Elecosoft®

# Elecosoft plc
# Annual Report & Accounts 2015

Building on Technology®

Elecosoft®

**Elecosoft plc is a market leading provider of software and related services to the global architectural, engineering and construction industries.**

Elecosoft is a well-established and profitable software company. We deliver a strong portfolio of digital construction and Building Information Modeling (BIM) products that are used by the many participants in construction projects, covering all stages of the life-cycle from early planning stages through to build and facilities management.

Our award winning solutions help our customers be more successful by allowing them to improve productively, reduce risk and drive cost efficiencies. Their trust is reflected in our long-lasting relationships, use in landmark developments and strong annuity income.

In 2015, we made further progress towards our long-term goal of being a preferred specialist software partner to customers in all major markets for construction.



# Annual Report and Accounts 2015

## Brands

| | |
|---|---|
| Visualisation | Interiormarket |
| CAD/Design | Arcon Evo®<br>o2c® |
| Engineering | Staircon®<br>Statcon®<br>Framing |
| Estimating | Bidcon® |
| Project Management | Asta Powerproject® |
| Site Management | Sitecon®<br>Matrix |
| BIM | Elecosoft BIMCloud™ |

**www.elecosoft.com**
You can download the digital version of this report at www.ir.elecosoft.com

# Highlights
for the year ended 31 December 2015

## Financial

| | 2015 £'000 | 2014 (restated)* £'000 | Change £'000 |
|---|---|---|---|
| **Continuing Operations** | | | |
| Revenue | **15,260** | 15,172 | +88 |
| Operating profit | **1,126** | 906 | +220 |
| Profit before tax | **1,006** | 686 | +320 |
| Earnings per share (basic) (continuing operations) | **1.1p** | 0.8p | +0.3p |
| Recurring maintenance revenue | **7,278** | 7,351 | -73 |
| EBITDA | **1,795** | 1,465 | +330 |
| Net Borrowings | **803** | 2,035 | -1,232 |
| **At constant exchange rates**** | | | |
| Revenue | **16,571** | 15,172 | +1,399 |
| Operating profit | **1,177** | 906 | +271 |
| Profit before tax | **1,057** | 686 | +371 |

* restated for the disposal of the Swedish architectural consultancy business sold in December 2015.

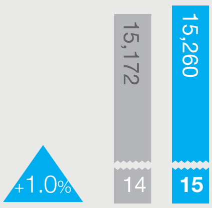
** 2015 restated at 2014 average exchange rates.

## Operational

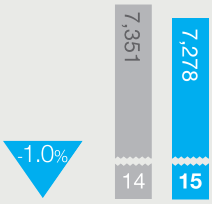
- Launched new products including Bidcon, the leading Swedish project estimating software, into the UK market
- Won a significant order to supply a US Government department
- Won 'Project Management/Planning Software 2015' award at the UK Construction Computing awards for the second year in a row
- Investment in overseas markets including set up of own operation in the US to support and grow existing reseller network
- Disposal of non-core architectural consultancy business in Sweden to focus on software and related services

# Chairman's Statement

**Revenue £'000**




**Recurring Revenue £'000**




## Elecosoft

I am pleased to report growth across all product areas and regions in 2015 at constant exchange rates and to confirm that the transformation of Elecosoft into a profitable international construction software specialist is complete. We now have the people with the skills, the experience and the flair together with an appropriate level of financial resources to achieve our objective of becoming a key provider of leading-edge software solutions and related services to the international construction, interior design and to the architectural industries worldwide.

## Financial Performance in 2015

We continued to expand our sales channels and reseller networks in our markets in 2015 and established a new sales and marketing team in the United States during the year despite the fact that the strength of Sterling against the Swedish Krona, the Euro and the US Dollar for most of 2015 put considerable pressure on Group Revenue. Nevertheless, in the year under review, as reported, we succeeded in maintaining Group Revenue in Sterling terms at £15.3m, compared with Group Revenue of £15.2m in 2014. Group recurring maintenance and support revenue was also relatively flat at £7.3m (2014: £7.4m).

The adverse impact of the strength of Sterling on Group Revenue for most of 2015 can be illustrated by the fact that in constant currency terms, Group Revenue would have been £16.6m in 2015 compared with £15.2m in 2014, an increase of 9 per cent.

Thus, Operating Profit in 2015 was £1.1m, compared with £0.9m in 2014, an increase of 22 per cent; Profit before Tax was £1.0m compared with £0.7m in 2014, an increase of 43 per cent; EBITDA was £1.8m compared with £1.5m in 2014, an increase of 20 per cent; and Continuing Operations Earnings per share for 2015 were 1.1p compared with 0.8p in 2014, an increase of 37 per cent.

