Elecosoft®

Elecosoft plc
Annual Report & Accounts 2016

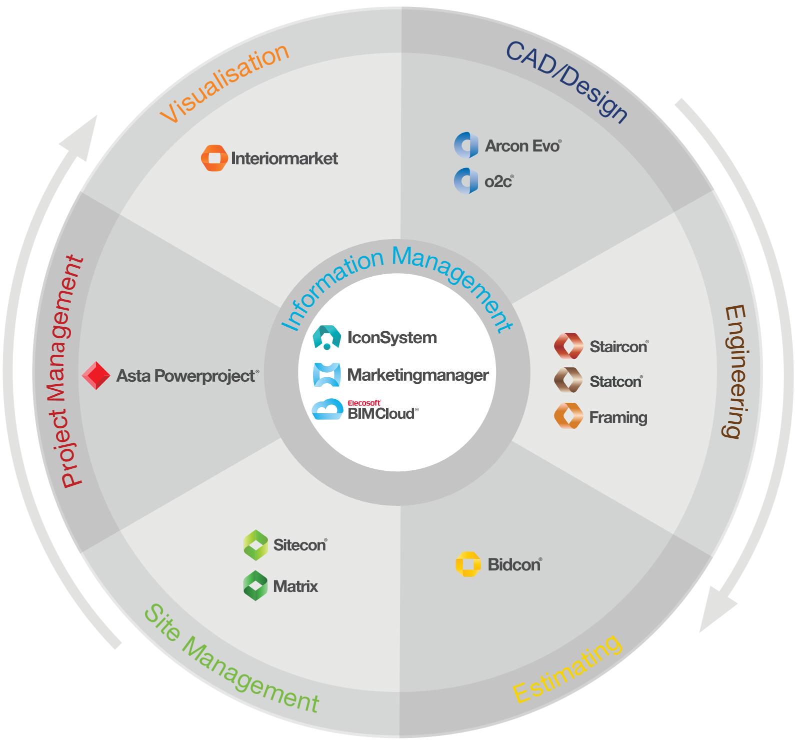
Building on Technology®

Elecosoft plc is a market-leading provider of integrated software applications and related services to the international construction and property management industries.

Elecosoft plc is a well-established and profitable AIM-listed software Company with interests based principally in Sweden, Germany, Benelux, US and the UK. 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 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, 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.

In 2016 Elecosoft made further progress in its strategy and acquired Integrated Computing and Office Networking Ltd (Icon), a web based property portfolio management system.



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

Highlights
for the year ended 31 December 2016

Financial Highlights

	2016 £'000	2015 £'000	Change £'000
Continuing Operations			
Revenue	**17,795**	15,260	+2,535
Operating profit before exceptional items	**1,915**	1,137	+778
Operating profit	**1,594**	1,126	+468
Profit before tax	**1,504**	1,006	+498
Earnings per share (basic) (continuing operations)	**1.8p**	1.1p	+0.7p
Recurring maintenance revenue	**8,622**	7,278	+1,344
EBITDA	**2,432**	1,795	+637
Net Borrowings	**1,304**	803	+501
At constant exchange rates*			
Revenue	**16,549**	15,260	+1,289
Operating profit	**1,514**	1,126	+388
Profit before tax	**1,424**	1,006	+418

* 2016 restated at 2015 average exchange rates.

Operational Highlights

- Acquired Icon in October 2016, which develops software for seven of the top ten UK retailers.
- Released updated versions of Asta Powerproject® and Asta Powerproject BIM, Staircon®, Statcon® and launched a new product Bidcon BIM, that provides quantity take-off from a 3D BIM file.
- First ESIGN® sale to Chinese flooring manufacturer.
- For the third year running Elecosoft won the 'Best Project Management/Planning Software' award at the UK Construction Computing awards.
- Achieved ISO 9001 accreditation recognising Elecosoft UK Limited as a 'quality supplier'.
- An increasing number of customers are taking advantage of the Elecosoft product portfolio.
- Acquired an established Asta Powerproject® reseller in the Netherlands.

Chairman's Statement

"I am pleased to report a significantly improved trading and financial performance by Elecosoft in 2016, and comment on the acquisition of Icon during the year. My statement for the year ended 31 December 2016 is set out below."

John Ketteley
Executive Chairman

Trading Performance

Revenues

Elecosoft's revenues for the year under review rose from £15,260,000 to £17,795,000, an increase of 17 per cent. The proportion of recurring maintenance revenue remained steady at approximately 48 per cent in the year under review and this recurring revenue increased by 18 per cent to £8,622,000 from £7,278,000 last year.

Profits

Operating profit for the year under review was £1,594,000 (2015: £1,126,000) an increase of £468,000 or 42 per cent in the year under review. This result is after acquisition expenses of £212,000 being legal and professional fees relating to the acquisition of Icon in October 2016 and a former Director's termination payment of £109,000. On the basis of these adjustments, adjusted operating profit for the year was £1,915,000 (2015: £1,137,000) an increase of 68 per cent.

Profit after tax on continuing operations for the year under review was £1,243,000 (2015: £802,000) an increase of 55 per cent. Basic earnings per share of continuing operations for the year under review was 1.7 pence (2015: 1.1 pence), an increase of 0.6 pence or 55 per cent. Adjusted EPS as set out in the paragraph above was 2.1 pence (2015: 1.1 pence), an increase of 94 per cent.

EBITDA for the year under review was £2,432,000 (2015: £1,795,000) an increase of £637,000 or 35 per cent in the year under review.

Financial Performance

Elecosoft continued to generate cash from operations in the year under review and at 31 December 2016 Net Assets increased to £9,716,000 (31 December 2015: £7,893,000). The net increase in cash and cash equivalents in the year under review amounted to £694,000, which, together with the beneficial effect of changes in exchange rates used to translate overseas cash balances of £260,000, contributed to a significant improvement in Elecosoft's financial position during the year.

The Business

I am pleased to say that in many ways 2016 was a record year. For example, the number of Elecosoft employees increased to a record 190 (2015: 178). Elecosoft UK Ltd won the award for Best Project Planning Software at the Construction Computing Software Awards for the third year running; turnover and profits in 2016 were at record levels; Elecosoft Sweden launched its latest Bidcon BIM and Bidcon Climate module in conjunction with Tyrens AB; and ESIGN® made its first sale to a Chinese flooring manufacturer who claims to be the largest laminated flooring manufacturer in the world.

Revenue £'000

▲ **17,795**

17% increase

EBITDA £'000

▲ **2,432**

35% increase

The Acquisition of Icon

The acquisition of Icon was also significant for Elecosoft, being the first substantial acquisition made by the Group for a number of years. Icon brought with it a number of good things, beginning with its enthusiastic team of outstanding software professionals, who had successfully promoted their building specification and information management systems to the giants of the UK retail industry – its clients include seven of the top ten UK retailers, including Boots, Sainsbury's, Asda, Morrisons, John Lewis, Waitrose and The Co-operative. Icon has also worked closely with McCarthy & Stone, the largest UK specialist in the construction of retirement homes, in the development of state-of-the-art construction software.

Icon has also provided an excellent SaaS capability to Elecosoft, with the opportunities to link with Elecosoft's Bidcon® estimating software and Asta Powerproject® software, which is developed in the UK. During our discussions leading up to the acquisition of Icon in October, we were pleased to hear that Jim Awe, Chief Software Architect at Autodesk Inc with which Icon had collaborated in the development of its web-based viewer, had made the following comment:

"For far too long, designers have been forced to sync associated data back into the original 3D model where it doesn't really belong. What Icon has done is an awesome demonstration of the principle of Internet-enabled design data. The data can reside and be managed in the appropriate place, but is still visible and accessible in the context of the model."

I am pleased to say that my colleagues are already beginning to exploit Icon's potential and we are confident of the opportunities that Icon will present to Elecosoft in the form of the expertise of the developers and staff of Icon and also the potential to cross-sell Icon and Elecosoft's products to each other's customers.

The total consideration payable for Icon was £2.4m and was partly financed by a new term loan of £1.8m from Barclays Bank, and £600,000 by way of an issue of 2.2m ordinary shares of Elecosoft to the vendors of Icon. As part of this transaction, the Group also took the opportunity to refinance its existing term loan.

Software Development

Software development expenditure for the year under review increased to £2,593,000 (2015: £2,305,000) of which the amount capitalised was £625,000 (2015: £665,000). The total development spend for the period represented 15 per cent of sales (2015: 15 per cent) and is consistent with our commitment to our customers to maintain and enhance our market-leading software programmes.

For some years now regular monthly meetings of our lead developers across the Group have taken place to facilitate the interchange of ideas and technical opportunities. Our Lead Developer Community is a major contributor to the technology strategies that emerge from these meetings. I hesitate to say much more because I don't wish to 'shine light onto magic'. But I would like thank those involved in the Lead Developer Community for the creativity, the flair, the imagination and the technical know-how that they exercise as they strive to keep our technology ahead of the curve.

Rebranding

The initial "Elecosoft" rebranding exercise was announced by our Consultec colleagues at the Nordbygg Fair in Stockholm in 2016 and was positively received by both customers and the market at that time. More importantly, the rebrand has since had a very beneficial effect on our business in Scandinavia and Elecosoft Sweden, becoming the leading construction software provider in the Swedish construction market. We intend to rebrand the remaining elements of the Group worldwide in 2017, while seeking ways to retain some of our original brands which are well established with our customers.

Board and Management

The Board will continue in its present form and following the addition of two new Directors, whom shareholders are invited to elect, would consist of five Executive Directors and three Non-Executive Directors.

Chairman's Statement continued

Recurring revenue £'000

8,622

18% increase

Profit before tax £'000

1,504

50% increase

The five Executive Directors together will constitute a newly constituted Group Executive Committee, who will be responsible for the day to day running of the Group; and the three Non-Executive Directors will continue to be responsible for maintaining and enhancing Elecosoft's corporate governance standards and will participate in the Audit, Remuneration, and Nomination Committee.

The Group Executive Committee and all other Committees will be responsible to the Board, to which they will provide regular reports on those matters for which they are responsible.

The Board of Elecosoft will comprise the following Directors in the year ahead:

David Pearson
Group Finance Director

Jason Ruddle
Managing Director of Elecosoft UK Ltd

Anders Karlsson
Managing Director of Elecosoft Sweden

Jonathan Hunter
Marketing and Business Development Director

Serena Lang
Non-Executive Deputy Chairman

Jonathan Edwards
Non-Executive

Kevin Craig
Non-Executive

John Ketteley
Executive Chairman

I am pleased to welcome Anders Karlsson, the Managing Director of Elecosoft Consultec AB to the Board and I am delighted that the two Executives, who are Managing Directors of their respected companies which are the largest operations in the Elecosoft Group will serve as Directors of Elecosoft plc.

Also announced earlier this year was that Graham Spratling, who has been with Elecosoft for nine years, of which two were as Finance Director, has decided for personal reasons to stand down. I am pleased to say that Graham volunteered to assist David Pearson, who joined us very recently, to complete the accounts which you have before you. I would like to thank him for his contribution to our affairs during the time that he has spent with us and wish him well.

David Pearson, has had a distinguished career in IT and Finance and has led a number of high level investigations in these areas, has agreed to join the Board as Finance Director and we welcome him on board as we continue the progress of the Group.

Finally, we have announced today the appointment of Kevin Craig as a Non-Executive Director with immediate effect. Kevin brings with him a wealth of advisory and media industry experience and we look forward to working with him.

Dividend

Having regard to Elecosoft's strong trading and financial performance in the second half of the year, the Board has decided to recommend the payment of a final dividend of 0.25 pence per share. The Board has also proposed that subject to the necessary approval by shareholders at the Annual General Meeting, that shareholders will be offered an opportunity to elect to receive dividends in the form of new shares in Elecosoft in lieu of the proposed final dividend.

Payment of the final dividend will be subject to approval by shareholders at the Annual General Meeting and will be paid on 24 May 2017 to shareholders on the register at the close of business on 7 April 2017; the ex-dividend date will be 6 April 2017. As mentioned above, and subject to approval by shareholders at the Annual General Meeting, arrangements will also be made to provide a scrip dividend alternative. The latest date to elect for the scrip dividend alternative will be 10 May 2017. The scrip reference price is 38.95p 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 on 24 March 2017. The Company will, on or before 10 April 2017, post to shareholders a letter containing additional information on the scrip dividend alternative and how shareholders may participate. At the same time, a copy of this letter will be available on the Company's website: www.elecosoft.com

Brexit

In the period leading up to the Referendum on 23 June 2016, the Board concluded that the pattern of cash generation across the Group was such that each of Elecosoft's operations, and in particular its UK operations, would be in a position to service and repay their borrowing obligations in accordance with their terms.

The Board also decided that our overseas interests, which are profitable and cash generative, should retain their cash balances in their own currencies because the Board's view was that, whichever way the Referendum vote went, the Group would still be in a position to meet all its financial obligations as they fall due, whether in Sterling or our other major trading currencies, namely the Swedish Krona, the Euro and the US Dollar. This position is not only logically sound to match cash position with operations, given the movement of currencies in 2016, this alignment has also strengthened the Group's financial position in Sterling terms.

Employees

Elecosoft has development, testing, marketing, sales, training, finance, administration and support teams and our people are our greatest asset. In 2016 they worked very hard to produce what I consider to be a good result achieved in not the easiest of markets. I would therefore like to take this opportunity to thank them all on your behalf for their contribution to Elecosoft's performance in 2016 and to say that I am confident that they will produce another good result in 2017, of which they will be proud.

Outlook

These are uncertain times and with added uncertainties that events such as Brexit may bring, we know that new challenges will present themselves as we go forward. That said, we are confident that we shall be able to meet them because of the resilience, innovative skills, dedication and application of our employees and the urgent need for companies such as Elecosoft to provide the means to enhance the performance of industries in which we involved and in particular, the construction industry. I believe that it is because of the effort, creativity and collaboration of all our employees in all the countries in which Elecosoft operates that Elecosoft is fast becoming a truly international provider of market-leading construction software applications for 5D BIM, project management, estimation, 3D architectural design, timber engineering, digital visualisation, and augmented reality software applications.

I am therefore pleased to say that the current year has started well, our financial position is strong and Elecosoft is particularly well placed post the EU referendum, from a trading standpoint. Therefore, against this background, we will continue to invest in our core business of developing market leading software solutions and also to ensure that high quality training is available to our customers in the markets we serve. We will also be taking additional measures to enhance the co-ordination between our sales, support and training teams to improve our service to our customers and remain open to inorganic growth opportunities to accelerate our development should they arise.

John Ketteley
Executive Chairman
24 March 2017

Strategic Report

Who We Are

Elecosoft plc is a market-leading provider of integrated software applications and related services to international architectural, engineering and construction (AEC) marketplaces and property management industries.

Who We Are
Elecosoft develops its specialist software through its own development teams in Sweden, Germany and the UK. Elecosoft services its customers directly in its core markets of Sweden, Germany, Benelux, the US and the UK and indirectly to its non-core markets through a network of channel partners.

Our Journey
The Company has netted a legacy proceeding over a century of delivering building technology and innovation. Although Elecosoft's offerings now differ from its origins, it remains committed to the development and delivery of technical innovation to maintain and develop strong market position within the markets it serves. Elecosoft continues to be headquartered in the UK with a growing European presence.

What We Do
Elecosoft's award-winning solutions cover the core elements of a building project from specification, design and visualisation (3D), scheduling the resources needed to deliver a project (4D) and estimating and tracking the cost (5D), engineering, manufacturing and building management.

Building Lifecycle

3D – Visualisation

Visualisation	Interiormarket	Designers
CAD/Design	Arcon Evo®, o2c®	Architects
Engineering	Staircon®, Statcon®, Framing	Structural Engineers
Estimating	Bidcon®	Estimators
Project Management	Asta Powerproject®	Planners
Site Management	Sitecon®, Matrix	
Information Management	IconSystem, Marketingmanager, Elecosoft BIMCloud®	Main Contractors

5D BIM refers to the process of intelligent linking and tracking of 3D models over time, combined with cost-related information. Elecosoft's integrated portfolio is aligned to this framework:

3D – Visualisation

From a kitchen makeover to full-blown multi-building sites – ESIGN® Interiormarket, Arcon Evo® and o2c® help users to design, discuss and modify their plans in three dimensions.

4D – Time

Tracking activity and resources is critical to timely delivery of projects. Asta Powerproject® is a leading solution in construction specific project scheduling.

5D – Costs

Managing costs efficiently is key to successful projects – Bidcon® has a dominant position in the Scandinavian cost estimation market and is expanding in Europe.

Data Management

5D BIM is underpinned by Common Data Environment stems that deliver 'one version of the truth'. Elecosoft's data management systems add value in reducing risk, duplication and errors for collaborative working across multiple teams, companies and disciplines.

4D – Time

		Floor/Surfaces Manufacturers	
	Interior Designers		
	Staircase Manufacturers		
	2nd Fix Contractors	Maintenance Contractors	
Project Managers		Facility Managers	
Site Managers			
Project Managers		Property Managers	Suppliers and Contractors

Transformative Year in Review

2016 has been a transformative year for the Elecosoft Group.

Acquired a reseller in the Netherlands, thus further strengthening our growth position in Benelux.

Elecosoft delivered its inaugural user conference in the US, Broomfield, Colorado.

World's largest suspension bridge, The Bosphorus Bridge in Turkey, opened on time, after a ten year construction managed with Asta Powerproject®.

One of the leading construction companies in Sweden, Peab AB, has added Asta Powerproject® to their already installed Bidcon® product.

Successfully rebranded our largest Swedish operation from Consultec to Elecosoft.

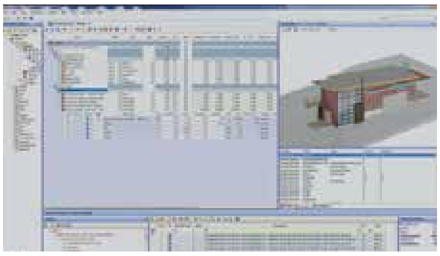
Willmott Dixon, the contracting, residential development and property support business, choose Asta Powerproject®.

"We surveyed the whole construction business early in 2016, and we had a really good response from between 200 and 300 people who were involved with planning. 98 per cent of those who responded said they'd like to move to Asta Powerproject®. That included people who had never used it, but were interested in advantages we saw, both immediately and also into the future."

Pepper Construction Group, one of the largest contractors in the Midwest, selected Asta Powerproject® as their planning application of choice.

For the third year running, Elecosoft was awarded the Project Management/Planning Software of the Year Award at the Construction Computing Awards 2016 and Bidcon® was voted runner-up in the Estimation & Visualisation Software category.

Elecosoft and Tyrens AB, Sweden's largest construction and environmental consultancy, released Bidcon® climate module for estimating carbon output.



Epoch Ltd in New Zealand appointed as a portfolio partner with initial focus on Bidcon® and Asta Powerproject®.

Achieved ISO 9001 accreditation recognising Elecosoft UK Limited as a 'quality supplier'. ISO 9001 is a certified quality management system (QMS) for organisations who want to prove their ability to consistently provide products and services that meet the needs of their customers and other relevant stakeholders.

Icon Acquisition Successfully Completed

Elecosoft acquired Integrated Computing and Office Networking Ltd (Icon) in October 2016. Icon is a leading SaaS provider of building information management and storage systems, principally to the UK retail sector, but was adopted by the UK's leading retirement home builder in 2016. The purchase of Icon is thus consistent with Elecosoft's strategy of investing in SaaS technology to grow its customer reach and strengthen its position as an international provider of innovative, market-leading visual software applications.

There are two key opportunities ahead: leverage Icon's expertise and technical capability in the SaaS environment for strategic benefit across the suite of Elecosoft products and to cross-sell Icon and Elecosoft's product suites to their respective customer bases. Icon brings a high-profile blue-chip customer base including seven of the top ten UK retailers: ASDA, Boots, John Lewis, Co-operative, Morrisons, Sainsbury's and Waitrose.

The combination of Icon's SaaS business with Elecosoft's visualisation, estimation and project management software suite enhances the already significant recurring revenue base and should enable the combined business to access new markets and gain cross-selling opportunities.

Business Model

A well-balanced business focused on growing sales in existing markets and through our reseller network.

Elecosoft continues to develop and deliver a strong portfolio of digital construction software for project management, estimation, visualisation and BIM, information management and digital marketing disciplines. Our software solutions are developed by teams of highly skilled and innovative developers in the UK, Sweden and Germany. The increasingly close collaboration between these teams enables us to accelerate the development process and facilitates the incorporation of major drivers of change into our software offering.

