018 (restated) £'000
Software product development	**891**	872	1,770
Depreciation of property, plant and equipment	**450**	367	777
Amortisation of acquired intangible assets	**295**	211	595
Amortisation of other intangible assets	**358**	224	529
Profit on disposal of property, plant and equipment	**(4)**	(6)	(16)
Foreign exchange losses/(gains)	**23**	24	(31)
Acquisition and corporate finance related expenses	**97**	323	689

6. Net finance cost

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

	Six months to 30 June 2019 £'000	Six months to 30 June 2018 (restated) £'000	Year ended 31 December 2018 (restated) £'000
Finance costs:			
Bank overdraft and loan interest	**(136)**	(35)	(187)
Interest expense for leasing arrangements	**(43)**	(47)	(94)
Total net finance cost	**(179)**	(82)	(281)

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 2019			Six months to 30 June 2018 (restated)			Year ended 31 December 2018 (restated)		
	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	**1,288**	**81.1**	**1.6**	943	76.6	1.2	1,788	77.4	2.3
Diluted earnings per share	**1,288**	**81.9**	**1.6**	943	77.2	1.2	1,788	78.2	2.3
Adjusted earnings per share	**1,621**	**81.1**	**2.0**	1,401	76.6	1.8	2,959	77.4	3.8

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 14.

8. Dividends

Dividends paid in the six months to 30 June 2019 comprised the 2018 final dividend of 0.40 pence per Ordinary Share (2018: 0.40 pence per Ordinary Share).

The 2018 final dividend was declared as a scrip dividend, with a scrip reference price of 74.74 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 2019 as follows:

	Six months to 30 June				Year ended 31 December	
Ordinary Shares	**2019 shares issued**	**2019 £'000**	2018 shares issued	2018 £'000	2018 shares issued	2018 £'000
Declared and paid during the year						
Interim – current year	**–**	**–**	–	–	153,240	126
Final – previous year	**248,585**	**186**	414,178	205	414,178	202
	248,585	**186**	414,178	205	567,418	328

Cash dividends of £141,000 (2018: £110,000) were paid in the six months to 30 June 2019 as follows:

	Six months to 30 June				Year ended 31 December	
Ordinary Shares	**2019 pence per share**	**2019 £'000**	2018 pence per share	2018 £'000	2018 pence per share	2018 £'000
Declared and paid during the year						
Interim – current year	**–**	**–**	–	–	0.28	88
Final – previous year	**0.40**	**141**	0.40	110	0.40	100
	0.40	**141**	0.40	110	0.68	188

The Directors have recommended the payment of an interim scrip dividend of 0.30 pence per Ordinary Share, or an alternative cash dividend of 0.30 pence per Ordinary Share (2018 interim: 0.28 pence). The scrip reference price is 77.9 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 20 September 2019. The interim dividend will be paid on 31 October 2019 to shareholders registered at the close of business on 4 October 2019. The ex-dividend date will be 3 October 2019. The cash alternative election will close at 5pm on 21 October 2019.

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 2019 represent purchased intangible assets of £nil (2018: £20,000) and internal development costs capitalised of £633,000 (2018: £531,000). Internal development relates to software development projects that meet the accounting policy criteria for capitalisation.

Notes to the Condensed Consolidated Interim Financial Information continued

10. Cash and borrowings

The net cash position of the Group as at 30 June 2019 is set out below.

	At 30 June		At 31 December
	2019	2018 (restated)	2018 (restated)
	£'000	£'000	£'000
Cash and cash equivalents	**6,763**	5,253	6,036
Bank loans	**(6,961)**	(1,975)	(7,850)
Bank overdrafts	**—**	(335)	—
Lease liabilities	**(2,319)**	(2,421)	(2,610)
	(2,517)	522	(4,424)
Maturity profile of borrowings			
In one year or less	**(1,647)**	(1,125)	(1,648)
Between one and two years	**(1,647)**	(790)	(1,648)
Between two and five years	**(3,667)**	(395)	(4,554)
	(6,961)	(2,310)	(7,850)

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 £6.3m on a cash and debt-free basis.