The negative effect of the strength of Sterling in 2015 was less severe with regards to Operating Profit, Profit before Tax, EBITDA and Earnings per share. For example, Operating Profit at constant currency would have been £1.2m compared to £1.1m at actual rates.

## Current trading and potential resumption of dividends in 2016

The Board decided not to propose the payment of a dividend in respect of the year ended 31 December 2015. However, the Board will continue to monitor the possibility of a resumption of dividends under review and will consider whether the declaration of a well-covered dividend in the latter part of 2016 would be merited.

## Current financial position and Banking arrangements with Barclays Bank

The agreement with Barclays Bank to provide the banking facilities which enabled the Board of Elecosoft to complete the successful refinancing of the Group also resulted in much lower interest costs in the year under review. Continuing operations interest costs for 2015 were £120,000 compared with £220,000 in 2014, a reduction which I consider represents an appropriate reflection of the improvement in Elecosoft's financial position in the period. Better than anticipated cash flows from trading in the year under review and the receipt of the proceeds of the divestment of our Swedish architectural consultancy business provided an additional boost.

Group net borrowings at 1 January 2015 consisted of net bank borrowings of £1.6m, together with finance leases of £0.4m; and Group net borrowings at 31 December 2015 consisted of net bank borrowings of £0.4m, together with finance leases of £0.4m. Thus we were able to reduce Group net borrowings totalling £2.0m on 1 January 2015, to £0.8m on 31 December 2015 and we expect interest costs to be reduced significantly going forward.

## Divestment of our Swedish Consultancy business and Software Development Collaboration Agreement with Tyrens

The second half of 2015 saw the divestment of our Swedish architectural consultancy operations to Tyrens, a leading Swedish international construction consultancy firm. The consideration for the acquisition was Swedish Krona 11.1m (£862,000) in cash. As a consequence, Elecosoft is now able to concentrate on the development of its specialist construction software interests, particularly in Sweden.

Prior to entering into the above negotiations with Tyrens in the latter part of 2015 we had been collaborating with our Swedish colleagues on the development of a state-of-the-art environmental software program for the construction industry. This was regarded by both parties as a very worthwhile project. Accordingly the parties concluded that there would be considerable merit in continuing with our software development collaboration. We have now entered into a formal collaboration agreement and look forward to working with Tyrens on new and innovative software projects within the framework of this agreement.

## Software Development, Program Launches and Awards

Software development and maintenance continued to be one of Elecosoft's largest areas of expenditure in 2015. Of our total workforce of

178 employees during the year, 41, or 23 per cent, of our employees are software developers who work in centres of excellence in the UK, Sweden and Germany. These teams are responsible for the development of new software programs as well as the maintenance of our current portfolio of market leading software. In 2015, Elecosoft's development and maintenance spend was £2.3m, (2014: £2.6m) of which £665,000 (2014: £553,000) was capitalised as required pursuant to IAS 38. Software assets amortised in the year amounted to £495,000 (2014: £372,000).

For the second year in succession our development team based at Elecosoft UK must be congratulated on Asta Powerproject® project management software being voted the "Best Project Management and Planning Software of 2015" by peers at the Construction Industry Software Awards.

Our Swedish colleagues also successfully launched Bidcon® BIM, the new BIM estimating software, which will complement Asta Powerproject BIM and thus become a key element of Elecosoft's 5D BIM solution. Bidcon has been very well received by the Swedish estimating software market and has already penetrated the UK and Norwegian markets.

Our German colleagues also launched Arcon Evo, our new 3D architectural visualisation program. It is the successor to the original, highly regarded Arcon Classic program, which had for so long dominated this sector of the German 3D architectural visualisation market. We have also entered into a collaboration agreement with Buildit® magazine to market the Arcon Evo program in conjunction with the Buildit® magazine in the spring of 2016 in the UK.

## The Board

This year has seen a couple of changes to the Company's Board. Nick Caw has left the Company to pursue other interests and we appreciate his significant contribution to the transformation of Elecosoft since his appointment as CEO in July 2014 and wish him every success in the future. In addition, it is my pleasure on your behalf to welcome Jason Ruddle to the Board. He is currently the Managing Director of Elecosoft UK and has agreed to become Chief Operating Officer of the Group.

Jason began his career some 30 years ago as an apprentice in the construction industry; and early in his career gained a reputation as an individual who was keen to embrace change by embracing technology. He also enjoys a reputation among his colleagues for having a sound and common sense approach to business and under his leadership Elecosoft UK, of which he became Managing Director, began to travel very well and it is now our most profitable business. I was therefore delighted when he agreed to join the Board and we wish him well in his new Group role.