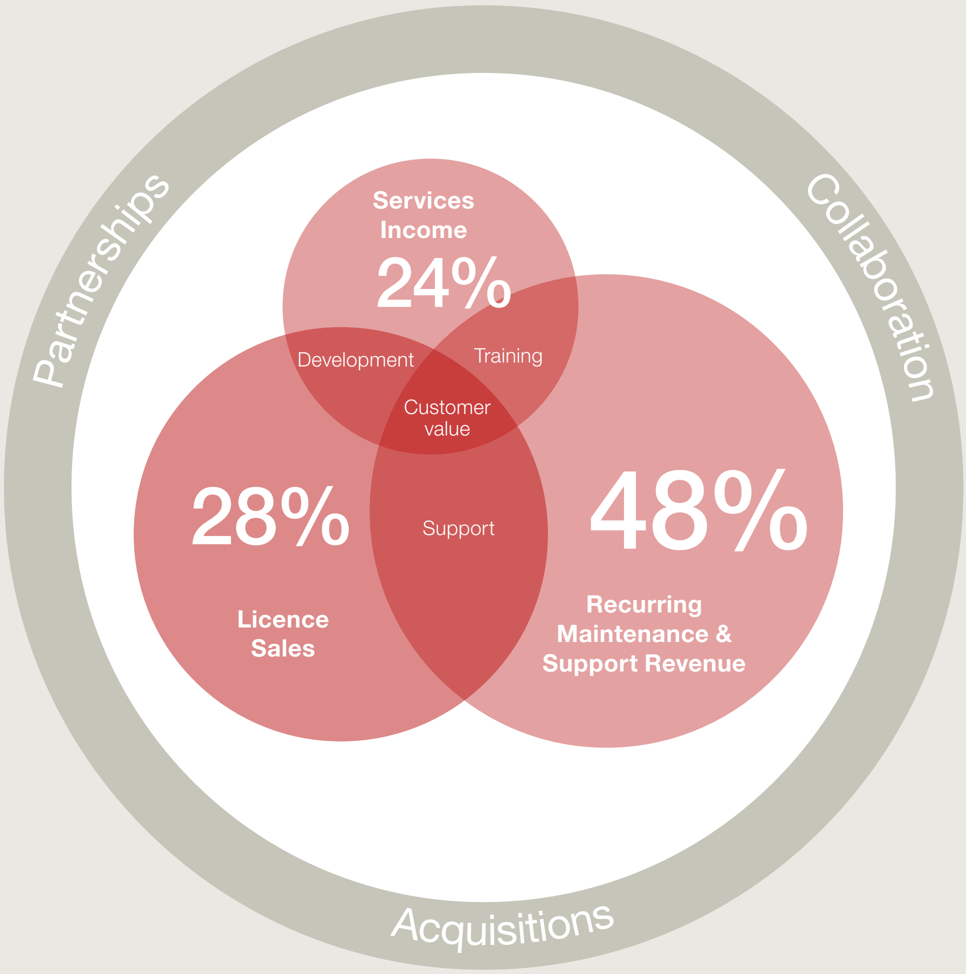
1 Our Strategy

Elecosoft is constantly making progress towards its long-term goal of being a preferred provider of integrated software solutions to the worldwide AEC community.

To that end, Elecosoft continues to uphold the three pillars of activity:

- **Innovation**
- **Growth**
- **Stability**

2 How We Create Value



Investment Proposition

Scaling Business Operations

- Building Collaborations
- Commitment to Grow

The successful direct business model approach in Elecosoft's core markets across Sweden, Germany, US, Benelux and the UK will continue to be complimented by expansion into wider international markets through a professional reseller channel.

Strong Technology Base

- In-house Skilled Team
- Agile Development
- Continued Investment

Elecosoft's software portfolio is developed by highly skilled development teams which are based in three centres of excellence: Sweden, Germany and the UK. The adoption of agile development techniques delivers high-quality rapid product releases meeting customers' requirements. Elecosoft's structured approach delivering multilingual applications for mobile, desktop and SaaS platforms, strengthens its international presence. Annual software support renewals account for 48 per cent of revenue, which underpins the ability to continually develop existing and new applications.

Growing and Strengthening Market

- Strong Market Awareness
- Recognised Brands
- High Renewal of Support Revenue

Strong adoption of Elecosoft software in core markets with 90 per cent of the UK top 100 main construction contractors, seven of the top ten UK retail companies, 20 of the top 22 Swedish construction companies, 14 of the major German construction companies, and 70 per cent of leading floor manufacturers in EU. Increasing market share via wider penetration in market verticals through multiple operational bases provides long-term security and reduces risk and reliance on core applications.

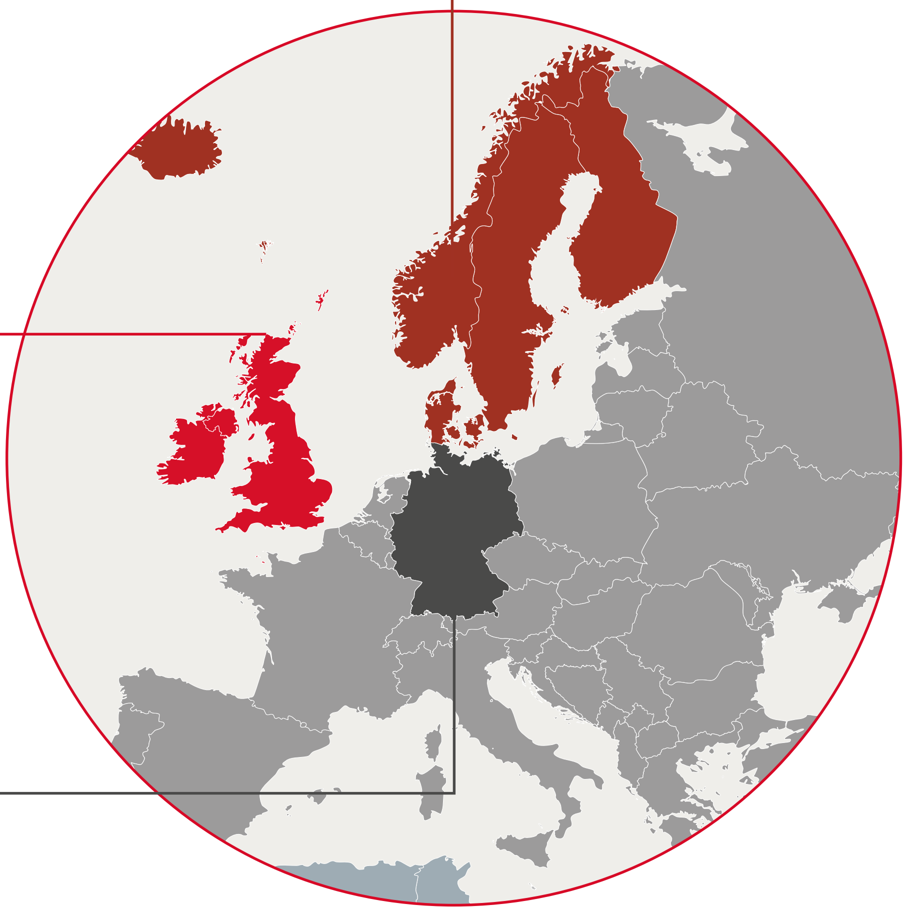
3 How We Add Value

- **Product Development**
  The flexibility of an in-house development team to meet the needs of customers and partners promptly and to a high standard.
- **Industry Tailored Solutions**
  Elecosoft's products and services are recognised for their alignment to the specific needs of AEC customers in its core markets.
- **Improve Market Presence**
  The Group rebranding exercise is delivering a cohesive message expanding the integrated portfolio.

4 How We Protect Value

- **People**
  Elecosoft employed an average of 190 people, of which 46 are software developers and 56 are client focused.
- **Strong Customer Relationships**
  Working closely with customers and partners generating recurring business and meeting their strategic requirements.
- **Market-leading Technology**
  Elecosoft has market-leading products by continuing to invest 15 per cent of revenue (2015: 15 per cent) innovative software solutions.

Marketplaces and Trends



Scandinavia

In Sweden gross domestic product (GDP) is expected to rise 2.3 per cent in 2017.[1]

Sweden, the largest market in Scandinavia, is the ideal location for centralised market operations in Northern Europe. Swedish companies use innovative technologies and continue to find ways of building for the extreme climates that the country faces. Swedish companies work closely with research institutes to develop new materials for their products, which means there is a potential for foreign companies within the sector to collaborate with global leaders to improve their own offering.[2]

UK

Construction remains Elecosoft's core focus in the UK despite the history of volatility in the private and public sectors. Elecosoft continues to exceed industry growth by gaining new customers and improve expansion within existing customers by up-scaling with new products.

The housing sector remains the main component of growth within the UK construction industry over the longer term. The value of all construction contracts awarded in the UK was £70.6bn in 2016, a decrease of 5 per cent compared to 2015.[3] Elecosoft's products are used in a number of other verticals covering infrastructure, IT and retail which help compliment its core strong support of the construction sector.

Germany

The German Government has made considerable efforts to shape the digitisation of the construction sector. The German construction sector has been increasingly successful in securing international infrastructure and civil engineering contracts.[4]

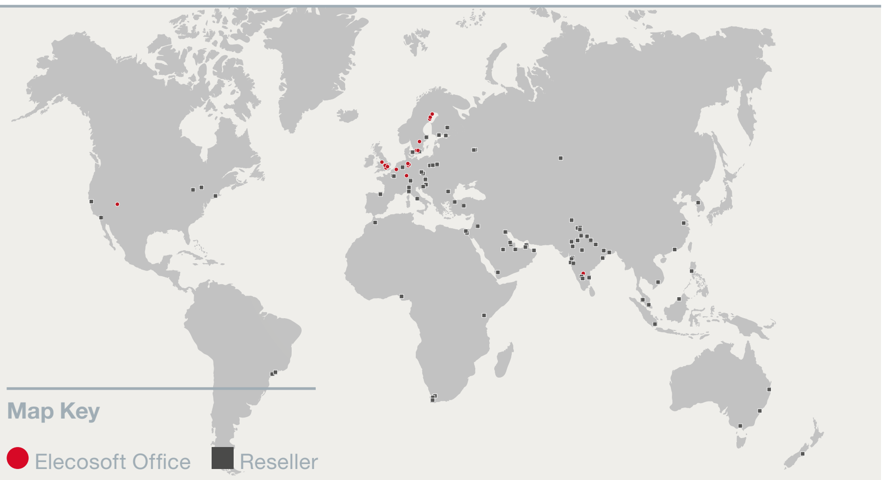
The construction sector is currently one of the main growth drivers in Germany. The number of residential building permits granted in Germany jumped by nearly a third to over 84,000 in the first three months of 2016, boosting expectations that construction will continue to support growth.[5]

Rest of World

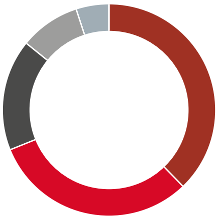
Economic activity is expected to pick up pace in 2017 and 2018, especially in emerging market and developing economies.[6]

The construction industry plays a pivotal role in the US economy as construction and engineering projects continue to symbolise this nation's vitality and aspirations. Market continues to see the megaproject trend, especially in the growth of projects sized between $500m and $1bn.[7]

The Asia Pacific construction market is expected to remain the largest market due to rapid growth in rising per capita income along with increasing urbanisation in the region. Asia Pacific and North America are expected to witness good growth over the forecast period with growing housing starts and infrastructural development.[8]



Revenue by Region



Scandinavia	38%
UK	31%
Germany	17%
Rest of Europe	9%
Rest of World	5%

BIM is the Way Moving Forward

In 2016 the UK Government's BIM Level 2 mandate came into force. The four-year programme requires the use of Level 2 BIM on centrally procured UK construction projects, functionality provided by Elecosoft. The future of construction technology is a drive to collaborative workspaces and looks at BIM as 'Better Information Management'. The reason behind government encouraging BIM is that BIM provides clarity and certainty of project delivery.

BIM is becoming a routine way of designing and constructing buildings. Looking back to 2011, only 13 per cent of people were using BIM (now 54 per cent) and 43 per cent did not know what BIM was (now only 4 per cent). BIM adoption is set to increase, it is the future.

Digital Construction Adoption

Assuming that 'EU BIM' national digital programmes continue to be announced, BIM adoption across Europe will expand. Digital construction is set to become the global trend for designing, building and operating the world's built environment and will create new opportunities for growth from the worldwide export market, which is forecast to outstrip the European domestic market performance over the next decade.[9]

Innovations in Construction

2016 has been an exciting year for the enterprise cloud sector. Data management has become a business currency, and the world's leading organisations continue to stimulate data collection and usage. In the coming year, integration and data management must adjust to meet growing volumes of data.[10]

Laser scanning has also become a trend of 2016. This technology could possibly be used with 3D printers in the future to manufacture and replace building components, resulting in savings in the storage of spares for maintenance.[11]

Elecosoft's Market Position

Elecosoft's software is used in construction projects from early conceptual design planning, costing through to fully managed build programmes and long-term building management. Elecosoft's interior marketing solutions are used by the majority of flooring manufacturers in Europe.

Elecosoft provides digital construction solutions that address the major parts of a construction project. Combinations of its software products enable 4D and 5D BIM by linking project schedules with cost plans and 3D models to drive greater collaboration and efficiency benefits. Elecosoft also has a growing user community outside of the construction industry including pharmaceuticals, transport, property management, information technology and consumer product sales and marketing.

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Strategy

Listed below are details of progress and Elecosoft's plan for 2017 against its strategic objectives:

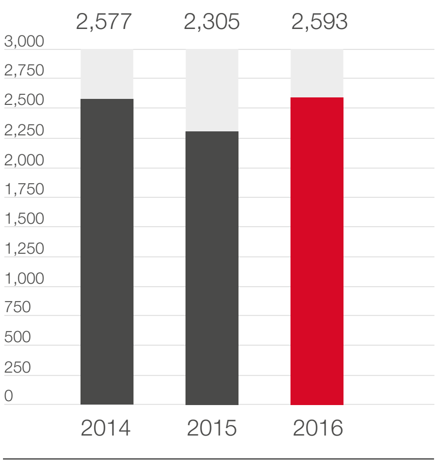
Innovation
Developing a portfolio of increasingly integrated software solutions, available across multiple platforms and devices, that continue to lead in their segments.

Growth
Expanding Elecosoft's sales and marketing capabilities, channel capacity and operational territories.

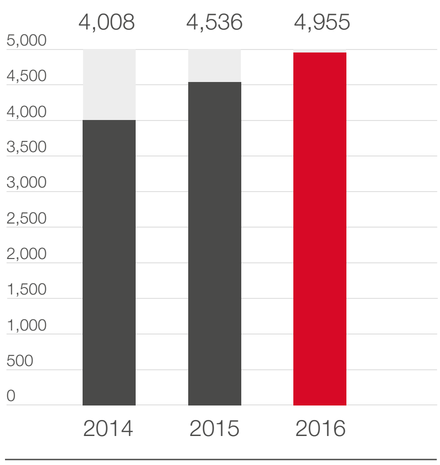
Stability
Continuing to strengthen Elecosoft's financial position, whilst consolidating and simplifying its operations.

2016 Update	2017 Strategic Priorities
Innovation	
Product Releases • Asta Powerproject BIM and Bidcon BIM releases that integrates a common 3D viewing technology platform. • Asta Powerproject® version 14 released, continuing to evolve Elecosoft's flagship product with customer input. • Bidcon 2016/2017.1 released with good customer response. • Bidcon Climate module release in Sweden. • IconSystem adopted by McCarthy & Stone, the leading UK retirement house builder. • New product releases for Staircon®, Framing and Statcon®. • New easyBo augmented reality app released for the European flooring market in Germany.	• Expansion of our SaaS offerings. • Release further BIM versions of our core software. • Bidcon® 2017.2 release. • Maintain our competitive product advantage by sharing technology between development teams.
Advancement • For the third consecutive year, Elecosoft won Best Project Management/Planning Software award and was runner-up with Bidcon® in Estimating & Valuation software category at the UK Construction Computing Awards. • Introduced online selling of Asta Powerproject® in the UK. • Increased investment levels in research and development to meet industry needs.	• Expand reach of products through online selling. • Continue product portfolio integration through enhanced API. • Deliver best practice and standardisation amongst development teams and continue to develop with industry standards in mind. • Seek opportunities to integrate with third party technology to broaden our potential audience.
Growth	
Territories • Rebranding of Swedish operation leading to increased portfolio sales. • Gained blue-chip retail clients through the acquisition of Icon. • Hosted two US user conferences where the presenters included our leading US customers and sales partners. • Won a significant order from one of the top 100 US construction contracting firms.	• Concentrate efforts on existing territories to maximise investment returns. • Continue pipeline and sales expansion in the US through increased commitment to resellers. • Expand product branding in territories managed by channel partners to improve global expansion.
Cross-selling • Increased sales through web marketing techniques. • Added a new portfolio reseller 'Epoch' in New Zealand and Australia. • Invested in offering more products through the reseller channel, (Staircon® reseller channel in Canada and Statcon® international sales initiated). • Continued the success with portfolio sales primarily in Sweden.	• Raise portfolio awareness across industry exhibitions. • Increase portfolio led selling to existing customers within home markets through the growing demand for BIM. • Strengthen market position within home markets.

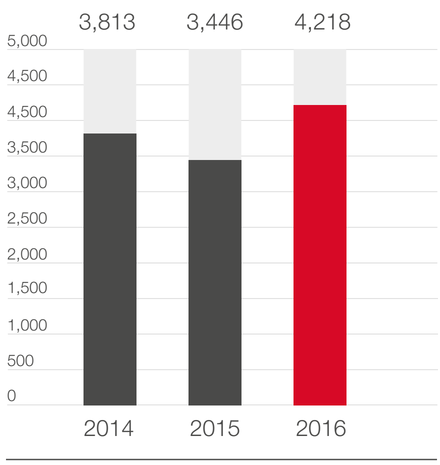
Product Development £'000



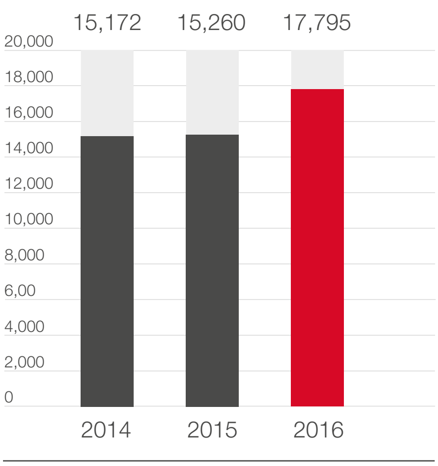
Licence Sales £'000



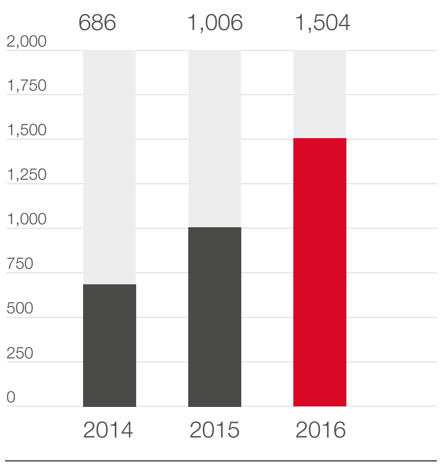
Services Income £'000



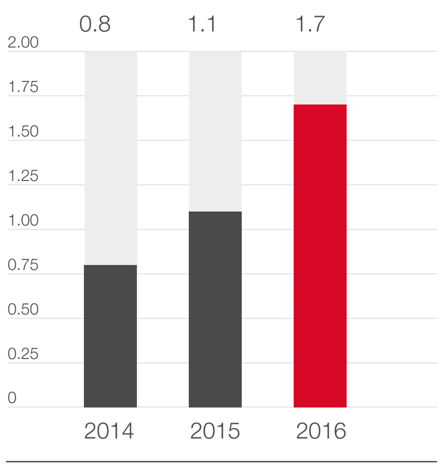
Revenue £'000



Profit Before Tax £'000



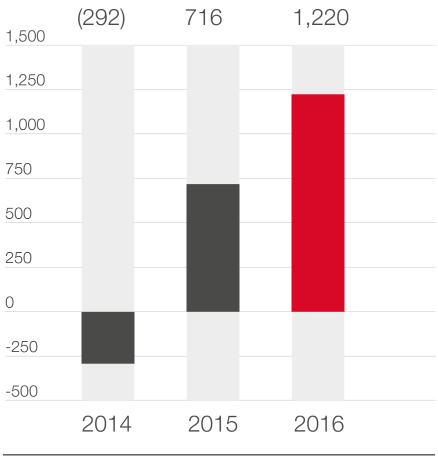
Continuing EPS (Basic) pence



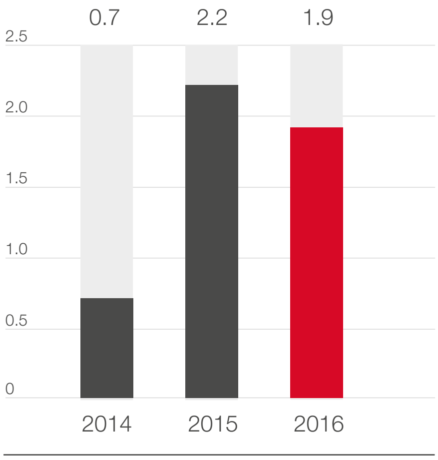
Strategy continued

2016 Update	2017 Strategic Priorities
Growth continued	
Strengthen Market Position • Continued to grow international reseller network, acquiring new partners in US, Australia, New Zealand, India, Spain and South America. • Improved the portfolio-led marketing. • Acquisition of Icon that is an opportunity to expand the SaaS offering.	• Continue to identify suitable technical resellers and partners to reach new international customers. • Continue to identify strategic acquisition opportunities that will fit with Elecosoft's product portfolio and provide a competitive advantage in new markets. • Simplify reporting structure and improve internal team management.
Stability	
Financial Stability • Successful completion of capital reduction. • Significantly reduced level of bank borrowings. • Completed disposal of non-core architectural consultancy business in Sweden. • Delivered strong free cash flow. • Maintained tight control on overhead expenditure.	• Proactive management to mitigate currency exposure. • Mitigate interest costs through cash pooling arrangements. • Business overhead review by territory to improve efficiency of operations. • Maximise free cash flow through better working capital management and tighter capital expenditure control. • Review allocation of resources in support of key growth objectives.
Strengthening the Team • Strengthened the management team with new Board appointments. • New scrum development team established to focus on a new product set.	• Continue improving HR tools and related policies. • Invest in customer-facing sales resources to support new market growth opportunities.
Continued Investment • Established a new development team in Sweden that is focused on international delivery.	• Where appropriate, progressively remove duplication and inefficiency. • Increase centralisation of functional management.
Systems and procedures • Achieved ISO 9001 accreditation in the UK operation. • Continued to simplify the Elecosoft product message to emphasise a single Company.	• Continue to simplify Elecosoft's corporate and product brands to emphasise a single Company strategy.