The new facility is repayable over five years, with equal quarterly instalments of £400,000. 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

	At 30 June		At 31 December
	2019	2018	2018
	£'000	£'000	£'000
Accruals	**1,957**	2,030	2,053
Deferred income	**5,829**	4,900	5,660
	7,786	6,930	7,713

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. Explanation of transition to IFRS 16 "Leases"

As highlighted in note 2, Basis of preparation, under "Leases", the Group has adopted IFRS 16 on the basis of the Full Retrospective Approach under which leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability. As a result, the Group has recognised the cumulative effect as an adjustment to the opening net assets at 1 January 2018.

The Group has historically purchased plant and equipment, the exception being a small number of leased vehicles for the sales team. However, it has lease contracts for office accommodation in the UK, Sweden, Germany and the Netherlands.

The financial impact of the adoption of IFRS 16 will result in a reduction in the Group's annual operating expenses of £640,000 and additional depreciation costs of £583,000 and finance costs payable of £80,000. Details of lease liabilities and right-of-use assets are provided below.

On adoption of IFRS 16, the Group recognised a lease liability at the date of initial application, for leases previously classified as an operating lease under IAS 17, at the present value of the remaining lease payments, discounted using the Group's estimated incremental borrowing rate.

The Group has assessed the lease liability on each individual lease and applied an appropriate incremental borrowing rate.

There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The Group has elected not to recognise a lease liability for short-term leases (leases with an expected term of twelve months or less). Payments made under such leases are expensed on a straight-line basis.

The following is a reconciliation of total operating lease commitments at 31 December 2017 to the lease liabilities recognised at 1 January 2018:

	£'000	£'000
Total operating lease commitments disclosed at 31 December 2017		2,862
Other minor adjustments relating to commitment disclosures	34	
		34
Operating lease liabilities before discounting		2,896
Discounting using incremental borrowing rate		(433)
Total lease liabilities recognised under IFRS 16 at 1 January 2018		2,463

13. 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 2019, other than a result of service agreements. An amount of £37,500 (2018: £36,250) was paid to JHB Ketteley & Co Limited under a lease for occupation by the Group of its London head office and £2,500 (2018: £2,500) 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

14. 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
	2019 £'000	2018 (restated) £'000	2018 (restated) £'000
Operating profit	**1,746**	1,250	2,667
Acquisition and corporate finance related expenses	**97**	323	689
Amortisation of acquired intangible assets	**295**	211	595
Adjusted operating profit	**2,138**	1,784	3,951
Profit before tax	**1,567**	1,168	2,386
Acquisition and corporate finance related expenses	**97**	323	689
Amortisation of acquired intangible assets	**295**	211	595
Adjusted profit before tax	**1,959**	1,702	3,670
Tax charge	**(279)**	(225)	(598)
Acquisition and corporate finance related expenses	**—**	(40)	—
Amortisation of acquired intangible assets	**(59)**	(36)	(113)
Adjusted tax charge	**(338)**	(301)	(711)
Profit after tax	**1,288**	943	1,788
Acquisition and corporate finance related expenses	**97**	283	689
Amortisation of acquired intangible assets	**236**	175	482
Adjusted profit after tax	**1,621**	1,401	2,959
Cash generated in operations	**3,130**	3,137	5,017
Purchase of intangible assets	**(633)**	(551)	(1,064)
Purchase of property, plant and equipment	**(50)**	(70)	(123)
Acquisition and corporate finance related expenses	**72**	43	689
Adjusted operating cash flow	**2,519**	2,559	4,519

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 At 30 June		Year ended 31 December 2018	
	2019	2018	**2019**	2018	Income statement	Balance sheet
Swedish Krona to Sterling	**11.97**	11.58	**11.79**	11.81	11.59	11.32
Euro to Sterling	**1.14**	1.14	**1.12**	1.13	1.13	1.11
US Dollar to Sterling	**1.29**	1.37	**1.27**	1.32	1.33	1.28

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