## Employees

Elecosoft is a committed people business and when I say "committed people" I mean all my fellow Elecosoft employees in the United States, Sweden, Germany, Belgium, the Netherlands and the UK and thank them for their continuing dedicated contribution to Elecosoft, year in and year out.

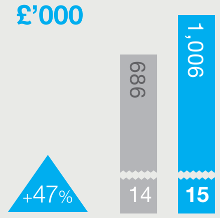
Our employees consist of software developers who strive to develop the most innovative products and related services for Elecosoft's customers worldwide; of support coaches who are the link between our software and our software users; of sales teams and trainers who continue to service and expand our customer base and attend to the requirements of our existing customers; of market and digital specialists who generate new ideas and bring our products to the attention of the markets we serve; of our communications experts and "back office" colleagues, who together administer Elecosoft's finance, legal, communication and accounting functions and maintain the fabric of Elecosoft's corporate structure; and finally of my colleagues on the Board. These are the people that make Elecosoft tick, and I would like to thank them on your behalf for what they all do for your Company.

## Outlook

Elecosoft has now established itself as an international provider of market leading software applications for 5D BIM project management, estimation, 3D architectural visualisation, visual business systems, engineering software, and cloud based solutions. Although our software and related services are aimed principally at the international construction industry market, we also develop market leading software for digital marketing and architectural applications. Elecosoft has a major presence in the markets it serves; it is financially sound; and above all has outstanding teams of highly dedicated, talented, and creative developers backed by a strong management team. For these reasons, I have every confidence in the future of Elecosoft as we move forward. I am pleased to report that 2016 has started encouragingly and that we expect to deliver significant revenue and profit growth in line with market expectations.

**John Ketteley**
Executive Chairman
15 April 2016

**Profit before tax**
**£'000**




**Meeting Room**
Skellefteå, Sweden

# Strategic Report

# Who We Are

## Elecosoft provides integrated software and associated services to the worldwide architectural, engineering and construction (AEC) industries

### Who We Are

In the past, software available to the AEC industry has been fragmented. Recently, change in the industry has been driven by pressure to improve efficiency, customer use of multiple devices, and the pervasiveness of cloud technology. We are well-placed to help the industry adapt to these changes. In addition, there has been a shift towards a more holistic approach, thanks to growing support for Building Information Modelling (BIM) as defined in the UK and its increased adoption within the European Union.

### Our Journey

Founded in 1895, Elecosoft's 120 year history has a consistent association with delivering technical innovation. Although today our offerings are a long way from our origins, we still remain dedicated to the delivery of technical advancement.

### What we do

Our solutions cover the core elements of a construction project – Design and Visualisation (3D), Scheduling the resources needed to deliver a project (4D) and Estimating and tracking the costs (5D). In addition, we provide a range of Engineering tools.