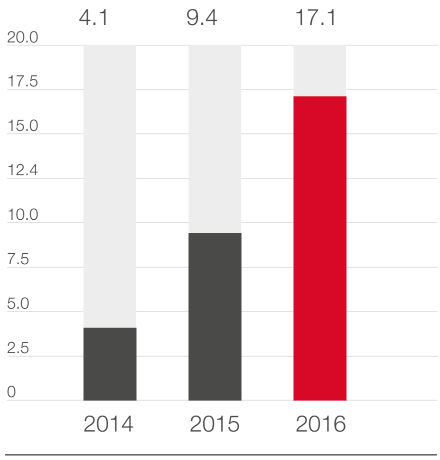
Free Cash Flow £'000



EBITDA/Net Borrowings Cover (times)



Interest Cover (times)

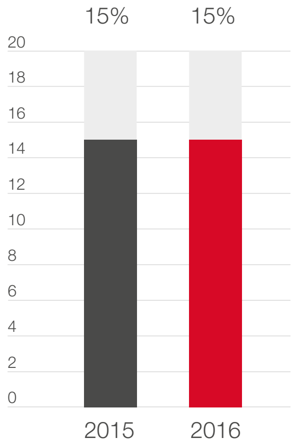


Key Performance Indicators and Business Monitoring

Elecosoft aims to deliver sustainable growth combined with continued investment in software product development, sales and marketing resources.

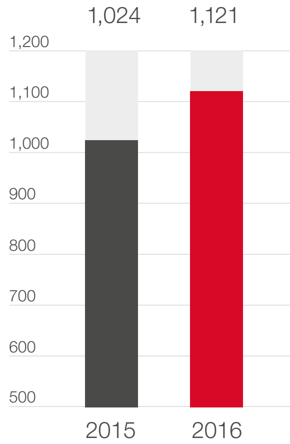
Product Development % Sale

No change



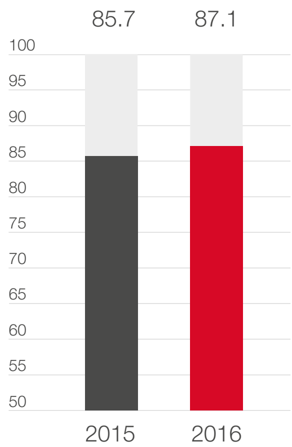
Reseller Sales Channel £'000

+9%



Average Revenue per Employee* £'000

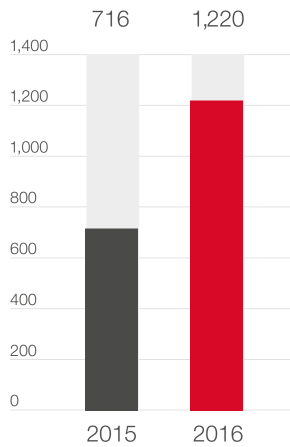
+2%



* Constant FX rates.

Free Cash Flow £'000

+70%



Elecosoft's Board and Business Units utilise a number of Key Performance Indicators ("KPIs") as well as a structured planning and reporting process. This begins with long-term planning, through to annual budgeting, reviews and monthly reporting.

The charts above show some of the KPIs that are used by the Group to monitor the performance of key activities.

In addition to the charts above, other KPIs that are used by the Group include:

- New licensing and maintenance revenue
- Maintenance and support renewal rates
- Consultancy and training revenue utilisation rates
- Product contribution before general overheads
- Business Unit contribution
- Product development milestone delivery

Principal Risks and Uncertainties

Risk	Description	Mitigation
Product Development Risks	The development of new and enhancing of existing products requires continual appraisal of investments and the returns. Changes in customer requirements, industry and technological innovation contribute to the challenges of developing complex software products.	Product development is planned, reported and reviewed frequently. Elecosoft works closely with key customers and channel partners while monitoring industry trends to ensure that new products and features align to market needs and expectations.
Market Risks	The health of domestic and global economies strongly influences the commercial construction business cycle. A downturn in the construction business cycle can adversely affect Elecosoft's performance.	The risk is mitigated by existing operations spread between countries with plans to expand the geographical reach further through reseller channels. Elecosoft continues to seek opportunities to market its software solutions outside of the construction industry.
Foreign Exchange Risk	The Group earns a proportion of its revenue in currencies other than Sterling. The two other largest currencies in which it trades are Swedish Krona (SEK) and Euro (EUR). Changes in these exchange rates can expose Elecosoft to exchange gains and losses.	Our businesses predominantly trade in their own local currencies and have local operational and development staff which create a natural hedge against currency movements. In addition, we will continue to review foreign exchange contracts to manage risk.
Protection of Intellectual Property	Elecosoft's success is built upon the development of sophisticated software which requires continual protection from competitive businesses who may seek to copy or otherwise replicate the software.	Elecosoft uses a variety of licensing technologies and defines the rights of customers in licence agreements. In addition, the Group seeks to ensure its intellectual property rights are protected by appropriate means and defends its rights where practical.
Employees and Organisation	Elecosoft's reputation depends upon its products and services and in turn these are built upon the innovation and dedication of its employees.	Elecosoft endeavours to ensure that employees are motivated in their work and there is regular feedback on their performance. There are pay reviews and a range of incentive schemes to reward achievement over different time periods. Elecosoft attracts new talent by maintaining its focus on developing new and innovative applications.
Operations Risks	There is an increasing reliance on IT systems, local and cloud, to perform the daily operations of a business. Exposure to technology in general is rapidly increasing with cloud offerings and remote connections.	Good, effective technology risk management and close monitoring is essential to robustly handle potential IT security incidents and system failures, as well as ensuring customer information is protected from unauthorised access or disclosure. Continued investment and adhering to regulatory standards mitigates these risks.

Operating Review

A strong, stable and progressive year, our wider software portfolio delivered revenue and profit growth beyond market expectations.

Project management software £'000

▲ **8,572**

14% increase

Operating margin*

▲ **14.3%**

3.6% increase

Capitalised product development £'000

▼ **625**

6% decrease

With a new management team and renewed focus on our core strengths and strategy to grow Elecosoft as a leading provider of innovative integrated solutions, we stepped out of the blocks and led from the start amongst growing competition. Although we experienced some challenges and timing delays in our use of resellers this year, we continue to have our sights set on expanding through them going forward. The performance of our leading applications of Asta Powerproject® and Bidcon® within project management and estimating was outstanding, with double digit growth achieved both in the UK and Sweden which contributed to a successful year and surpassed a number of key milestones.

- Revenue grew to £17.8m up from £15.3m
- Profit before tax of £1.5m up from £1.0m

Our Focus on Sales Growth

With an underlining growth performance across our core revenue lines of licences, maintenance and services, the Group delivered results significantly ahead of industry sector benchmarks. With a prominent influence through our direct model approach, we have proved that amongst a number of major global competitors Elecosoft is highly regarded as a provider of quality software and services. Revenue growth is pivotal to our long-term strategy and with an improved performance in all graphical areas, Elecosoft is in a strong position to maintain our current momentum.

A summary on revenue growth in 2016 is as follows:

- UK revenue increased by 13 per cent
- Scandinavia revenue increased by 13 per cent
- Germany revenue increased by 29 per cent
- Rest of Europe increased by 22 per cent
- Rest of World increased by 17 per cent

Historically, our software portfolio has centred on the PC market but with ever increasing competition and expansion into other verticals we have a growing number of SaaS product offerings that sit alongside and complement our existing applications. Through continued investment in our direct approach and through channel expansion, Elecosoft is in a strong position to maintain progressive growth over and above the broader market.

Growing International Awareness

With a wide portfolio of products that cover project management, construction site management, estimating, timber engineering, 3D design and visualisation, cloud-based digital marketing and data storage solutions, we have some great opportunities in reaching out to a wider audience with our integrated offering. With a continuing trend across the globe to standardise processes through common data exchanges and a collaborative approach to sharing of data, Elecosoft is strongly placed to deliver international awareness and growth.

* Before amortisation of intangible assets and non-recurring expenses.

In recent years, we have established the cross-selling of our products to help deliver on local government legislations which in turn has positioned Elecosoft as a major player in the provision of 4D and 5D BIM. Our marketing teams have successfully developed and implemented promotional plans for market sector and territory growth to help drive the increased awareness out to the end client through increased use of webinars, exhibition attendance, event speaking and corporate sponsorship. With the acquisition in January of one of Asta Powerproject® Dutch resellers, we have also delivered on the plans to improve the performance of the business and also commenced the transition approach to selling more products to existing and new customers.

Our colleagues in Sweden delivered a sterling performance with the new management team that was orchestrated the previous year, and also expanded their international reach by establishing new resellers in New Zealand, Canada, Finland and Denmark for Bidcon®, Statcon® and Staircon®. We have seen successful expansion within the interior market with key business wins in China and the US through our modular marketing solution for simplifying and automating data-based marketing activities throughout the marketing chain.

Brand Awareness

Elecosoft is now a well-established technology organisation focused on delivering leading-edge applications across multiple sectors with strong brand identity both, at Company and product level. The Company has been very successful in leveraging the Elecosoft name into established market spaces with clear and directive marketing campaigns directed from the Group management team. Our new website now reflects a product identity through the six main disciplines of focus, these being:

Cullum Retunes its Project Planning to Drive a High-performance Business

Cullum Detuners Limited, a world-leading engineering company with the requirement to design, manufacture and install high-specification engineered equipment to exact timescales, chose Asta Powerproject® to make further efficiencies and de-risk its business which was spurred by the economic turbulence hit in the oil and gas sector.

Cullum Detuners has a proven track record in providing advanced solutions to the Aerospace, Energy, Marine and Nuclear Sectors, in the form of high-specification noise control equipment, turbine support for power generation and other solutions.

Hannah Whitmore, Project Coordinator at Cullum Detuners Limited, said: "Asta Powerproject is not just helping Cullum to keep its complex engineering projects on track, but also to mitigate risks that can have financial consequences. It is common for contracts to state deadlines for the delivery of documents, such as acoustic calculations and so on, that are on the Vendor Documents List.

"Although planning was always a factor, we needed to become far slicker..."

These usually carry a percentage of contract financial penalty and, in these tougher economic times, customers will often state that they will exercise their right to levy those penalties. These can be heavy, especially on a multi-million-pound contract. Asta Powerproject® enables us to see on the programme whether something is likely to be delivered late. Because we can see the delay we can turn that into a clear cost to the business, so people understand the impact of those delays."

Operating Review continued

Project Management
Asta Powerproject® has continued to gain market share within its core focus on construction and infrastructure organisations across the globe. Many leading contractors worldwide have delivered major projects utilising the project management tool and have expanded their use on growing bolt-on tools such as Asta Powerproject BIM and Site Progress Mobile. The application is now available in 13 languages and continues to be enhanced based on client feedback and industry requirements.

Estimating
Our cost estimating software Bidcon® remains a key part of our integrated solution, selling into new and existing customers. With a strong adoption in its home market in Sweden, Bidcon® is now leading the way alongside Asta Powerproject® in providing a full 5D BIM solution to the wider audience either through our direct model or via the growing reseller channel.

CAD/Design
Our prominent position in Germany with Arcon Evo® and o2c® is maintained with continued development of the product based on customer feedback and technology advancements. This in turn is growing the product awareness and is being used to expand the use of the software into new markets through our eCommerce offering and a reseller channel.

Visualisation
Our reach into the interior market through our ESIGN® portfolio highlights the significant steps we've made in gaining 80 per cent of the European floor manufacturers who use our offering to successfully market their interior products through Digitalisation, Visualisation, Configuration and Product Information Management (PIM). During 2016 we have seen good progress on wider global adoption with floor manufacturers in China and the US working with our German colleagues on adopting our offering.

Engineering
Our portfolio of timber engineering applications maintain their strong market presence in the UK, Sweden, Germany and Benelux, and have recently seen adoption through resellers in Canada, Finland and Denmark. With local territories, demands of increased housing stock and commercial timber structures through focus on modular construction, our applications of Staircon®, Framing and Statcon® serve the needs of design, manufacturing and site management processes.

Information Management
The management of information in any business is critical to gaining success, and with our Marketingmanager offering to the floor manufacturers which sits alongside our visualisation tools, we have seen further adoption within existing and new clients. This is assisting organisations to efficiently control multi-channel marketing from a central database and saves considerable time and expense in the company-wide data workflow.

With the acquisition of Icon taking place in late October, the opportunity to expand its current offering outside the retail sector is a strong focus moving forward. Icon's one-stop property asset information system is a web-based building information management system that is used from concept design, through construction and fit-out to completion and management. This clearly complements our existing project management and cost estimating suite of programmes and presents a great opportunity in further upselling within the existing client base across our territory bases.

Award-winning Software
Offering the best possible proposition to our customers has remained our core focus and is central to driving the growth of our software offering, in both our direct markets and reseller channel. Our customers have continued to recognise the quality of our products, service and extending range of products, evidenced by the continued success of our award-winning software. Asta Powerproject® achieved for the third year in succession the Project Management/Planning Software of the Year Award at the Construction Computing Awards 2016. Recognition was also made for our cost estimating application, Bidcon®, as this was voted runner-up in the Estimation & Valuation Software category. We believe this reflects the strengthening recognition of our consumer brand.

The retention rate of our customers is important to support our growth and this has remained in line with historical trends. We have introduced to our markets product releases across the whole software portfolio that reflect the requirements of our customers. We have seen progression in our eCommerce product offering with our CAD and visualisation applications and have continuous plans to expand the reach into new territories using effective web platforms.

Outlook
2016 delivered a milestone year in revenue and profit growth and the teams within Elecosoft are excited about the future and look forward to contributing to another fruitful year, both in our direct markets and growing international reach through the reseller channel network.

John Ketteley
Executive Chairman
24 March 2017

The Elecosoft IconSystem is Revolutionising the House Building Sector

Elecosoft's IconSystem was tailor-made for McCarthy & Stone, using the Icon Specs & Standards and Projects & Properties solutions, and has been rolled out across almost every department in their business. After rigorous testing, all construction data is now housed in a single robust, trustworthy IconSystem that can be accessed by all employees and external consultants. Over 650 people, including McCarthy & Stone Board members, have been trained to use the system across nine regions.

As a consequence, McCarthy & Stone is among the leading house builders in the UK to fully realise the potential of BIM and has developed the vital technical partnership with web solutions software developer Elecosoft.

Elecosoft and McCarthy & Stone facilitated the installation of the Icon web-based system at the beginning of 2016. The IconSystem is now fully integrated and introduces methodologies to the Company, which enables McCarthy & Stone to bring together a mass of BIM-based construction data into one easy-to-use platform. That enables it to plan, implement and deliver a fully-integrated BIM-based build programme, which ensures that McCarthy & Stone will benefit to the full from the comprehensive application of BIM technologies in the project.

The system's implementation has set McCarthy & Stone as a front-runner in its sector, further proving the potential of BIM for other house builders.

"The introduction of the IconSystem has been instrumental in driving increased product standardisation throughout the business."

Matthew Richardson, Design and Information Manager at McCarthy & Stone, said: "It helps ensure a consistent and repeatable high-quality product whilst helping to increase margins. The process enables our teams and partners to work more effectively together throughout a development's life cycle."

Financial Review

"The Group has had a successful year with strong trading performances in all areas validating the strategy. The acquisition of Icon in October positions the Group for the future. Exchange rate movements in the Group's core trading currencies during the year had a positive impact on the results which has accentuated the Group's strong underlying performance."

David Pearson
Group Finance Director

Revenue

Revenue for continuing operations for the year increased 17 per cent to £17.8m (2015: £15.3m). This growth was accentuated by the weakness of Sterling against the Swedish Krona, the US Dollar and the Euro, which collectively accounted for over 60 per cent of the Group's sales. The underlying growth at constant exchange rates was 8 per cent (2015: 9 per cent).

The Group continues to drive high levels of recurring revenue from maintenance and support, with the balance of the revenue coming from licence sales and services. The level of deferred income at the balance sheet date, which is a measure of future maintenance revenue, increased from £3.7m to £4.4m during the year representing a positive growth rate of 19 per cent.

Revenue growth was driven by direct sales with an increase of 17 per cent to £16.6m (2015: £14.2m), with the Group committed to growing both, the direct and reseller channels going forward. The mix of sales across licences 28 per cent (2015: 30 per cent), maintenance 48 per cent (2015: 48 per cent) and services 24 per cent (2015: 23 per cent) is balanced and similar to prior years.

The geographic revenue performance of the Group was good on all fronts, with Germany leading the growth at 29 per cent to £3.0m (2015: £2.3m), while the UK and Scandinavia both grew 13 per cent during the year. The strategy to move into new geographic markets continues to provide strong results with the Rest of the World up by 20 per cent to £2.6m (2015: £2.1m).

Gross Profit

Gross profit is revenue less the direct cost of providing products and services to customers, principally the costs of training and consultancy staff. In 2016 the gross profit margin fell slightly from 89 per cent to 87 per cent due to the slight changed mix of licences, maintenance and services revenue.

Overheads

Selling and administrative expenses increased 11 per cent over the prior year to £13.8m (2015: £12.4m). Tight control of overheads is expected to be a feature of the Group while ensuring that development is prioritised. The average number of employees during the year was 190 (2015: 178).

Software product development expenses amounted to £2.6m for the year (2015: £2.3m) of which £0.6m (2015: £0.7m) was capitalised demonstrating the commitment to group-wide development.

The major projects during the year, which met the requirements of the accounting policy for capitalisation, and were therefore capitalised in the year, include the following: Arcon Evo phase 2, Bidcon BIM and Bidcon.net databases. The carrying value of these software assets together with the carrying value of software assets capitalised in previous periods was reviewed for impairment at the balance sheet date and no impairment was required.

Profit

Continuing operations operating profit was £1.6m (2015: £1.1m), a growth of over 40 per cent over the prior period, a reflection of strong revenue performance with overhead control. Adjusted operating profit for the year was £1.915m (2015: £1.137m), an increase of 68 per cent. Profit before tax was £1.5m, up £0.5m, an increase of 50 per cent compared to the prior period. Taxation amounted to £0.3m in the period (2015: £0.2m).

	2016 £'000	2015 £'000
Cash generated in operations	**2,422**	1,640
Net capital expenditure	**(1,103)**	(645)
Net interest paid	**(82)**	(152)
Income tax paid	**(17)**	(127)
Free cash flow	**1,220**	716
Acquisitions and disposals	**(1,700)**	726
Loan (repayments)/proceeds	**1,438**	(1,091)
Finance lease repayments	**(153)**	(251)
Equity dividends paid	**(111)**	–
Net cash inflow	**694**	100
Exchange difference	**260**	(15)
Net increase in cash and cash equivalents	**954**	85

Balance Sheet and Cash Flow

Shareholder's equity increased to £9.7m, up £1.8m, 23 per cent at 31 December compared to 2015.

Net borrowings, including finance leases, increased by £0.5m to £1.3m (2015: £0.8m) as a result of additional borrowings of £1.8m to complete the Icon acquisition.

Trade and other receivables increased to £3.7m (2015: £2.9m) as anticipated and in line with the growth of the Group. This represented 54 days sales outstanding compared to 48 for the prior period. Trade and other payables increased to £1.5m (2015: £1.3m) and accruals were slightly higher at £1.6m (2015: £1.4m) in line with Group activities.

Cash generated from operations amounted to £2.4m in the year up from £1.6m in 2015. Free cash flow increased to £1.2m compared to £0.7m in 2015, a continuing upward trend reflective of the Group performance overall.

Capital and Financing

The UK banking facilities are with Barclays Bank plc and the Group facilities comprise the following:

- the previous loan was repaid and a new term loan of £3.16m, with 16 quarterly loan repayments of £197,500 commencing from October 2016, was agreed to help fund the acquisition of Icon, carrying an interest rate of 2.75 per cent over base rate, a reduction of 0.5 per cent on the previous facility; and
- a £1.0m overdraft facility, carrying an interest rate of 2.75 per cent over base rate.

Security provided to the bank for the provision of these facilities is a cross guarantee and debenture between the Parent Company and certain UK subsidiary companies and a commitment of the shares of the operating companies.

Covenants have been made to the bank in respect of three elements: EBITA to gross financing costs, net borrowings to EBITDA and cash flow to debt service. These covenants are tested quarterly.

Business Disposal/ Discontinued Operations

There were no disposals in the period.

Earnings per Share and Dividends

The basic earnings per share on continuing operations is 1.7 pence (2015: 1.1 pence). The basic earnings per share on total operations is 1.7 pence (2015: 1.6 pence).

The Board has recommended the payment of a final dividend in respect of the year ended 31 December 2016 of 0.25 pence per share, with a scrip alternative to be made available.

David Pearson
Group Finance Director
24 March 2017

The Strategic Report, as set out on pages 8 to 27, has been approved by the Board.

John Ketteley
Executive Chairman
24 March 2017

Governance

easyBo Live augmented reality app

Board of Directors

John Ketteley FCA[3]
Executive Chairman

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

David Pearson FCMA, BA (Hons)
Group Finance Director and Company Secretary

Appointed to the Board on 20 February 2017, David has 25 years' experience across Capital Markets, Financial Services and Manufacturing sectors and has held numerous directorate positions during his career. Most recently, David has been working as a consultant in respect of some large-scale business transformations and start-up businesses. Previously he held finance functions across a range of businesses including CFO of ICAP Equities and Director of Finance Operations of ICAP plc, where he was employed between 2007 and 2011 and has also previously held a role at UBS. David is a member of the Chartered Institute of Management Accountants.

Jonathan Hunter BBus. BMm
Group Marketing and Business Development Director

Appointed on 14 June 2016, Jonathan is responsible for Marketing and Business Development. In this capacity he became Chairman of the Group Lead Developer Community, which consists of the Group's leading software developers. Jonathan also played a major part in the successful acquisition of Icon, he identified the potential of Icon's software and SaaS technology in collaboration with Elecosoft's construction software portfolio and is currently responsible for the product integration. Jonathan joined Elecosoft in 2010 as a Marketing Manager for the Building Systems division and in 2011 he became General Manager of Group Marketing.

Jason Ruddle
Managing Director of Elecosoft UK Limited

Appointed as Director on 29 February 2015, Jason Ruddle has over 15 years of business development experience in the construction sector. Jason was appointed as Managing Director of Elecosoft UK Limited in January 2015. He was previous Business Development Manager for ITW Industry, a construction products subsidiary of Illinois Tool Works Inc. Prior to this, he worked at Gang-Nail Systems and Consultec UK, both former subsidiaries of Elecosoft.

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 re-joined 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.

* Independent Non-Executive Director
1 Member of the Audit Committee
2 Member of the Remuneration Committee
3 Member of the Nominations Committee

Jonathan Edwards LLB ACA[1,2,3,*]
Non-Executive Director

Appointed as a Non-Executive Director in April 2010. Jonathan Edwards is the Senior Non-Executive Director and is Chairman of the Audit Committee. A barrister and chartered accountant, he was previously Managing Director of Argen Limited, a risk management consultancy and is Chairman of the Caythorpe & Ancaster Medical Equipment Trust.

Serena Lang MBA[1,2,3,*]
Non-Executive Director

Appointed as a Non-Executive Director in December 2014. Serena Lang is Chairman of the Remuneration Committee. She was formerly a Senior Executive for the Operations Management division of Invensys, a global technology Company with market-leading software and systems for industrial and commercial sectors. Prior to working at Invensys, she was a Senior Executive with BP.

Kevin Craig
Non-Executive Director

Appointed as a Non-Executive Director in March 2017, Kevin Craig is Founder and CEO of the Political Lobbying and Media Relations Ltd (PLMR) communications agency. He has served over 11 years to date as a Councillor in London local government and formerly worked for Saatchi and 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.

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Directors' Report

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

Results for the Year Ended 31 December 2016
The Group profit on ordinary activities of continuing operations before taxation was £1,504,000 (2015 restated: £1,006,000). The detailed financial statements of the Group are set out on pages 38 to 73.

Business Review and Future Developments
A review of the Groups' operations during the year and its plans for the future is set out in the Chairman's Statement on pages 2 to 5, the Operating Review on pages 22 to 25 and in Strategy on pages 16 to 19.

Dividends
An interim dividend of 0.15 pence per ordinary share (2015: 0.0 pence) totalling £111,000 (2015: £nil) was paid during the year. The Directors intend to recommend a final dividend for the year ended 31 December 2016 of 0.25 pence per ordinary share totalling £193,000 (2015: £nil).

Share Capital
Details of the share capital are shown in note 21 on page 65 of the consolidated financial statements.

Share Price
The middle market price of the Company's ordinary shares on 31 December 2016 was 30.5 pence and the range during the period under review was 19.63 pence to 30.45 pence.

Directors
The current composition of the Board of Directors is shown on page 30. Directors who held office during the year were:
J H B Ketteley
J B Ruddle (appointed 29 February 2016)
J A Hunter (appointed 14 June 2016)
D B Pearson (appointed 20 February 2017)
A Karlsson (appointed 27 March 2017)
N J B Caw (resigned 18 April 2016)
G N Spratling (resigned 6 January 2017)
J B Edwards
S Lang
K Craig (appointed 27 March 2017)

Subsequent to the Year End
D B Pearson was appointed as Director on the 20 February 2017.

D B Pearson and J A Hunter will resign at the forthcoming Annual General Meeting and, being eligible, will offer themselves for re-election.

Directors' Remuneration
The emoluments of the Directors for the year ended 31 December 2016 excluding pension entitlements were as per the table below.

In addition, on the 31 March 2016 J H B Ketteley received a payment of £40,344 for deferred pension contributions brought forward and disclosed in earlier years.

	Basic salary £'000	Fees £'000	Benefits £'000	LTIP £'000	Pension £'000	**Year to 31 December 2016**	Year to 31 December 2015
Executive							
J H B Ketteley[1]	238	–	–	2	–	**240**	268
J B Ruddle	112	9	12	1	7	**141**	–
J A Hunter	44	3	3	1	4	**55**	–
G N Spratling[3]	100	5	5	1	7	**118**	59
N J B Caw[2, 3]	139	3	3	8	5	**158**	174
M A Greenwood	–	–	–	–		**–**	76
Non-Executive							
J Cohen	–	–	–	–		**–**	15
J B Edwards	–	41	–	–		**41**	39
S Lang	–	41	–	–		**41**	36

1 Included in the basic salary figure is an amount of £38,000 paid on 31 January 2017.
2 Included in the basic salary figure is an amount of £100,000 for compensation for loss of office.
3 The comparative remuneration figure has amended to include pension payments previously included by way of note.

Policy on Remuneration of Executive Directors and Senior Executives

The Remuneration Committee aims to ensure that the remuneration packages offered encourage and reward performance in a manner which is consistent with the long-term interests of shareholders.

The remuneration of the Executive Directors normally comprises four elements:

i) a basic salary and fees together with benefits-in-kind (such as Company car, private petrol and medical insurance);
ii) a non-pensionable performance-related annual bonus based on the Groups' performance and individual contribution to that performance. The Executive Directors are contractually entitled to a bonus scheme, but the amount to be paid is determined by the Remuneration Committee (if applicable); bonuses awarded in respect of the year ended 31 December 2016 to J B Ruddle £9,500 (2015: £nil);
iii) pension benefits based solely on basic salary; and
iv) performance-related share awards and non-pensionable bonuses under the Company's Long-term Incentive Plan (if applicable); in the year ended 31 December 2016.

Share awards were made under the Company's Long-term Incentive Plan amounting to 750,000 (2015: 900,000) share options at 28.7 pence, £215,250 (2015: 20.75 pence, £186,750) options to subscribe for new ordinary shares in the Company under the Elecosoft 2015 Share Option Plan, as adopted by the shareholders at the AGM on 26 May 2016, to various Directors of the Company. The options vest if the performance targets listed below are met:

i) Revenue for the year ended 31 December 2018 is at least £21,400,000; and
ii) EPS for the year ended 31 December 2018 is at least 2.76 pence.

If either of the performance targets are not met, the options shall lapse.

Performance criteria for the 2015 award: the Company's audited earnings per share for the year ended 31 December 2017 must be at least 22.5 per cent higher than the Company's audited earnings per share for the year ended 31 December 2014.

The options are exercisable up to ten years after the grant date at the dates specified in the table below. The 2016 options expire on 26 October 2026 and the 2015 options on 12 February 2025.

Executive Directors' Contracts

The Executive Directors have service agreements, which provide for a notice period as stated hereunder. In the event that employment with the Company is terminated without notice, the contracts do not provide for payment of a specific sum for compensation.

Commencement dates and notice periods of contracts (as amended) are as follows:

- J H B Ketteley (3 July 1997: twelve months);
- D B Pearson (20 February 2017: three months within the first six months, six months thereafter);
- G N Spratling (8 July 2015: three months within the first year, six months thereafter);
- J B Ruddle (29 February 2016: six months);
- J A Hunter (14 June 2016: three months);
- A Karlsson (27 March 2017: six months).

Interest in Contracts

There are no contracts of significance between the Company or its subsidiary companies and any of the Directors. During the year, for office services provided in the normal course of business, the Group paid £5,000 (2015: £5,000) to J H B Ketteley & Co Limited of which J H B Ketteley is a Director and in which he has an interest. An amount of £43,000 (2015: £35,000) was paid to J H B Ketteley & Co Limited under a lease for occupation by the Company of 66 Clifton Street, London EC2A 4HB.

Consultancy services totalling £nil (2015: £20,328) was paid to The Boardroom Partnership Limited, a Company in which J Cohen resigned as a Director on 8 June 2015. Serena Lang received £12,000 (2015: £nil) for HR consultancy services during the year.

Directors' Shareholdings

The interests, beneficial unless otherwise indicated, in the ordinary shares of 1 pence each in the Company of the Directors who held office at 31 December 2016 were as follows:

	At 31 December 2016	At 31 December 2015
J H B Ketteley	**9,049,760**	9,049,760
J B Edwards	**113,700**	113,700
J A Hunter	**16,382**	–

There have been no changes in the Directors' interests since 31 December 2016.

	2016			2015		
	Issued	**Exercisable £**	**£**	Issued	Exercisable £	£
J H B Ketteley	**250,000**	**0.287**	**71,750**	–	–	–
J B Ruddle	**200,000**	**0.287**	**57,400**	–	–	–
J A Hunter	**150,000**	**0.287**	**43,050**	–	–	–
G N Spratling[2]	**150,000**	**0.287**	**43,050**	–	–	–
N J B Caw[1]	**–**	**–**	**–**	900,000	0.2075	186,750
	750,000		**215,250**	900,000		186,750

1 600,000 options issued to N Caw lapsed following his resignation.
2 150,000 options issued to G N Spratling lapsed following his resignation.

Directors' Report continued

Substantial Interests

As at the date of this report, the Company has been notified of the following interests in the issued share capital of the Company:

Shareholder	Number of shares	Percentage
H A Allen	11,513,891	14.94
J H B Ketteley	9,049,760	11.74
Rights & Issues Investment Trust PLC	4,520,781	5.86
J D Lee	3,994,850	5.18
Lowland Investment Company PLC	3,153,443	4.09
P R & M J Ketteley	3,127,408	4.06
G V & S M Oury	2,663,853	3.46

Political Donations

The Group did not make any political donations (2015: £nil).

Financial Risk Policies

A summary of the Groups' treasury policies and objectives relating to financial risk management, including exposure to associated risks, is set out in note 24 on pages 68 to 73.

Corporate Governance

We do not comply with the UK Corporate Governance Code. However, we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the Company and best practice.

The Board of Directors, which during the year consisted of the Executive Chairman, Executive Directors and two independent Non-Executive Directors, meet at least ten times throughout the year. S Lang is the Senior Independent Director. The Directors have access to independent professional advice in executing their duties on behalf of the Company.

Policy on Appointment and Reappointment

In accordance with the Articles of Association, all Directors are required to retire and submit themselves for re-election at least every three years by rotation.

The Board has Established the Following Committees:

Audit Committee

The Audit Committee, which consists of the Non-Executive Directors, and is chaired by J B Edwards, has specific Terms of Reference and meets with the auditors at least twice a year. The Committee reviews the financial statements prior to their recommendation to the Board for approval and assists the Board in ensuring that appropriate accounting policies, internal financial controls and compliance procedures are in place.

Remuneration Committee

The Remuneration Committee, which consists of the Non-Executive Directors, is chaired by S Lang and is responsible for determining the remuneration arrangements of the Executive Directors and for advising the Board on the Company's remuneration policy for Senior Executives.

Nominations Committee

The Nominations Committee consists of the Non-Executive Directors and is chaired by the Executive Chairman. The Committee is responsible for reviewing the structure, size and composition of the Board and its Committees and evaluating potential candidates for nomination when and if it is deemed necessary to appoint a new Director to the Board. The Committee makes its recommendations to the full Board for its consideration and approval.

Control Environment

The Board acknowledges its responsibility for the Groups' systems of internal financial and other controls. These are designed to give reasonable, though not absolute, assurance as to the reliability of information, the maintenance of adequate accounting records, the safeguarding of assets against unauthorised use or disposition and that the Groups' businesses are being operated with appropriate awareness of the operational risks to which they are exposed.

The Directors have established an organisational structure with clear lines of responsibility and delegated authority.
The systems include:

- the appropriate delegation of responsibility to operational management;
- financial reporting, within a comprehensive financial planning and accounting framework, including the approval by the Board of the detailed annual budget and the regular consideration by the Board of actual results compared with budgets and forecasts;
- clearly defined capital expenditure and investment control guidelines and procedures; and
- monitoring of business risks, with key risks identified and reported to the Board.

Directors' Responsibilities in Relation to the Financial Statements

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

UK Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) 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 IFRS UK Accounting Standards including FRS 102 "the Financial Reporting Standard applicable to the UK and Republic of Ireland" have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare financial statements on the going concern basis unless it is inappropriate to presume 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.

The Directors confirm that:
- so far as each Director is aware, there is no relevant audit information of which the Company's auditors are not aware; and
- the Directors have taken all 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 auditors are 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going Concern
A statement regarding the going concern of the business is set out in section C of the Significant Accounting Policies on page 46.

Research and Development
Product innovation and development is a continuous process. The Group commits resources to the development of new products and quality improvements to existing products and processes in all its business segments.

A significant share of our software development expenditure relates to the upgrade of existing products and is written off as incurred. Development expenditure on new or substantially new products is capitalised only if it meets the criteria set out in the Significant Accounting Policies, on pages 45 to 50.

Employee Involvement
The Company is committed to a policy of involvement by keeping its employees fully informed regarding its performance and prospects. Employees are encouraged to present their suggestions and views.

Employment of Disabled Persons
The Company's policy is to provide equality of opportunity for all employees without discrimination and continues to encourage the employment, training and advancement of disabled persons in accordance with their abilities and aptitudes, provided that they can be employed in a safe working environment. Suitable employment would, if possible, be found for an existing employee who becomes disabled during the course of their employment with the Group.

Directors' Indemnities
Qualifying third party indemnity provisions (as defined in Section 234(2) of the Companies Act 2006) are in force for the benefit of the Directors.

Auditors
Grant Thornton UK LLP has indicated their willingness to continue in office and a resolution will be proposed at the Annual General Meeting to reappoint them as auditors and to determine their remuneration.

By Order of the Board

David Pearson
Group Finance Director and Company Secretary
Elecosoft plc
Parkway House
Pegasus Way
Haddenham Business Park
Haddenham
Buckinghamshire
HP17 8LJ
24 March 2017

Financial Statements

Independent Auditors' Report

To the members of Elecosoft plc

We have audited the financial statements of Elecosoft plc for the year ended 31 December 2016 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated statement of cash flows and consolidated notes together with the Company balance sheet and statement of changes in equity and related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard applicable to the UK and Republic of Ireland".

This report is made solely to the Company's members, as a body, in accordance with Chapter three 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 Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 34 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 UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 have 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 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.

Malcolm Gomersall
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
24 March 2017

Consolidated Income Statement
for the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Continuing operations			
Revenue	1,2	**17,795**	15,260
Cost of sales		**(2,374)**	(1,688)
Gross profit		**15,421**	13,572
Operating expenses before amortisation of intangible assets, acquisition expenses and termination payments		**(12,875)**	(11,940)
Amortisation of intangible assets	2,10	**(631)**	(495)
Operating expenses before acquisition expenses and termination payments	3	**(13,506)**	(12,435)
Operating profit before acquisition expenses and termination payments		**1,915**	1,137
Acquisition expenses		**(212)**	–
Former Directors' termination payments		**(109)**	(11)
Selling and administrative expenses	3	**(13,827)**	(12,446)
Operating profit	2,3	**1,594**	1,126
Finance income	5	**3**	1
Finance cost	5	**(93)**	(121)
Profit before tax		**1,504**	1,006
Tax	6	**(261)**	(204)
Profit for the financial period from continuing operations	2,8	**1,243**	802
Profit for the financial period from discontinued operations		**–**	360
Profit for the financial period		**1,243**	1,162
Attributable to:			
Equity holders of the parent		**1,243**	1,162
Earnings per share – basic			
Continuing operations	8	**1.7p**	1.1p
Discontinued operations	8	**0.0p**	0.5p
Total operations	8	**1.7p**	1.6p
Earnings per share – diluted			
Continuing operations	8	**1.6p**	1.1p
Discontinued operations	8	**0.0p**	0.5p
Total operations	8	**1.6p**	1.6p

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2016

	2016 £'000	2015 £'000
Profit for the period	**1,243**	1,162
Other comprehensive income:		
Items that will be reclassified subsequently to profit and loss:		
Translation differences on foreign operations	**92**	(11)
Other comprehensive income net of tax	**92**	(11)
Total comprehensive income for the period	**1,335**	1,151
Attributable to:		
Equity holders of the parent	**1,335**	1,151

Consolidated Statement of Changes in Equity
for the year ended 31 December 2016

	Share capital £'000	Share premium £'000	Merger reserve £'000	Translation reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2016	**749**	**–**	**–**	**(172)**	**(338)**	**7,654**	**7,893**
Dividends	**–**	**–**	**–**	**–**	**–**	**(111)**	**(111)**
Share-based payments	**–**	**–**	**–**	**–**	**13**	**–**	**13**
Elimination of cancelled share based payments	**–**	**–**	**–**	**–**	**(14)**	**–**	**(14)**
Issue of share capital	**22**	**578**	**–**	**–**	**–**	**–**	**600**
Transactions with owners	**22**	**578**	**–**	**–**	**(1)**	**(111)**	**488**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**1,243**	**1,243**
Other comprehensive income:							
Exchange differences on translation of net investments in foreign operations	**–**	**–**	**–**	**92**	**–**	**–**	**92**
Total comprehensive income for the period	**–**	**–**	**–**	**92**	**–**	**1,243**	**1,335**
At 31 December 2016	**771**	**578**	**–**	**(80)**	**(339)**	**8,786**	**9,716**

	Share capital £'000	Share premium £'000	Merger reserve £'000	Translation reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2015	7,487	7,923	4,086	(161)	(358)	(12,255)	6,722
Share-based payments	–	–	–	–	20	–	20
Capitalisation of merger reserve	4,086	–	(4,086)	–	–	–	–
Capital reduction	(10,824)	(7,923)	–	–	–	18,747	–
Transactions with owners	(6,738)	(7,923)	(4,086)	–	20	18,747	20
Profit for the period	–	–	–	–	–	1,162	1,162
Other comprehensive income:							
Exchange differences on translation of net investments in foreign operations	–	–	–	(11)	–	–	(11)
Total comprehensive income for the period	–	–	–	(11)	–	1,162	1,151
At 31 December 2015	749	–	–	(172)	(338)	7,654	7,893

Consolidated Balance Sheet
At 31 December 2016

	Notes	2016 £'000	2015 £'000
Non-current assets			
Goodwill	9	**11,469**	10,152
Other intangible assets	10	**3,321**	1,910
Property, plant and equipment	11	**868**	503
Total non-current assets		**15,658**	12,565
Current assets			
Inventories	14	**11**	9
Trade and other receivables	15	**3,674**	2,871
Current tax assets		**67**	173
Cash and cash equivalents		**2,576**	1,957
Total current assets		**6,328**	5,010
Total assets		**21,986**	17,575
Current liabilities			
Bank overdraft	17	**(339)**	(674)
Borrowings	17	**(790)**	(750)
Obligations under finance leases	17	**(163)**	(139)
Trade and other payables	16	**(1,459)**	(1,255)
Provisions	18	**(228)**	(203)
Current tax liabilities		**(89)**	(2)
Accruals and deferred income	19	**(6,003)**	(5,068)
Total current liabilities		**(9,071)**	(8,091)
Non-current liabilities			
Borrowings	17	**(2,370)**	(972)
Obligations under finance leases	17	**(218)**	(225)
Deferred tax liabilities	20	**(570)**	(242)
Non-current provisions	18	**(41)**	(139)
Other non-current liabilities		**–**	(13)
Total non-current liabilities		**(3,199)**	(1,591)
Total liabilities		**(12,270)**	(9,682)
Net assets		**9,716**	7,893
Equity			
Share capital	21	**771**	749
Share premium account		**578**	–
Translation reserve		**(80)**	(172)
Other reserve		**(339)**	(338)
Retained earnings		**8,786**	7,654
Equity attributable to shareholders of the parent		**9,716**	7,893

The financial statements of Elecosoft plc, registered number 00354915, on pages 40 to 73, were approved by the Board of Directors on 24 March 2017 and signed on its behalf by:

John Ketteley
Executive Chairman

Consolidated Statement of Cash Flows

for the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Cash flows from operating activities			
Profit before tax		**1,504**	881
Net finance costs		**90**	123
Depreciation charge		**207**	174
Amortisation charge		**631**	495
Profit on sale of property, plant and equipment		**(28)**	(18)
Share-based payments charge		**13**	20
Decrease in provisions		**(75)**	(20)
Cash generated in operations before working capital movements		**2,342**	1,655
Decrease in trade and other receivables		**403**	349
Increase in inventories and work in progress		**(1)**	(1)
Decrease in trade and other payables		**(322)**	(363)
Cash generated in operations		**2,422**	1,640
Interest paid		**(85)**	(153)
Interest received		**3**	1
Income tax paid		**(17)**	(127)
Net cash inflow from operating activities		**2,323**	1,361
Investing activities			
Purchase of intangible assets		**(754)**	(754)
Purchase of property, plant and equipment		**(449)**	(58)
Acquisition of subsidiary undertakings net of cash acquired	23	**(1,700)**	(28)
Proceeds from sale of property, plant, equipment and intangible assets		**100**	167
Sale of business net of expenses		**–**	754
Net cash (outflow)/inflow from investing activities		**(2,803)**	81
Financing activities			
Proceeds from new bank loan		**3,160**	–
Repayment of bank loans	17	**(1,722)**	(1,091)
Repayments of obligations under finance leases		**(153)**	(251)
Equity dividends paid		**(111)**	–
Net cash inflow/(outflow) from financing activities		**1,174**	(1,342)
Net increase in cash and cash equivalents		**694**	100
Cash and cash equivalents at beginning of period		**1,283**	1,198
Effects of changes in foreign exchange rates		**260**	(15)
Cash and cash equivalents at end of period		**2,237**	1,283
Cash and cash equivalents comprise:			
Cash and short-term deposits		**2,576**	1,957
Bank overdrafts		**(339)**	(674)
		2,237	1,283

Significant Accounting Policies

Elecosoft plc is a public limited Company incorporated and domiciled in the UK under the Companies Act 2006. The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group"). The consolidated and Parent Company financial statements were authorised for issuance on 24 March 2017.

The address of the registered office is given on page 31. The nature of the Groups' operations and its principal activities are set out in the Chairman's Statement on pages 2 to 5, Strategic Report on pages 8 to 27, Directors' Report on pages 32 to 35 and note 2 on pages 51 to 53.

Elecosoft plc's consolidated annual financial statements are presented in Pounds Sterling which is also the functional currency of the Parent Company. Foreign operations are included in accordance with the accounting policies set out below.

A. Statement of compliance

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) adopted for use by the European Union and effective at 31 December 2016 and the Companies Act 2006 applicable for companies reporting under IFRS.

B. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis and all financial information has been rounded to the nearest thousand.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Significant accounting judgements and estimates

Application of the Groups' accounting policies in conformity with generally accepted accounting principles requires judgements and estimates that affect the amounts of assets, liabilities, revenues and expenses reported in the financial statements. These judgements and estimates may be affected by subsequent events or actions such that actual results may ultimately differ from the estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Revenue recognition

Contracts with clients can include both, the sale of licences and the provision of services including maintenance and support. The Directors apply appropriate judgement in recognition of the separable components of revenue based on the analysis of individual contracts as this indicates the substance of the transaction as viewed by the client. The transfer of the risks and rewards of ownership for a licence is usually on delivery and written or contractual acceptance of the software provided the contract is non-cancellable.

In addition, the Group utilises resellers to access certain markets. Where sales of the Groups' products or services are made through a reseller, the Directors judge that the reseller is responsible for the majority of the risks and responsibilities, therefore commission payable to the reseller is offset against the sale and the net amount is treated as revenue of the Group.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 9 of the Consolidated Financial Statements.

Carrying value of other intangible assets

Development costs are capitalised in accordance with the Group accounting policy. Initial recognition is based on management's judgement that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. The carrying value of the capitalised development costs are reviewed annually by management with reference to the expected future cash generation of the assets, discount rates to be applied and expected period of the benefits. Further details are given in note 10 of the Consolidated Financial Statements.

Provisions and contingent liabilities

In accordance with the accounting policy outlined overleaf, judgement is made of the likely outcome of any disputes. Where it is judged to be probable that an outflow of resources will be required to settle the obligation, an estimate will be made of the provision where it can be reliably made based on the information available and advice from third parties where appropriate.

Significant Accounting Policies continued

B. Basis of preparation continued

Brexit

In light of the referendum vote in favour of the UK leaving the EU the Board weighed the fiscal and operational impacts. The spread of business across the EU landscape with local income and expenditures creates a natural hedge to volatility which is closely monitored and no additional actions were undertaken outside the normal course of business.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business that has been disposed of, has been abandoned or meets the criteria to be classified as held for sale and where its operations and cash flows can be clearly identified.

C. Going concern

The Groups' clients include many top contractors in the building and construction sector in the UK, Scandinavia, Germany, Benelux and US with no significant client concentration. The software products and services provided by the Group are reasonably embedded in their client's core operations and 48 per cent (2015: 48 per cent) of the Groups' revenue is from recurring revenue contracts.

These contracts are renewed throughout the year although there is a slightly greater weighting in the fourth quarter. For these reasons, the Group has good visibility on any potential deterioration in its trading outlook and potential risk to the business. Not-withstanding the Group has net current liabilities of £2,743,000 at 31 December 2016 (2015: £3,081,000), these amounts are after deferred income of £4,401,000 (2015: £3,708,000) relating to annual maintenance contracts which are non-refundable. Historically, there is a low level of cancellations each year and the Board closely monitors clients that are potentially at risk of cancellation as well as the pipeline of new business.

The Group has both, cash and undrawn credit facilities available to support its business operations and, therefore, the Board believes that the Group is well positioned to manage the business risks. Revenue, operating profit and cash flow budgets have been prepared at business unit level. After making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

D. Basis of consolidation

The Group financial statements consolidate those of Elecosoft plc and of its subsidiary undertakings at the Balance Sheet date and all subsidiaries have a reporting date of 31 December. Subsidiaries are entities controlled by the Group and their results have been adjusted, where necessary, to ensure accounting policies are consistent with those of the Group. Control exists where the Group has the power to direct the activities that significantly affect the subsidiary's returns and exposure or rights to variable returns from its investment with the subsidiary and the ability to use its power over the subsidiary to affect the amount of the subsidiary's returns. The Group obtains and exercises control through Board representation and voting rights.

All inter-Company balances and transactions are eliminated in full.

The results of subsidiaries acquired or sold in the year are included in the consolidated income statement from or up to the date control passes and until control ceases.

Business combinations

The acquisition of subsidiaries is dealt with using the acquisition method. The acquisition method involves the recognition at fair value of all identifiable assets and liabilities at the acquisition date, including contingent liabilities of the subsidiary regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. Acquisition costs are expensed as incurred.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the consideration transferred over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

E. Revenue

Revenue from the sale of software licences represents the fair value of consideration received or receivable in respect of software licences supplied to third parties in the period, excluding value added tax and trade discounts. This revenue is recognised when the software licence is delivered. Revenue from software maintenance and support contracts is measured at fair value of consideration receivable and is treated as deferred income and 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.

Consultancy and professional service fee revenues, which are typically billed on a time and materials basis, are recognised as the work is performed provided that the amount of revenue can be measured reliably, it is probable that the economic benefits of the work performed will flow to the Group and the costs involved in providing the service can be reliably measured.

F. Exceptionals

Exceptional items are those significant items which are separately disclosed by their size or nature to enable a full understanding of the financial performance of the Group.

G. Finance income and costs

Financing costs comprise interest payable on borrowings calculated on an effective interest basis. Interest income and cost is recognised in the income statement as it accrues.

H. Taxation

Current tax is the tax payable based on taxable profit for the year, calculated using tax rates that have been enacted, or substantially enacted, by the balance sheet date.

Deferred tax is calculated using the liability method on temporary differences and 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 nor 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 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. Deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided the expected tax rates are enacted or substantively enacted at the balance sheet date and charged or credited to the income statement or statement of comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

I. Intangible assets

Goodwill arising on consolidation represents the excess of the consideration transferred, excluding expenses, over the Group's interest in the fair value of the identifiable net assets acquired. The carrying value of goodwill is recognised as an asset and reviewed for impairment and any impairment is recognised immediately in the income statement. On disposal, the amount of goodwill attributable to the disposal is included in the determination of profit or loss on disposal.

Other intangible assets acquired separately are capitalised at cost and on a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, an intangible asset is held at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets excluding goodwill are amortised on a straight-line basis over their useful economic lives and shown separately in the income statement. The useful economic life of each class of intangible asset is as follows:

Customer relationships	– up to twelve years
Intellectual property	– up to five years

The Group owns intellectual property both in its software tools and software products. Intellectual property purchased is capitalised at cost and is amortised on a straight-line basis over its expected useful life.

Research expenditure is written off as software product development when incurred. Development expenditure on a project is written off as incurred unless it can be demonstrated that the following conditions for capitalisation as intellectual property, in accordance with IAS 38 "Intangible Assets", are met:

- the intention to complete the development of the intangible asset and use or sell it;
- the development costs are separately identifiable and can be measured reliably;
- management are satisfied as to the ultimate technical and commercial viability of the project, so that it will be available for use or sale;
- management are satisfied with the availability of technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- it is probable that the asset will generate future economic benefit.

Any subsequent development costs are capitalised and are amortised from the date the product or process is available for use, on a straight-line basis over its estimated useful life.

Significant Accounting Policies continued

I. Intangible assets continued
The carrying amounts of intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable and, in the case of capitalised development expenditure, reviewed for impairment annually while the asset is not yet in use.

J. Property, plant and equipment
Property, plant and equipment is stated at purchase cost, together with any directly attributable costs of acquisition. The carrying amount and useful lives of property, plant and equipment with material residual values are reviewed at each balance sheet date.

Depreciation is provided on all property, plant and equipment on a straight line basis to write down the assets to their estimated residual value over the useful economic life of the asset as follows:

Long leasehold buildings	– 50 years or term of the lease, if shorter
Short leasehold property	– over the term of the lease
Plant, equipment and vehicles	– two to ten years

When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

K. Impairment of assets
Goodwill

The carrying amounts of the Group's goodwill assets are assessed annually as to whether an impairment adjustment may be required. The assets under review are grouped under the appropriate cash-generating unit (CGU) for which there are separately identifiable cash flows. Goodwill is held at CGU level and allocated directly to the CGU under review. The calculation requires an estimation of the value in use of the CGU to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. An impairment charge is initially made against goodwill of the CGU and thereafter against other assets. Any impairment is charged to the income statement under the relevant expense heading.

Property, plant and equipment and intangible assets excluding goodwill

At each balance sheet date the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss. The recoverable amount is the higher of the asset's value in use and its fair value less costs to sell. Value in use is calculated using cash flow projections for the asset discounted at the specific discount rate for the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense in the income statement.

A previously recognised impairment loss, other than goodwill, is reversed only if there has been a change in the previous indicator used to determine the assets recoverable amount since the last impairment loss was recognised. The reinstated carrying amount cannot exceed the carrying amount that would have been determined, net of amortisation, had no impairment loss been recognised for the asset in prior years.

L. Inventories
Inventories are stated at the lower of cost and net realisable value. Cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion, such as marketing, selling and distribution.

M. Leases
Finance leases, which transfer to the Group substantially all of the benefits and risks of ownership of an asset, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated life of the asset or the lease term. Leases, which the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the term of the lease.

N. Share-based payments

The Company issues share options to employees from time to time. Under IFRS the equity-settled, share-based payment awards are valued at fair value at inception and this cost is recognised over the option vesting period of three years. The Board has used an appropriate model to estimate the fair value of the options. Various assumptions affect the value of the options and the Board has considered these assumptions in order to derive an appropriate charge for the cost of the options. The key assumptions used to derive the charge include the probability of performance achievement and the expected future dividend yield of the shares.

O. Provisions and contingent liabilities

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or present obligations where the outflow of resources is uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

P. Pensions

The Group provides contributions on behalf of certain Directors and employees to a series of defined contribution pension schemes. Contributions payable in the year are charged to the income statement.

Q. Foreign currencies

The individual financial statements of each Group Company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purposes of the consolidated financial statements, the results and financial position of each Group Company are expressed in UK Pounds Sterling, which is the functional currency of the Company and the presentational currency for the consolidated financial statements.

Transactions in foreign currencies are translated at the exchange rate ruling at the date of transaction. Foreign exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the income statement in the period in which they arise.

Assets and liabilities of subsidiaries denominated in a different functional currency to that of the Groups' presentational currency are translated into Pounds Sterling at the rate of exchange ruling at the balance sheet date and results are translated at the average rate of exchange for the year. The use of an average exchange rate for the year rather than actual exchange rates at the dates of transactions is considered to approximate to actual rates for the translation of the results of foreign subsidiaries.

Differences on exchange, arising from the retranslation of the opening net investment in subsidiary companies which have functional currencies that differ to Pound Sterling, and from the translation of the results of those companies at an average rate, are taken to reserves and reported in other comprehensive income. Exchange differences arising on the retranslation of non-trading intra-group balances reported in foreign subsidiaries are regarded as part of the net investment in the subsidiary and treated as a movement in the translation reserve on consolidation. When an operation is sold, amounts recognised in reserves on the translation of foreign operations are recycled through the income statement.

R. Financial instruments

Financial assets

Financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument and arise principally through the provision of goods and services to customers (trade and other receivables). A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for de-recognition.

Trade receivables

Trade receivables do not carry any interest and are initially stated at their fair value. Subsequent measurement is at amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts. Allowances for irrecoverable amounts are made when there is evidence that the Group may not be able to collect the amount due. The impairment recorded is the difference between the carrying value of the receivables and the estimated future cash flows. Any impairment required is recorded in the income statement in administrative expenses.

Significant Accounting Policies continued

R. Financial instruments continued

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents are net of outstanding bank overdrafts.

Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. Trade payables and other short-term monetary liabilities are initially recorded at fair value and subsequently carried at amortised cost using the effective interest rate method. Bank borrowings are initially recognised at the fair value on initial recognition date, which in the case of an arm's length transaction is the amount advanced, exclusive of any transaction costs directly attributable to the issue of the instrument and subsequently carried at amortised cost. A financial liability is derecognised when the obligation is discharged, cancelled or expires.

S. Equity

The balances classified as share capital represent the proceeds of the nominal value on the issue of the Company's equity share capital net of issue costs. The share premium reserve represents the value of the consideration shares that were issued to fund the acquisition of Icon Limited in October 2016.

The translation reserve is used to record exchange differences arising from the retranslation of the opening net investment and income statement of foreign subsidiaries. The amounts relating to share options issued but not yet exercised and shares in the Company held by the Employee Share Ownership Trust are reported as other reserves.

T. Employee Share Ownership Trust

Equity shares in Elecosoft plc held by the Employee Share Ownership Trust ('ESOT') are treated as a deduction from the issued and weighted average number of shares. The consideration paid is deducted from equity until the shares are cancelled, reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of related transaction costs and income tax effects, are included in equity attributable to the Company's equity holders.

U. New standards and interpretations not applied

The following new amendments to standards were in issue but have not yet been endorsed by the EU are not yet effective for the financial year beginning 1 January 2016:

	Effective date
International Accounting Standards (IAS/IFRS)	
IFRS 9 Financial instruments – Classification and measurement	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2017
IFRS 16 Leases	1 January 2019
IAS 16 and IAS 41 (amendments) – Clarification of acceptable methods of depreciation and amortisation	
IAS 16 and IAS 41 (amendments) – Agriculture: Bearer plants	
IAS 27 (amendments) – Equity method in separate financial statements	

No new standards becoming effective and applied in the current year have had a material impact on the financial statements.

The Directors expect that 'IFRS 15 – Revenue from contracts with customers' will require a review of the Group's revenue recognition policies. The timing and amount of revenue recognised may not change for simple contracts that have a single deliverable but certain complex arrangements may have an impact on revenue recognition and related disclosures. The impact of 'IFRS 16 – Leases' will require a change in the classification of operating leases to 'on-balance sheet' and the related interest expense will be front loaded. It is not practicable to provide a reasonable estimate of the effect of IFRS 15 and IFRS 16 until a detailed review has been completed.

Otherwise, the Directors anticipate that the adoption of these standards in future periods will have no material impact on the financial statements of the Group except for additional disclosures when the relevant standard comes into effect.

Notes to the Consolidated Financial Statements

1. Revenue

Revenue from continuing operations disclosed in the income statement is analysed as follows:

	2016 £'000	2015 £'000
Licence sales	**4,955**	4,536
Recurring maintenance and support revenue	**8,622**	7,278
Services income	**4,218**	3,446
Total revenue	**17,795**	15,260

2. Segment information

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.

	2016 Software £'000	2015 Software £'000
Revenue	**17,795**	15,260
Adjusted operating profit	**4,721**	3,446
Depreciation charge	**(207)**	(174)
Product development costs	**(1,968)**	(1,640)
Operating profit before amortisation of intangible assets, acquisition expenses and termination payments	**2,546**	1,632
Amortisation of intangible assets	**(631)**	(495)
Acquisition expenses	**(212)**	–
Former Directors' termination payments	**(109)**	(11)
Operating profit	**1,594**	1,126
Net finance cost	**(90)**	(120)
Segment profit before tax	**1,504**	1,006
Tax	**(261)**	(204)
Segment profit after tax	**1,243**	802
Internal development costs capitalised	**(625)**	(665)
Total development costs	**(2,593)**	(2,305)
Operating profit	**1,594**	1,126
Amortisation of intangible assets	**631**	495
Depreciation charge	**207**	174
EBITDA	**2,432**	1,795

Adjusted operating profit of £4,721,000 (2015: £3,446,000) is stated before description and amortisation of intangible assets, product development costs and certain items considered as non-recurring. The latter includes acquisition expenses and termination payments relating to former Directors.

Notes to the Consolidated Financial Statements continued

2. Segment information continued

Development project costs are expensed as incurred unless they meet the accounting policy requirements for capitalisation. The software projects that have been capitalised in the twelve months to 31 December 2016 are explained in the Financial Review on page 26 and the accounting policy requirements for capitalisation are set out on in the Significant Accounting Policies in section I.

	2016 Software £'000	2015 Software £'000
Group assets and liabilities		
Segment assets	**21,986**	17,595
Unallocated assets	**–**	–
Total Group assets	**21,986**	17,595
Segment liabilities	**12,270**	9,682
Unallocated liabilities	**–**	–
Total Group liabilities	**12,270**	9,682

Geographical, product and sales channel information

Revenue by geographical area represents continuing operations revenue from external customers based upon the geographical location of the customer.

Revenue by geographical destination is as follows:

	2016 £'000	2015 £'000
UK	**5,498**	4,857
Scandinavia	**6,745**	5,950
Germany	**2,982**	2,308
Rest of Europe	**1,653**	1,359
Rest of World	**917**	786
	17,795	15,260

Rest of World includes revenue from customers in US of £633,000 (2015: £571,000).

Revenue by product group represents continuing operations revenue from external customers.

Revenue by product group is as follows:

	2016 £'000	2015 £'000
Project management	**8,572**	7,493
Site management	**474**	396
Estimating	**2,964**	2,557
Engineering	**2,827**	2,373
CAD/Design	**1,137**	1,001
Visualisation	**1,821**	1,440
	17,795	15,260

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

Revenue by sales channel is as follows:

	2016 £'000	2015 £'000
Direct	**16,674**	14,236
Reseller	**1,121**	1,024
	17,795	15,260

Non-current assets excluding deferred tax by geographical area represent the carrying amount of assets based in the geographical area in which the assets are located.

Non-current assets by geographical location are as follows:

	2016 £'000	2015 £'000
UK	**8,027**	7,130
Scandinavia	**6,145**	4,350
Germany	**1,396**	1,040
Rest of Europe	**88**	44
Rest of World	**2**	1
	15,658	12,565

Information about major customers
Revenues arising from sales to the Group's largest customer were below the reporting threshold of 10 per cent of Group revenue (2015: below 10 per cent reporting threshold).

3. Operating profit
The continuing operations operating profit for the period is stated after charging/(crediting) the following items.

	2016 £'000	2015 £'000
Software product development	**1,968**	1,640
Depreciation of property, plant and equipment	**207**	174
Amortisation of intangible assets acquired	**389**	380
Amortisation of capitalised development costs	**242**	115
Profit on disposal of property, plant and equipment	**(28)**	(18)
Foreign exchange (gains)/losses	**(73)**	85
Fees payable to the Company's auditor for the audit of the Company's financial statements	**38**	35
Fees payable to the Company's auditor for other services:		
– Audit of the subsidiaries financial statements	**54**	39
– Other assurance services	**2**	–
Operating lease rentals:		
Plant, equipment and vehicles	**42**	47
Properties	**394**	359
Acquisition expenses	**212**	–
Former Directors' termination payments	**109**	(11)

Notes to the Consolidated Financial Statements continued

4. Employee information

The average number of employees during the period, including Directors, in continuing operations was made up as follows:

	2016 number	2015 number
Sales and marketing	**54**	57
Client services	**56**	52
Software development	**46**	41
Management and administration	**34**	28
	190	178

Staff costs during the period, including Directors, in continuing operations amounted to:

	2016 £'000	2015 £'000
Wages and salaries	**8,194**	6,814
Social security	**1,680**	1,419
Pension costs	**566**	485
Share-based payments	**13**	20
	10,453	8,738
Less: Development staff costs capitalised	**(625)**	(665)
	9,828	8,073

Pension costs relate to contributions to defined contribution pension schemes. Development staff costs are charged to projects and capitalised if those projects meet the criteria for capitalisation. The details of the criteria for capitalisation are set out in the Significant Accounting Policies under section I.

The remuneration of the Directors, who are the key management personnel of the Group, is set out below:

	2016 £'000	2015 £'000
Short-term employee benefits	**576**	643
Post-employment benefits	**23**	22
Termination benefits	**100**	11
Share based payments	**13**	20
Executive Directors	**712**	696
Fees – Non-Executive Directors	**82**	90
	794	786

The emoluments of the highest paid Director were £280,000 (2015: £361,000). Employers' NIC payments in respect of the Directors' remuneration were £85,000 (2015: £95,000).

The remuneration of the Non-Executive Directors is determined by the Board. The Non-Executive Directors do not have service contracts but are appointed for an initial term of three years, which may thereafter be renewed from year to year. They do not participate in any of the Groups' share based incentive or pension schemes.

5. Net finance income/(cost)

Finance income and costs from continuing operations is set out below:

	2016 £'000	2015 £'000
Finance income:		
Bank and other interest receivable	3	1
Finance costs:		
Bank overdraft and loan interest	(84)	(107)
Finance leases and hire purchase contracts	(9)	(14)
Total net finance cost	(90)	(120)

6. Taxation

(a) Tax on profit on ordinary activities

The tax charge in the income statement from continuing operations is as follows:

	2016 £'000	2015 £'000
Current tax:		
UK corporation tax on profits of the year	34	2
	34	2
Foreign tax	145	121
Total current tax	179	123
Deferred tax:		
Origination and reversal of temporary differences	87	74
Tax adjustments in respect of previous years	(5)	7
Total deferred tax	82	81
Tax charge in the income statement	261	204

Income tax for the UK has been calculated at the standard rate of UK corporation tax of 20.0 per cent effective from 1 April 2015 (2015: 20.25 per cent) on the estimated assessable profit for the period. Taxation for foreign companies is calculated at the rates prevailing in the relevant jurisdictions.

Notes to the Consolidated Financial Statements continued

6. Taxation continued

(b) Reconciliation of continuing operations tax charge

The tax assessed on continuing operations accounting profit before income tax for the year is the same as the standard rate of UK corporation tax of 20.0 per cent for the period under review. The reconciliation is explained below:

	2016 £'000	2015 £'000
Profit on continuing operations before tax	**1,504**	1,006
Tax calculated at the average standard rate of UK corporation tax of 20.0 per cent (2015: 20.25 per cent) applied to profits before tax	**301**	204
Effects of:		
Expenses not deductible for tax purposes	**90**	46
Research and development tax relief	**(54)**	(94)
Group relief/losses surrendered not paid	**–**	4
Non taxable statutory compensation	**–**	(15)
Deferred tax not recognised	**(15)**	39
Share option deduction	**–**	4
Prior year adjustments	**(5)**	7
Utilisation of losses	**(80)**	(17)
Tax rate differences in foreign jurisdictions	**16**	24
Other differences	**8**	2
Continuing operations tax charge for the year	**261**	204

(c) Unrecognised tax losses

The Group has tax losses of £696,000 (2015: £762,000) arising at one of its operations in Germany for which no deferred tax asset has been recognised and tax losses of £1,764,000 (2015: £1,874,000) arising in the UK. Potential deferred tax asset not recognised in respect of losses in UK subsidiaries is £347,000 (2015: £390,000). No deferred tax is recognised on the unremitted earnings of overseas subsidiaries.

7. Dividends

Dividends of £111,000 (2015: £nil) were paid during the year as follows:

Ordinary shares	2016 per share	2015 per share	2016 £'000	2015 £'000
Declared and paid during the year				
Interim – current year	**0.15**	–	**111**	–
Final – previous year	**–**	–	**–**	–
	0.15	–	**111**	–

The Directors have recommended a final dividend of 0.25 pence per ordinary share for 2016 (2015: nil) resulting in a total dividend for the year of 0.40 pence per ordinary share (2015: nil). If the 2016 final dividend is approved at the Annual General Meeting, the dividend will be paid on 24 May 2017 to shareholders on the register at the close of business on 7 April 2017 (ex-div date 6 April 2017). In accordance with IFRS, the dividend is not provided for as a liability in the accounts until it becomes a legal liability of the Company and therefore will be recorded in the interim and annual accounts for 2017.

8. Basic and diluted earnings per share

The calculation of the basic and diluted earnings per ordinary share from continuing operations is based on the data below:

	2016	2015
Continuing operations	**£1,243,000**	£802,000
Discontinued operations	**–**	£360,000
Total profit after taxation	**£1,243,000**	£1,162,000
Basic weighted average number of shares	**74,433,243**	73,970,534
Dilutive effect of share options	**1,029,000**	882,000
Diluted weighted average number of shares	**75,462,243**	74,852,534

Basic earnings per ordinary share is calculated from continuing operations profit after tax attributable to ordinary equity shareholders of the Company and the weighted average number of shares in issue for the reporting period.

Basic earnings per share	2016	2015
Continuing operations	**1.7p**	1.1p
Discontinued operations	**–p**	0.5p
Total operations	**1.7p**	1.6p

Dilutive earnings per ordinary share is calculated by adjusting the weighted average number of shares in issue for the reporting period to include the assumed conversion of the dilutive share options outstanding at 31 December 2016.

Diluted earnings per share	2016	2015
Continuing operations	**1.6p**	1.1p
Discontinued operations	**–p**	0.5p
Total operations	**1.6p**	1.6p

Shares held by the Employee Share Ownership Trust are excluded from the weighted average number of shares in the period.

9. Goodwill

	2016 £'000	2015 £'000
Cost:		
B/f	**10,152**	10,571
Acquisition of business (note 23)	**1,245**	–
Disposal of business	**–**	(395)
Exchange differences	**72**	(24)
	11,469	10,152
Impairment:		
B/f	**–**	–
	–	–
Net book value	**11,469**	10,152

The acquisition amount in the year includes Elecosoft BV based in the Netherlands, purchased in January 2016 and Icon Ltd based in Leicestershire, purchased in October 2016. Goodwill denominated in currencies other than Pound Sterling is revalued at the appropriate closing exchange rate.

Notes to the Consolidated Financial Statements continued

9. Goodwill continued

Goodwill acquired through acquisitions net of impairments is set out below:

	2016 £'000	2015 £'000
Elecosoft UK	**4,804**	4,804
Asta Development Germany	**230**	199
Elecosoft Sweden	**4,453**	4,416
Elecosoft Netherlands	**20**	–
Eleco Software Germany	**367**	363
ESIGN® Software Germany	**370**	370
Elecosoft Icon	**1,225**	–
	11,469	10,152

The Directors consider each of the operating businesses listed above, which are those units for which a separate cash flow is computed, to be a cash-generating unit (CGU) and each CGU is reviewed annually for impairment. For each CGU, the Directors have determined its recoverable amount based on value-in-use calculations.

The value in use was derived from discounted post tax management cash flow forecasts for the businesses, using the budgets and strategic plans based on past performance and expectations for the market development of the CGU incorporating an appropriate business risk. The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates and expected changes to revenues and operating cost during the period.

The key estimates and assumptions used in calculating each CGU's value in use are shown in the table below. The market growth rates and inflation rates used are in line with external sources.

CGU	Growth rate pa	Inflation rate pa	Discount rate pa	Business risk rate pa
Elecosoft UK	1.5%	2.0%	12.0%	2.0%
Asta Development Germany	1.6%	1.5%	12.0%	2.0%
Elecosoft Sweden	2.4%	1.7%	12.0%	2.0%
Elecosoft Netherlands	2.2%	1.1%	12.0%	2.0%
Eleco Software Germany	1.6%	1.5%	12.0%	2.0%
ESIGN® Software Germany	1.6%	1.5%	12.0%	2.0%
Elecosoft Icon	1.5%	2.0%	12.0%	1.0%

These budgets and strategic plans cover a five year period. The growth rates used to extrapolate the cash flows beyond this period ranges between 1.8 per cent and 2.6 per cent depending on the geographical location of the CGU. A business risk factor between 1.0 per cent and 2.0 per cent is applied to cash flows to reflect the different business risks specific to the asset which is not adjusted in the discount rate. The business risk is based on the estimated variability of the CGUs budget cash flows. Sensitivity analysis is carried out on all budgets and strategic plans used in the calculations. The discount rates used for all CGUs is 12.00 per cent (2015: 12.00 per cent) based on an adjusted Group estimated weighted average cost of capital.

The key sensitivities in assessing the value in use of goodwill are forecast cash flows and the discount rate applied. The headroom in the value-in-use calculation for the CGUs with a significant amount of goodwill together with the results of the sensitivities are shown below:

Value-in-use headroom	Base scenario £'000	Sensitivity 1% reduction in growth rate pa £'000	Sensitivity 1% increase in discount rate pa £'000
Elecosoft UK	16,792	14,717	14,757
Elecosoft Sweden	3,281	2,261	2,369

The cumulative impairment charge recognised at 31 December 2016 was £nil (2015: £nil).

10. Other intangible assets

	Customer relationships £'000	Intellectual property £'000	Total £'000
Cost:			
At 1 January 2016	**3,258**	**2,234**	**5,492**
Acquisition of business (note 23)	**782**	**495**	**1,277**
Additions	**–**	**129**	**129**
Additions – internal development	**–**	**625**	**625**
Disposals	**–**	**(496)**	**(496)**
Exchange differences	**1**	**25**	**26**
At 31 December 2016	**4,041**	**3,012**	**7,053**
Accumulated amortisation and impairment:			
At 1 January 2016	**2,443**	**1,139**	**3,582**
Amortisation charge for the year	**288**	**343**	**631**
Disposals	**–**	**(495)**	**(495)**
Exchange differences	**–**	**14**	**14**
At 31 December 2016	**2,731**	**1,001**	**3,732**
Net book value at 31 December 2016	**1,310**	**2,011**	**3,321**

The values attributed to customer relationships represent the fair value of acquired customer contracts and relationships held by the acquired Company at the date of acquisition. Similarly, values attributed to intellectual property represent the fair value of acquired intellectual property. Acquisitions in the year include Integrated Computing and Office Networking Limited 'Icon' and Asta Development BV.

Additions in the year represent purchased intangible assets of £129,000 (2015: £89,000) and internal development costs capitalised of £625,000 (2015: £665,000). Internal development represents software development project costs that meet the accounting policy criteria for capitalisation. Further details of the software development projects that have been capitalised in the period are set out in the Financial Review on page 26.

Amortisation charges are shown separately in the Consolidated Income Statement.

	Customer relationships £'000	Intellectual property £'000	Total £'000
Cost:			
At 1 January 2015	3,258	1,606	4,864
Additions	–	89	89
Additions – internal development	–	665	665
Disposals	–	(100)	(100)
Exchange differences	–	(26)	(26)
At 31 December 2015	3,258	2,234	5,492
Accumulated amortisation and impairment:			
At 1 January 2015	2,174	1,007	3,181
Amortisation charge for the year	269	226	495
Disposals	–	(76)	(76)
Exchange differences	–	(18)	(18)
At 31 December 2015	2,443	1,139	3,582
Net book value at 31 December 2015	815	1,095	1,910

Notes to the Consolidated Financial Statements continued

11. Property, plant and equipment

	Leasehold buildings £'000	Plant, equipment and vehicles £'000	Total £'000
Cost:			
At 1 January 2016	16	1,509	1,525
Acquisition of business	8	23	31
Additions	182	401	583
Disposals	(19)	(311)	(330)
Exchange differences	–	83	83
At 31 December 2016	187	1,705	1,892
Accumulated depreciation and impairment:			
At 1 January 2016	16	1,006	1,022
Depreciation charge for the year	16	191	207
Disposals	(19)	(259)	(278)
Exchange differences	–	73	73
At 31 December 2016	13	1,011	1,024
Net book value at 31 December 2016	174	694	868

Additions in the year include £134,000 (2015: £223,000) of plant, equipment and vehicles acquired on a finance lease or hire purchase agreement. The net book value of plant, equipment and vehicles includes an amount of £386,000 (2015: £371,000) in respect of assets held under finance leases and hire purchase agreements.

	Leasehold land and buildings £'000	Plant, equipment and vehicles £'000	Total £'000
Cost:			
At 1 January 2015	16	1,550	1,566
Additions	–	281	281
Disposals	–	(293)	(293)
Exchange differences	–	(29)	(29)
At 31 December 2015	16	1,509	1,525
Accumulated depreciation and impairment:			
At 1 January 2015	16	975	991
Depreciation charge for the year	–	174	174
Disposals	–	(125)	(125)
Exchange differences	–	(18)	(18)
At 31 December 2015	16	1,006	1,022
Net book value at 31 December 2015	–	503	503

12. Operating lease commitments

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Property 2016 £'000	**Other 2016 £'000**	Property 2015 £'000	Other 2015 £'000
Within one year	**405**	**30**	355	30
Between two and five years	**1,184**	**20**	932	75
After five years	**1,167**	**9**	1,046	–
	2,756	**59**	2,333	105

Operating lease payments represent rentals payable by the Group for certain of its properties and other assets. The property leases are subject to periodic rent reviews.

13. Capital commitments

Capital expenditure commitments of £nil (2015: £nil) have been placed with suppliers at 31 December 2016.

14. Inventories

	2016 £'000	2015 £'000
Finished goods	**11**	9
	11	9

At 31 December 2016 the Groups' inventory provisions were £nil (2015: £nil).

15. Trade and other receivables

	2016 £'000	2015 £'000
Gross trade receivables	**3,243**	2,427
Impairment	**(75)**	(41)
Net trade receivables	**3,168**	2,386
Other receivables	**84**	134
Prepayments and accrued income	**422**	351
	3,674	2,871

The Group offers credit terms to customers depending on the credit status of the customer. The Group makes provision against trade receivables when it considers them to be impaired and takes into account the specific circumstances of the receivable and the Groups' relationship with the customer. The average credit period taken on the sales of goods and services is 54 days (2015: 48 days). No interest is charged on past due trade receivables (2015: £nil).

The carrying amounts of trade and other receivables are denominated in the following currencies:

	2016 £'000	2015 £'000
Sterling	**937**	754
Euro	**732**	496
Swedish Krona	**1,737**	1,557
US Dollar	**220**	36
Other	**48**	28
	3,674	2,871

Notes to the Consolidated Financial Statements continued

15. Trade and other receivables continued

Movement in the provision for doubtful debts in respect of trade receivables during the period was as follows:

	2016 £'000	2015 £'000
B/f	**(41)**	(155)
Written off as uncollectable	**8**	116
Recovered during the period	**19**	1
Provided against during the period	**(55)**	(5)
Exchange differences	**(6)**	2
	(75)	(41)

The ageing of trade receivables at the balance sheet date that are past due but against which no provision has been made is as follows:

	2016 £'000	2015 £'000
Not more than three months	**499**	265
More than three months but less than six months	**21**	–
	520	265

16. Trade and other payables

	2016 £'000	2015 £'000
Trade payables	**654**	455
Other taxation and social security	**429**	446
Deferred consideration payable	**–**	6
Other liabilities	**376**	348
	1,459	1,255

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 36 days (2015: 37 days). The Directors consider that the carrying amount of trade payables approximates to their fair value.

17. Borrowings

	2016 £'000	2015 £'000
Current liabilities:		
Bank loans and overdrafts	**1,129**	1,424
Obligations under finance leases and hire purchase contracts	**163**	139
	1,292	1,563
Non-current liabilities:		
Bank loans	**2,370**	972
Obligations under finance leases and hire purchase contracts	**218**	225
	2,588	1,197
Total loans and borrowings	**3,880**	2,760
Cash and cash equivalents	**(2,576)**	(1,957)
Net borrowings	**1,304**	803

The UK banking facilities are with Barclays Bank plc and the Group facilities comprise the following:

- a term loan of £3.2m, with 16 quarterly loan repayments of £197,500 commencing from January 2017, carrying an interest rate of 2.75 per cent over base rate; and
- a £1.0m overdraft facility, carrying an interest rate of 2.75 per cent over base rate.

Security provided to the bank for the provision of these facilities is a cross guarantee and debenture between the Parent Company and certain UK subsidiary companies and a commitment of the shares of the operating companies.

The previous term loan with quarterly loan repayments of £187,500 commencing October 2014 was fully repaid in October 2016.

The bank loans and overdrafts are repayable as follows:

	2016 £'000	2015 £'000
In one year or less	1,129	1,424
Between one and two years	790	750
Between two and five years	1,580	222
	3,499	2,396

The principal commitments of the Group under finance leases are repayable as follows:

	2016 £'000	2015 £'000
Plant, equipment and vehicles:		
In one year or less	163	139
Between one and two years	91	129
Between two and five years	127	96
	381	364

The minimum lease payments of the Group under finance leases are as follows:

	Present lease value £'000	Interest £'000	Minimum lease payments £'000
In one year or less	163	5	168
Between one and two years	91	3	94
Between two and five years	127	2	129
At 31 December 2016	381	10	391
In one year or less	139	10	149
Between one and two years	129	6	135
Between two and five years	96	3	99
At 31 December 2015	364	19	383

Notes to the Consolidated Financial Statements continued

18. Provisions

	Property dilapidation provision £'000	Restructuring provision £'000	Insurance premium provision £'000	Total £'000
At 1 January 2016	**12**	**100**	**230**	**342**
Reclassification	**–**	**117**	**(117)**	**–**
Charge to the income statement	**–**	**–**	**38**	**38**
Utilised in the year	**(12)**	**(66)**	**(35)**	**(113)**
Exchange	**–**	**–**	**2**	**2**
At 31 December 2016	**–**	**151**	**118**	**269**
Current liabilities	**–**	**151**	**77**	**228**
Non-current liabilities	**–**	**–**	**41**	**41**
	–	**151**	**118**	**269**

Reorganisation costs following the disposal of the former ElecoBuild businesses and the restructuring of head office together with part of the overseas software operations are reported under the restructuring provision.

The expected ongoing cost of the professional indemnity run-off insurance premiums relating to the former ElecoBuild businesses and an excess professional indemnity premium on a possible claim in Sweden is included under the insurance premium provision.

	Property dilapidation provision £'000	Restructuring provision £'000	Insurance premium provision £'000	Total £'000
At 1 January 2015	12	40	310	362
Reclassification	–	20	(20)	–
Charge to the income statement	–	40	10	50
Utilised in the year	–	–	(70)	(70)
At 31 December 2015	12	100	230	342
Current liabilities	12	100	91	203
Non-current liabilities	–	–	139	139
	12	100	230	342

19. Accruals and Deferred Income

	2016 £'000	2015 £'000
Accruals	**1,602**	1,360
Deferred income	**4,401**	3,708
	6,003	5,068

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.

20. Deferred Tax

	Non-deductible intangible assets £'000	Temporary differences: Accelerated capital allowances £'000	Other £'000	Total £'000
At 1 January 2016	**332**	**(123)**	**33**	**242**
Reclassification	**20**	**–**	**(20)**	**–**
Acquisition of business	**241**	**–**	**–**	**241**
(Credit)/charge to the income statement	**(58)**	**63**	**77**	**82**
Exchange differences	**–**	**–**	**5**	**5**
At 31 December 2016	**535**	**(60)**	**95**	**570**
At 1 January 2015	275	(147)	34	162
Charge to the income statement	57	24	–	81
Exchange differences	–	–	(1)	(1)
At 31 December 2015	332	(123)	33	242

The charge to the Consolidated Income Statement comprises a charge to continuing operations of £82,000 (2015: £81,000). The acquisition of business represents the deferred tax on the valuation of the acquired customer relationships and software.

Deferred tax on temporary differences has been calculated at the rate of 19.0 per cent (2015: 20.0 per cent).

Deferred tax liabilities are presented as non-current in the consolidated balance sheet. Deferred tax unprovided in respect of losses in UK subsidiaries is £347,000 (2015: £390,000) due to the unpredictability of future profit streams against which these losses may be offset. These losses may be carried forward indefinitely.

21. Called up share capital

	2016 Nominal value £'000	2015 Nominal value £'000
Authorised:		
85,000,000 (2015: 85,000,000) ordinary shares of 1 pence each (2015: 1 pence each)	**850**	850
Allotted, called up and fully paid:		
77,089,350 (2015: 74,867,127) ordinary shares of 1 pence each (2015: 1 pence each)	**771**	749

The increase in called up and fully paid share capital in the year relates to the acquisition of Integrated Computing and Office Networking Limited in October 2016 that was partly funded by issuing 2,222,223 of consideration shares.

22. Share-based payments

The Company operates one share scheme and options outstanding at 31 December 2016 over ordinary shares granted under the scheme were as follows:

Date awarded	Number of ordinary shares	Vesting dates: Earliest	Vesting dates: Latest	weighted average remaining contractual life (months)
13 February 2015	300,000	1 February 2018	12 February 2025	84
27 October 2016	750,000	1 June 2019	26 October 2026	89
	1,050,000			88

Notes to the Consolidated Financial Statements continued

22. Share-based payments continued

Share awards were made under the Company's Long Term Incentive Plan (LTIP) during the year amounting to 750,000 shares at an exercise price of 28.70 pence per share and a fair value of £78,000 was calculated at the grant date and is used as a basis for charging the income statement. Of the 900,000 options awarded during 2015, 600,000 lapsed in the year as a result of the employee leaving the business.

During the year, a total of 750,000 share options were granted to the Executive Directors and are exercisable after 2.6 years (refer to the Directors' Report on page 33), subject to certain performance criteria being achieved. The criteria include (i) revenue for the twelve months ended 31 December 2018 is at least £21.4m and (ii) EPS for the twelve months ended 31 December 2018 is at least 2.76 pence. In the event that the employee leaves within the initial 2.6 year period he may (depending upon the timing and circumstances of his departure) be entitled to retain some of his options, but only if certain yearly earnings per share targets have at that time been met. The options are exercisable until 26 October 2026, ten years after the date of grant.

The options awarded in 2015 are exercisable after 3.0 years, subject to certain performance criteria being achieved, whereby the Company's audited earnings per share for the year ended 31 December 2017 must be at least 22.5 per cent. higher than the Company's audited earnings per share for the year ended 31 December 2014. In the event that the employee leaves within the three year period he may (depending upon the timing and circumstances of his departure) be entitled to retain some of his options, but only if certain yearly earnings per share targets have at that time been met. The options are exercisable until 12 February 2025, ten years after the date of grant.

Details of the number of options over ordinary shares outstanding during the year are as follows:

	at 31 December 2016		at 31 December 2015	
	Number	Weighted average fair value per share	Number	Weighted average fair value per share
Outstanding at the beginning of the year	900,000	20.8	–	–
Granted during the year	750,000	28.0	900,000	20.8
Exercised during the year	–	–	–	–
Lapsed during the year	(600,000)	20.8	–	–
Outstanding at the end of the year	1,050,000	25.9	900,000	20.8
Exercisable at the end of the year	–		–	

The options outstanding at 31 December 2016 had a weighted average exercise price of 26.4 pence and weighted average remaining contractual life of 88 months.

The expense recognised by the Group for share-based payments under the LTIP scheme in respect of employee services during the year ended 31 December 2016 was £13,000 (2015: £20,000).

An appropriate financial model is used to value the share options and the key assumptions used for the outstanding awards are shown below:

	2016	2015
Share price at grant date	27.75p	20.5p
Fair value per share	28.0p	20.8p
Exercise price per share	28.70p	20.75p
% Expected to vest (at date of grant)	98%	98%
Expected life (years)	2.6	3.0
Dividend yield	1.80%	4.17%
Fair value	£78,000	£73,000

23. Acquisitions

On 17 October 2016 the Group acquired the share capital of Integrated Computing and Office Networking Limited ('Icon'), enhancing its range of building information software, for a total consideration of £2,342,000. The consideration comprised the payment of £1,800,000 in cash from the Group's existing resources (less a working capital adjustment of £58,000) and £600,000 in consideration shares.

An analysis of the fair value of the Icon net assets acquired and the fair value of the consideration paid is set out below:

	Book value £'000	Fair value adjustments £'000	Provisional fair value £'000
Customer relationships	–	748	748
Software	28	453	481
Property, plant and equipment	28	–	28
Trade and other receivables	224	–	224
Cash and cash equivalents	110	–	110
	390	1,201	1,591
Trade and other payables	(80)	–	(80)
Current tax liabilities	(48)	–	(48)
Accruals and deferred income	(105)	–	(105)
Deferred tax	–	(241)	(241)
	(233)	(241)	(474)
Net assets	157	960	1,117
Goodwill			1,225
Total consideration			2,342

Satisfied by:	
Cash	1,742
Shares	600
	2,342

Customer relationships relates to the value attributed to the customer list acquired as part of the acquisition of the business.

Goodwill contains certain intangible assets that cannot be individually, separately and reliably measured from the acquiree due to their nature. These items include the value of the management and workforce together with synergies that are expected to be gained from being part of the Group.

In the period since acquisition, Icon contributed £9,000 to the Group's operating profit. It utilised £nil for purchase of property plant and equipment and £nil for financing activities.

If the acquisition had been completed at the beginning of the reporting period, turnover from continuing operations would have been £685,000 higher, and profit from continuing operations £153,000 higher.

On 4 January 2016 the Group acquired the business and assets of Asta Development BV, a reseller based in the Netherlands, for a total consideration of £68,000. The consideration comprised the payment of £48,000 in cash from the Group's existing resources on completion and £20,000 deferred consideration payable on the successful collection of annual maintenance renewals.

Notes to the Consolidated Financial Statements continued

23. Acquisitions continued

An analysis of the fair value of the Asta Development BV net assets acquired and the fair value of the consideration paid is set out below:

	Book value £'000	Fair value adjustments £'000	Provisional fair value £'000
Customer relationships	–	34	34
Software	–	14	14
Property, plant and equipment	3	–	3
	3	48	51
Net assets	3	48	51
Goodwill			20
Total consideration			71

Satisfied by:	
Cash	48
Deferred consideration	20
Exchange difference	3
	71

Customer relationships relates to the value attributed to the customer list acquired as part of the acquisition of the business.

Goodwill contains certain intangible assets that cannot be individually, separately and reliably measured from the acquiree due to their nature. These items include the value of the management and workforce together with synergies that are expected to be gained from being part of the Group.

In the period since acquisition, the business made a loss of £41,000. It utilised £3,000 for purchase of property, plant and equipment and £nil for financing activities.

24. Financial instruments

(a) Financial assets and liabilities

The carrying amount and fair value of financial assets and liabilities at the period end are set out below:

	2016 £'000	2015 £'000
Loans and receivables:		
Cash and cash equivalents	**2,576**	1,957
Trade and other receivables	**3,252**	2,520
Loans and receivables	**5,828**	4,477
Financial liabilities:		
Trade and other payables	**1,029**	809
Bank loans and overdrafts	**3,499**	2,396
Accruals	**1,603**	1,360
Non-current liabilities	**–**	13
Financial liabilities held at amortised cost	**6,131**	4,578

The carrying value of the Groups' financial assets and liabilities are considered to approximate their respective fair values.

(b) Interest rate and currency profile of financial assets and liabilities
Financial assets and liabilities comprise interest-bearing and non-interest-bearing assets and liabilities.

The interest rate and currency profiles of the Groups' financial assets and liabilities are set out below:

	Financial liabilities		Financial assets		Net financial (assets)/ liabilities
	Floating rate £'000	Total £'000	Floating rate £'000	Total £'000	£'000
Sterling	**4,362**	**4,362**	**823**	**823**	**3,539**
Euro	**269**	**269**	**1,611**	**1,611**	**(1,342)**
Swedish Krona	**1,478**	**1,478**	**2,823**	**2,823**	**(1,345)**
US Dollar	**22**	**22**	**408**	**408**	**(386)**
South African Rand	**–**	**–**	**56**	**56**	**(56)**
Other	**–**	**–**	**107**	**107**	**(107)**
At 31 December 2016	**6,131**	**6,131**	**5,828**	**5,828**	**303**
Sterling	2,977	2,977	527	527	2,450
Euro	189	189	1,104	1,104	(915)
Swedish Krona	1,399	1,399	2,680	2,680	(1,281)
US Dollar	7	7	95	95	(88)
South African Rand	–	–	42	42	(42)
Other	6	6	29	29	(23)
At 31 December 2015	4,578	4,578	4,477	4,477	101

There are no fixed rate financial assets.

The interest rate risk profile of the Groups' finance leases at the period end is set out below:

	Weighted average period		Weighted average interest rate	
	2016 Years	2015 Years	**2016 %**	2015 %
Sterling	**0.9**	1.3	**5.84**	5.77
Euro	**n/a**	n/a	**n/a**	n/a
Swedish Krona	**1.8**	2.0	**2.44**	5.09

The Group finances its operations through a mixture of retained profits, a term loan and a bank overdraft. The interest rate on the term loan and the overdraft is 2.75 per cent over the Bank of England base rate.

Notes to the Consolidated Financial Statements continued

24. Financial instruments continued

(c) Currency profile of net foreign currency monetary assets and liabilities

The table below shows the net unhedged monetary assets/(liabilities) of the Group that are not denominated in the functional currency of the operating unit and which therefore give rise to exchange gains and losses in the income statement.

Functional currency of Group operation	Sterling £'000	Euro £'000	Swedish Krona £'000	US Dollar £'000	Other £'000	Total £'000
Sterling	–	24	–	394	9	427
Euro	–	–	–	–	–	–
Swedish Krona	–	179	–	(1)	91	269
At 31 December 2016	–	203	–	393	100	696
Sterling	–	(2)	–	24	10	32
Euro	–	–	–	–	–	–
Swedish Krona	(5)	71	–	1	19	86
At 31 December 2015	(5)	69	–	25	29	118

(d) Financial risk: objectives, policies and strategies

The Groups' interest rate risks and currency risks are managed centrally within policies approved by the Board. The objective of these policies is to mitigate the impact of movements in interest rates and currency rates on the consolidated results of the Group. In addition to these policies, the Groups' liquidity risk policies, approved by the Board, ensure appropriate funding is made available across the Group and is managed centrally.

The net interest payable for the year from continuing operations was £90,000 compared to £120,000 last year. No speculative transactions are undertaken.

At present there is no policy to hedge the Groups' currency exposures arising from the translation of the Groups' overseas net assets or the effect of exchange rate movements on the Groups' overseas earnings.

(e) Market risk: sensitivities

A sensitivity analysis for financial assets and liabilities affected by market risk is set out below. Each risk is analysed separately and shows the sensitivity of financial assets and liabilities when a certain parameter is changed. The sensitivity analysis has been performed on period end balances each year and therefore is not representative of transactions throughout the year. The rates used are based on historical trends and, where relevant, projected forecasts.

(i) Currencies

The Group is exposed to currency risk in relation to the value of its financial assets and liabilities that are denominated in currencies other than Sterling (see note 24b), arising from fluctuations in exchange rates. The Groups' mitigation of its currency risk is set out on page 21 of the Strategic Report. The table below shows the impact on the value of the Groups' reported net financial assets at 31 December of exchange rates either strengthening or weakening by 10 per cent against Sterling and the impact this would have on the reported profit or loss and equity. The Groups' reported equity would be £172,000 lower (2015: £190,000) if Sterling strengthen by 10 per cent and £211,000 higher (2015: £232,000) if Sterling weakened by 10 per cent.

	Net financial (assets)/liabilities:			**Profit/(loss)**		**Equity**	
Effect of change in Sterling +/-10%	**2016 £'000**	**Rate +10% £'000**	**Rate -10% £'000**	**Rate +10% £'000**	**Rate -10% £'000**	**Rate +10% £'000**	**Rate -10% £'000**
Denominated in Sterling	**3,539**	**–**	**–**	**–**	**–**	**–**	**–**
Not denominated in Sterling	**(3,236)**	**294**	**(359)**	**(79)**	**96**	**(172)**	**211**
Total net financial liabilities	**303**	**294**	**(359)**	**(79)**	**96**	**(172)**	**211**

	Net financial (assets)/liabilities:			Profit/(loss)		Equity	
Effect of change in Sterling +/-10%	2015 £'000	Rate +10% £'000	Rate -10% £'000	Rate +10% £'000	Rate -10% £'000	Rate +10% £'000	Rate -10% £'000
Denominated in Sterling	2,450	–	–	–	–	–	–
Not denominated in Sterling	(2,349)	217	(266)	(20)	24	(190)	232
Total net financial liabilities	101	217	(266)	(20)	24	(190)	232

(ii) Interest rates

Changes in market interest rates expose the Group to the risk of fluctuations in the cash flow relating to its financial assets and liabilities, some of which attract interest at floating rates (see note 24b above). Based upon the interest rate profile of the Groups' financial assets and liabilities as at 31 December, the table below shows the impact of a one percentage point change in the market interest rates on the Groups' profit and equity.

	2016	Effect of increase in interest rates of 1%			Effect of decrease in interest rates of 1%		
Continuing operations	As reported £'000	Rate +1% £'000	Profit/(loss) £'000	Equity £'000	Rate -1% £'000	Profit/(loss) £'000	Equity £'000
Net finance cost	**(90)**	**(21)**	**(21)**	**(21)**	**29**	**29**	**29**

	2015	Effect of increase in interest rates of 1%			Effect of decrease in interest rates of 1%		
Continuing operations	As reported £'000	Rate +1% £'000	Profit/(loss) £'000	Equity £'000	Rate -1% £'000	Profit/(loss) £'000	Equity £'000
Net finance cost	(120)	(28)	(28)	(28)	31	31	31

Notes to the Consolidated Financial Statements continued

24. Financial instruments continued

(f) Liquidity risk

The Group monitors its liquidity to maintain a sufficient level of undrawn committed debt facilities together with central management of the Groups' cash resources to minimise liquidity risk.

	Fair Value £'000	3 months or less £'000	3 to 6 months £'000	6 to 12 months £'000	Between 1 and 2 years £'000	Between 2 and 4 years £'000
Trade and other payables	**653**	**653**	**–**	**–**	**–**	**–**
Bank loans and overdraft	**3,693**	**568**	**219**	**433**	**848**	**1,625**
Obligations under finance leases	**391**	**42**	**42**	**84**	**94**	**129**
At 31 December 2016	**4,737**	**1,263**	**261**	**517**	**942**	**1,754**
Trade and other payables	455	455	–	–	–	–
Bank loans	2,478	204	202	1,072	776	224
Obligations under finance leases	383	37	37	75	135	99
Non-current liabilities	13	–	–	–	13	–
At 31 December 2015	3,329	696	239	1,147	924	323

The amounts for bank loans and overdraft and the obligations under finance leases are inclusive of interest payable in the period. The Groups' facilities with Barclays Bank plc are explained on page 27 of the Financial Review.

At 31 December, the Group had available to it the following committed borrowing facilities expiring in the periods shown:

	2016 £'000	2015 £'000
Expiring in one year or less	**1,790**	1,750
Expiring between one and two years	**790**	750
Expiring between two and five years	**1,580**	222
	4,160	2,722

(g) Credit risk

Group policies are aimed at minimising losses due to customer payment default. Deferred payment terms are only granted to those customers who satisfy creditworthiness criteria and individual exposures to customers are monitored.

The maximum exposure to credit risk for uninsured trade receivables only at the reporting date by geographic region is as follows:

	2016 £'000	2015 £'000
UK	**702**	522
Scandinavia	**1,592**	1,371
Germany	**92**	176
Rest of Europe	**490**	290
Rest of World	**248**	68
	3,124	2,427

(h) Capital risk
The Groups' objective is to minimise its cost of capital by optimising the efficiency of its capital structure, being the balance between equity and debt. The objective is subject always to an overriding principle that capital must be managed to ensure the Groups' ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

Covenants have been made to the bank is respect of three elements: EBITA to gross financing costs, net borrowings to EBITDA and cash flow to debt service. These covenants are tested quarterly.

The Group uses a range of financial metrics to monitor the efficiency of its capital structure, including its net debt to EBITDA and ensures that its capital structure provides sufficient financial strength to allow it to secure access to debt finance at reasonable cost.

At 31 December 2016, the continuing operations EBITDA for the year was £2,432,000 (2015: £1,795,000) and net borrowings were £1,304,000 (2015: £803,000).

25. Contingent liabilities
It is the Groups' policy to make specific provisions at the balance sheet date for all liabilities which, in the opinion of the Directors, represent a present obligation and outflow of resources to be probable at the balance sheet date.

The Directors have considered all the facts surrounding any open claims and any pending litigation against the Group at 31 December 2016 and have concluded that no material loss is likely to accrue from any such unprovided claims.

26. Related party transactions
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 year, other than as a result of service agreements. An amount of £43,000 (2015: £35,000) was paid to JHB Ketteley & Co Limited under a lease for occupation by the Group of 66 Clifton Street, London, EC2A 4HB and £5,000 (2015: £5,000) for a contribution to the office costs at Burnham-on-Crouch. An amount of £12,000 was paid to S Lang for employee services during the year, who is a Non-Executive Director.

27. Post balance sheet events
There were no post balance sheet events to report.

Company Statement of Changes in Equity
for the year ended 31 December 2016

	Share capital £'000	Share premium £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2016	**749**	**–**	**(124)**	**2,951**	**3,576**
Dividends	**–**	**–**	**–**	**(111)**	**(111)**
Share-based payments	**–**	**–**	**13**	**–**	**13**
Elimination of cancelled share based payments	**–**	**–**	**(14)**	**–**	**(14)**
Issue of share capital	**22**	**578**	**–**	**–**	**600**
Transactions with owners	**22**	**578**	**(1)**	**(111)**	**488**
Profit for the period	**–**	**–**	**–**	**711**	**711**
Total comprehensive income for the period	**–**	**–**	**–**	**711**	**711**
At 31 December 2016	**771**	**578**	**(125)**	**3,551**	**4,775**

	Share capital £'000	Share premium £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2015	7,487	7,923	3,860	(15,060)	4,210
Share-based payments	–	–	20	–	20
Capitalisation of merger reserve	4,086	–	(4,086)	–	–
Reclassification	–	–	82	(82)	–
Capital reduction	(10,824)	(7,923)	–	18,747	–
Issue of share capital	–	–	–	–	–
Transactions with owners	(6,738)	(7,923)	(3,984)	18,665	20
Loss for the period	–	–	–	(654)	(654)
Total comprehensive income for the period	–	–	–	(654)	(654)
At 31 December 2015	749	–	(124)	2,951	3,576

Company Balance Sheet

At 31 December 2016

	Notes	2016 £'000	2015 £'000
Fixed assets			
Intangible assets	2	**66**	28
Tangible assets	3	**9**	6
Investments	4	**1,099**	1,099
Debtor due after more than one year	5	**15,717**	13,585
		16,891	14,718
Current assets			
Debtors	6	**1,776**	1,257
		1,776	1,257
Creditors: amounts falling due within one year	7	**(11,303)**	(11,095)
Net current liabilities		**(9,527)**	(9,838)
Total assets less current liabilities		**7,364**	4,880
Creditors: amounts falling due after more than one year	8	**(2,370)**	(972)
Provisions for liabilities	9	**(219)**	(332)
Net assets		**4,775**	3,576
Capital and reserves			
Called up share capital	10	**771**	749
Share premium account		**578**	–
Other reserve	11	**(125)**	(124)
Profit and loss account		**3,551**	2,951
Shareholders' equity		**4,775**	3,576

The financial statements of Elecosoft plc, registered number 00354915, on pages 74 to 83, were approved by the Board of Directors on 24 March 2017 and signed on its behalf by:

John Ketteley
Executive Chairman

Statement of Company Accounting Policies

The Company financial statements have been prepared in accordance with applicable UK accounting standards including Financial Reporting Standard 102, the financial Reporting Standard applicable to the UK and Ireland, and with the Companies Act 2006. A summary of the more important accounting policies, which have been applied consistently, is set out below:

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention and are presented in Pounds Sterling. The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own Income Statement in these financial statements. In addition, the Company has adopted the following disclosure exemptions under FRS 102:

- requirement to present a statement of cash flows and related notes; and
- financial instrument disclosures.

Significant accounting judgements and estimates

Application of the Company's accounting policies in conformity with generally accepted accounting principles requires judgements and estimates that affect the amounts of assets, liabilities, revenues and expenses reported in the financial statements. These judgements and estimates may be affected by subsequent events or actions such that results may ultimately differ from the estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Inter-Company loan interest rates

The Company has interCompany loan balances with certain other subsidiary companies. These balances principally relate to the transfer of funds between Group companies and the balances are subject to interest calculated on a daily basis. The Directors estimate an appropriate market rate of interest that is applied to the interCompany loan balances after consideration of local interest rates and the business risk of the borrower. Where the interest rate on such loans is considered to have been at below market rates, an adjustment is made to the carrying value of the loan with a corresponding adjustment to investments in subsidiaries. The difference will subsequently unwind through the profit and loss as interest receivable over the period of the loan. The estimation of the appropriate market rate is therefore a key judgement.

Recoverability of interCompany investments and loans

InterCompany investments and loans to subsidiary companies are stated at their carrying value under fixed assets in the Balance Sheet. The carrying value of the interCompany investments and loans are determined after consideration of the historical financial performance and future financial projections of the subsidiary Company and the recoverability of the investments and loans. The judgement of the carrying value of interCompany investments and loans is therefore a key judgement.

Intangible and tangible fixed assets

Tangible fixed assets are stated at their purchase cost, together with any incidental costs of acquisition, net of depreciation and provision for impairment.

The Company owns intellectual property both, in its software tools and software products. Intellectual property acquired is capitalised at cost and is amortised on a straight-line basis over its expected useful life not exceeding twelve years. The current intellectual property assets held by the Company were attributed a useful life of five years and this amortisation period has been used in the accounts.

Depreciation is provided on all tangible fixed assets, except freehold and leasehold land, at annual rates calculated to write off the cost, less the estimated residual value of each asset, over its expected useful life as follows:

Plant, equipment and vehicles	– from two to ten years.

Investments in subsidiaries

Fixed asset investments are shown at cost, together with any incidental costs of acquisition, less any provision for impairment. Provisions are reviewed and adjusted annually to reflect any changes in the carrying value of the underlying subsidiary investments.

Finance and operating leases

The capital element of finance lease commitments is shown as obligations under finance leases. The capital element of finance lease rentals is applied to reduce the outstanding obligations under finance leases. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease in proportion to the reducing capital balance outstanding. Amounts payable under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease.

Share-based payments
The Company issues share options to employees from time to time. Under IFRS, the equity-settled, share-based payment awards are valued at fair value at inception and this cost is recognised over the option vesting period of three years. The Board has used an appropriate model to estimate the fair value of the options. Various assumptions affect the value of the options and the Board has considered these assumptions in order to derive an appropriate charge for the cost of the options. The key assumptions used to derive the charge include the probability of performance achievement and the expected future dividend yield of the shares.

Provisions
A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Interest-bearing loans and borrowings
All loans and borrowings are recognised at proceeds received less directly attributable transaction costs. Borrowing costs are recognised as an expense over the period based on the maturity of the underlying instrument.

InterCompany loans that are not considered to be at market rate are adjusted to their fair value. The difference between the transaction value and the fair value of the interCompany loans are recorded as an investment in the Balance Sheet. The difference unwinds to the profit and loss as interest receivable over the period of the loan.

Foreign exchange
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain/loss in the profit and loss account.

Taxation
Current UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at the date will result in an obligation to pay more tax or a right to pay less or to receive more tax, with the following exceptions:
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiary undertakings only to the extent that, at the balance sheet date, dividends have been accrued as receivable; and
- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Employee Share Ownership Trust
Equity shares in Elecosoft plc held by the Employee Share Ownership Trust (“ESOT”) are treated as a deduction from the issued and weighted average number of shares. The consideration paid is deducted from equity until the shares are cancelled, reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of related transaction costs and income tax effects, is included in equity attributable to the Company’s equity holders.

Notes to the Company Financial Statements

1. Profit for the year

As permitted by section 408 of the Companies Act 2006, the Parent Company's profit and loss account has not been included in these financial statements. The Parent Company's profit for the financial year was £711,000 (2015: loss £654,000).

2. Intangible fixed assets

	Intellectual property £'000
Cost:	
At 1 January 2016	**1,679**
Additions	**49**
Disposals	**(496)**
At 31 December 2016	**1,232**
Accumulated amortisation and impairment:	
At 1 January 2015	**1,651**
Amortisation charge for the year	**11**
Disposals	**(496)**
At 31 December 2016	**1,166**
Net book value at 31 December 2016	**66**
Net book value at 31 December 2015	28

3. Tangible fixed assets

	Leasehold land and buildings £'000	Plant, equipment and vehicles £'000	Total £'000
Cost:			
At 1 January 2016	**19**	**239**	**258**
Additions	**–**	**7**	**7**
Disposal	**(19)**	**(136)**	**(155)**
At 31 December 2016	**–**	**110**	**110**
Accumulated depreciation:			
At 1 January 2016	**19**	**233**	**252**
Depreciation charge for the year	**–**	**4**	**4**
Disposals	**(19)**	**(136)**	**(155)**
At 31 December 2016	**–**	**101**	**101**
Net book value at 31 December 2016	**–**	**9**	**9**
Net book value at 31 December 2015	–	6	6

4. Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

	Shares at cost £'000	Investments £'000	Total £'000
Cost:			
At 1 January 2016	21,076	728	21,804
At 31 December 2016	**21,076**	**728**	**21,804**
Accumulated provision:			
At 1 January 2016	20,705	–	20,705
At 31 December 2016	**20,705**	**–**	**20,705**
Net book value at 31 December 2016	**371**	**728**	**1,099**
Net book value at 31 December 2015	371	728	1,099

Investments represent a fair value adjustment to a particular interCompany loan receivable and the amount represents the benefit passed to that subsidiary as a result of the loan being at below market rate.

The carrying value and recoverability of investments in discontinued ElecoBuild operations were fully provided against at 31 December 2016.

The trading subsidiary undertakings are unlisted and wholly owned and set out in the table below. They are registered in England and Wales, where their operations are located in the UK. Overseas subsidiary undertakings are incorporated in their country of operations. All other subsidiary undertakings are dormant and are listed on page 85.

Company	Country of operations	Class of share capital held	Proportion held within Group	Nature of business
Elecosoft UK Limited	UK	Ordinary	100%	Software and services
Eleco Software Limited	UK	Ordinary	100%	Software
Integrated Computing & Office Networking Ltd	UK	Ordinary	100%	Software and services
Elecosoft Consultec AB	Sweden	Ordinary	100%	Software and services
Asta Development GmbH	Germany	Ordinary	100%	Software and services
Eleco Software GmbH	Germany	Ordinary	100%	Software and services
ESIGN® Software GmbH	Germany	Ordinary	100%	Software and services
Elecosoft LLC	US	Ordinary	100%	Software
Elecosoft BV	Netherlands	Ordinary	100%	Software and services
Eleco Ltd	UK	Ordinary	100%	Holding Company

The ordinary shares in the above companies are held through an intermediate holding Company except ESIGN® Software GmbH.

Notes to the Company Financial Statements continued

5. Debtor due after more than one year

	2016 £'000	2015 £'000
Amounts due from subsidiary undertakings	**15,717**	13,585
	15,717	13,585

6. Debtors

	2016 £'000	2015 £'000
Trade debtors	**10**	16
Other debtors	**22**	10
Prepayments and accrued income	**92**	68
Deferred tax	**25**	31
Amounts due from subsidiary undertakings	**1,627**	1,132
	1,776	1,257

7. Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Bank loans and overdrafts	**1,542**	1,639
Trade creditors	**214**	159
Other creditors	**35**	36
Accruals and deferred income	**233**	116
Other taxation and social security	**(56)**	(10)
Current tax	**59**	40
Amounts due to subsidiary undertakings	**9,276**	9,115
	11,303	11,095

8. Creditors: amounts falling due after more than one year

The Groups' facilities with Barclays Bank plc are explained on page 27 of the Financial Review.

	2016 £'000	2015 £'000
Bank loans	**2,370**	972
	2,370	972

Bank loans and overdrafts are repayable as follows:

	2016 £'000	2015 £'000
In one year or less	**1,542**	1,639
Between one and two years	**790**	750
Between two and five years	**1,580**	222
	3,912	2,611

9. Provisions for liabilities

	Property dilapidation provision £'000	Restructuring provision £'000	Insurance premium provision £'000	Total £'000
At 1 January 2016	**12**	**100**	**220**	**332**
Reclassification	**–**	**117**	**(117)**	**–**
Charge to the profit and loss account	**–**	**–**	**–**	**–**
Utilised in the year	**(12)**	**(66)**	**(35)**	**(113)**
At 31 December 2016	**–**	**151**	**68**	**219**
At 31 December 2015	12	100	220	332

Further information on the details of the provisions is set out in note 18 of the consolidated accounts.

10. Called up share capital

	2016 Nominal value £'000	2015 Nominal value £'000
Authorised:		
85,000,000 (2015: 85,000,000) ordinary shares of 1 pence each (2015: 1 pence each)	**850**	850
Allotted, called up and fully paid:		
77,089,350 (2015: 74,867,127) ordinary shares of 1 pence each (2015: 1 pence each)	**771**	749

The increase in called up and fully paid share capital in the year relates to the acquisition of Integrated Computing and Office Networking Limited in October 2016 that was partly funded by issuing 2,222,223 of consideration shares.

11. Share-based payments

The Company operates one share scheme and options outstanding at 31 December 2016 over ordinary shares granted under the scheme were as follows:

		Vesting dates		
Date awarded	Number of ordinary shares	Earliest	Latest	weighted average remaining contractual life (months)
13 February 2015	300,000	1 February 2018	12 February 2025	84
27 October 2016	750,000	1 June 2019	26 October 2026	89
	1,050,000			88

Share awards were made under the Company's Long Term Incentive Plan (LTIP) during the year amounting to 750,000 shares at an exercise price of 28.70 pence per share and a fair value of £78,000 was calculated at the grant date and is used as a basis for charging the income statement. Of the 900,000 options awarded during 2015, 600,000 lapsed in the year as a result of the employee leaving the business.

During the year, a total of 750,000 share options were granted to the Executive Directors and are exercisable after 2.6 years (refer to the Directors' Report on page 33), subject to certain performance criteria being achieved. The criteria include (i) revenue for the twelve months ended 31 December 2018 is at least £21.4m and (ii) EPS for the twelve months ended 31 December 2018 is at least 2.76 pence. In the event that the employee leaves within the initial 2.6 year period he may (depending upon the timing and circumstances of his departure) be entitled to retain some of his options but only if certain yearly earnings per share targets have at that time been met. The options are exercisable until 26 October 2026, ten years after the date of grant.

Notes to the Company Financial Statements continued

11. Share-based payments continued

The options awarded in 2015 are exercisable after 3.0 years, subject to certain performance criteria being achieved, whereby the Company's audited earnings per share for the year ended 31 December 2017 must be at least 22.5 per cent higher than the Company's audited earnings per share for the year ended 31 December 2014. In the event that the employee leaves within the three year period he may (depending upon the timing and circumstances of his departure) be entitled to retain some of his options, but only if certain yearly earnings per share targets have at that time been met. The options are exercisable until 12 February 2025, ten years after the date of grant.

Details of the number of options over ordinary shares outstanding during the year are as follows:

	at 31 December 2016		at 31 December 2015	
	Number	**Weighted average fair value per share**	Number	Weighted average fair value per share
Outstanding at the beginning of the year	**900,000**	**20.8**	–	–
Granted during the year	**750,000**	**28.0**	900,000	20.8
Exercised during the year	**–**	**–**	–	–
Lapsed during the year	**(600,000)**	**20.8**	–	–
Outstanding at the end of the year	**1,050,000**	**25.9**	900,000	20.8
Exercisable at the end of the year	**–**		–	

The options outstanding at 31 December 2016 had a weighted average exercise price of 26.4 pence and weighted average remaining contractual life of 88 months.

The expense recognised by the Company for share-based payments under the LTIP scheme in respect of employee services during the year ended 31 December 2016 was £13,000 (2015: £20,000).

An appropriate financial model is used to value the share options and the key assumptions used for the outstanding awards are shown below:

	2016	2015
Share price at grant date	**27.75p**	20.5p
Fair value per share	**28.0p**	20.8p
Exercise price per share	**28.70p**	20.75p
% Expected to vest (at date of grant)	**98%**	98%
Expected life (years)	**2.6**	3.0
Dividend yield	**1.80%**	4.17%
Fair value	**£78,000**	£73,000

12. Reserves

The other reserve carried forward includes the shares in the Company held by the Employee Share Ownership Trust and the share-based payments reserve. The share premium reserve represents the value of the consideration shares that were issued to fund the acquisition of Icon Limited in October 2016.

The Employee Share Ownership Trust held 896,593 shares at 31 December 2016 with a market value of £269,000 (2015: £247,000) and has waived its entitlement to dividends on ordinary shares held by it until such time as they are vested in employees.

13. Operating lease commitments

	Property 2016 £'000	Other 2016 £'000	Property 2015 £'000	Other 2015 £'000
Leases expiring:				
Within one year	–	–	9	2
Between two and five years	–	–	–	1
	–	–	9	3

14. Related party transactions

The Company has taken advantage of the exemption granted by paragraph FRS102.33.1A not to disclose transactions with other Group companies as all subsidiaries are wholly owned. The Directors of Elecosoft plc had no material transactions with the Company during the year, other than as result of service agreements or as disclosed in the Directors' Report. Details of the Directors' remuneration are disclosed in the Directors' Report on page 32.

An amount of £43,000 (2015: £35,000) was paid to JHB Ketteley & Co Limited under a lease for occupation by the Group of 66 Clifton Street, London EC2A 4HB and £5,000 (2015: £5,000) for a contribution to the office costs at Burnham-on-Crouch. An amount of £12,000 was paid to S Lang for employee services during the year, who is a Non-Executive Director.

Five Year Summary

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000	Year ended 31 December 2014 (restated) £'000	Year ended 31 December 2013* £'000	Year ended 31 December 2012* £'000
Revenue					
Software	**17,795**	15,260	15,172	16,318	15,779
Discontinued operations	**–**	1,400	1,312	16,144	18,398
Operating profit before amortisation of intangible assets and exceptionals					
Software	**2,546**	1,621	1,416	1,357	1,261
Amortisation of intangible assets	**(631)**	(495)	(372)	(376)	(419)
Exceptionals	**(321)**	–	(138)	–	(152)
Operating profit	**1,594**	1,126	906	981	690
Finance expense	**(90)**	(120)	(220)	(357)	(223)
Profit/(loss) before taxation	**1,504**	1,006	686	624	467
Taxation	**(261)**	(204)	(173)	(174)	(69)
Profit after taxation	**1,243**	802	513	450	398
Basic earnings per share (continuing operations)	**1.7p**	1.1p	0.8p	0.8p	0.7p
Shareholders' equity/(deficit)	**9,716**	7,893	6,722	(2,353)	8,850
Dividend per share	**0.15p**	0.00p	0.00p	0.00p	0.00p

* As reported.

The dormant subsidiary undertakings are unlisted and wholly owned and set out in the table below:

Company	Country of operations	Class of share capital held	Proportion held within Group	Nature of business
Asta Group Limited	UK	Ordinary	100%	Holding Company
A Neely Limited	UK	Ordinary	100%	Dormant
B H Forwarding Limited	UK	Ordinary	100%	Dormant
Belcon Structures Limited	UK	Ordinary	100%	Dormant
Bell & Webster Limited	UK	Ordinary	100%	Dormant
Bell & Webster Roofing Limited	UK	Ordinary	100%	Dormant
Citehow Limited	UK	Ordinary	100%	Dormant
Consultec Group Limited	UK	Ordinary	100%	Holding Company
Consultec Limited	UK	Ordinary	100%	Dormant
D G Metal Products Limited	UK	Ordinary	100%	Dormant
Davis Flooring Systems Limited	UK	Ordinary	100%	Dormant
Durable Fabricators Limited	UK	Ordinary	100%	Dormant
Eleco Building Products Limited	UK	Ordinary	100%	Holding Company
Eleco Construction Group Limited	UK	Ordinary	100%	Dormant
Eleco Creative Technology	UK	Ordinary	100%	Dormant
Eleco Directors Limited	UK	Ordinary	100%	Dormant
Eleco Distribution Services Limited	UK	Ordinary	100%	Dormant
Eleco Engineering Limited	UK	Ordinary	100%	Dormant
Eleco (DCS) Limited	UK	Ordinary	100%	Dormant
Eleco (GN Software Services) Limited	UK	Ordinary	100%	Dormant
Eleco (GNS UK) Limited	UK	Ordinary	100%	Dormant
Eleco (MS) Limited	UK	Ordinary	100%	Dormant
Eleco (PP) Limited	UK	Ordinary	100%	Dormant
Eleco Limited	UK	Ordinary	100%	Holding Company
Eleco Media Limited	UK	Ordinary	100%	Dormant
Eleco Rail Limited	UK	Ordinary	100%	Dormant
Eleco Technology Limited	UK	Ordinary	100%	Dormant
Elecoprecast Limited	UK	Ordinary	100%	Holding Company
Falconer Road Property Limited	UK	Ordinary	100%	Dormant
Forma Communications Limited	UK	Ordinary	100%	Dormant
Online Warehouse Limited	UK	Ordinary	100%	Dormant
RB Fabrications (Norwich) Limited (H)	UK	Ordinary	100%	Holding Company
Stramit Industries Limited	UK	Ordinary	100%	Dormant
Webster Homes (Southern) Limited	UK	Ordinary	100%	Dormant
Webster Properties (Developments) Limited	UK	Ordinary	100%	Dormant
Webster Properties (Hoddesdon) Limited	UK	Ordinary	100%	Dormant
Webster Properties Limited	UK	Ordinary	100%	Dormant
Consultec System AB	Sweden	Ordinary	100%	Dormant
Consultec Arkitekter & Konstruktorer AB	Sweden	Ordinary	100%	Dormant
Elecosoft (Pty) Limited	South Africa	Ordinary	100%	Dormant

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Notes

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