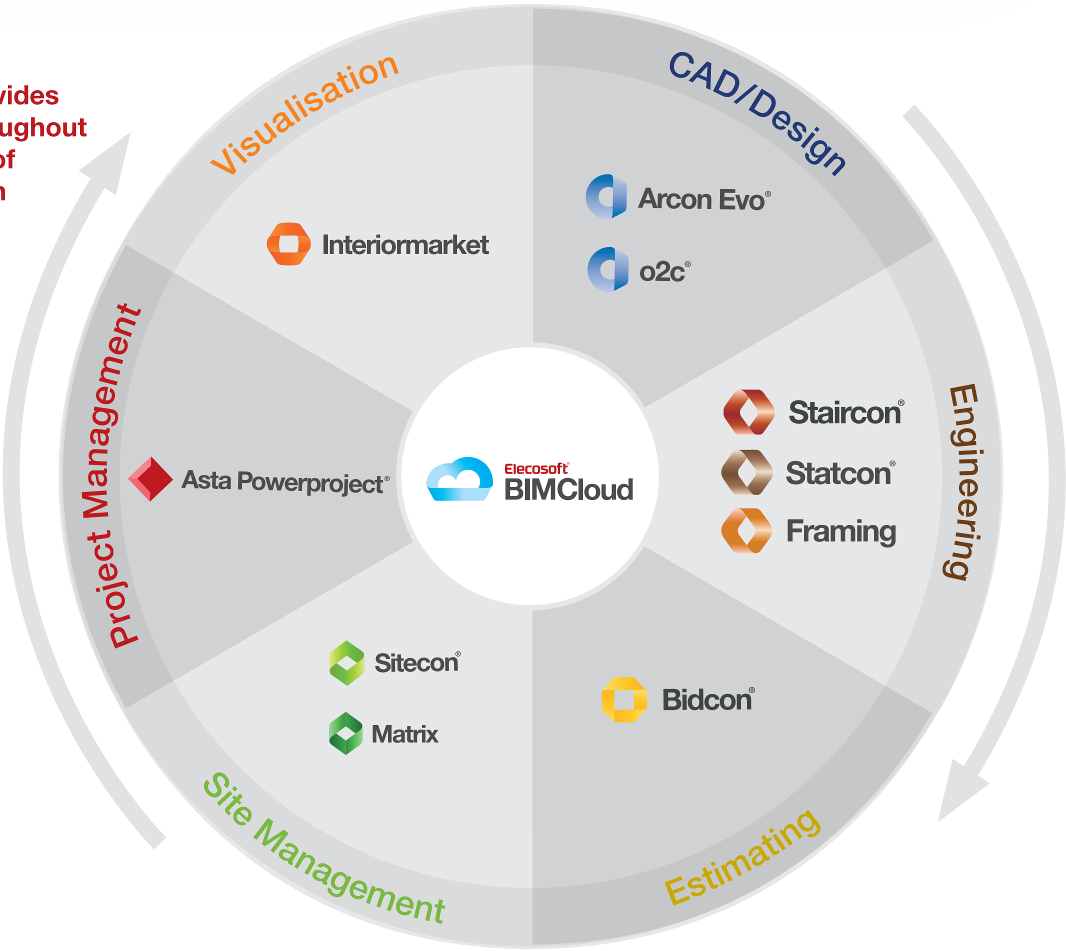
### The Construction Process

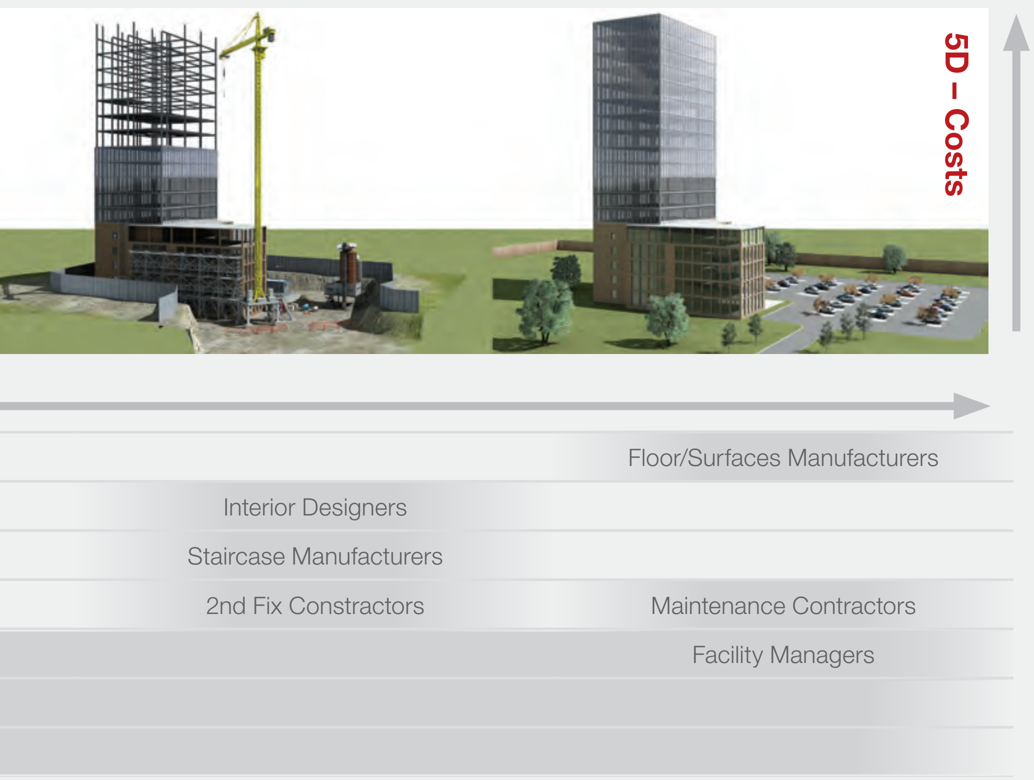
**3D – Visualisation**

**4D – Time**

| | | | |
|---|---|---|---|
| Visualisation | Interiormarket | Designers | |
| Design/CAD | Arcon Evo® o2c® | Architects | |
| Engineering | Staircon® Statcon® Framing | Structural Engineers | |
| Estimating | Bidcon® | Estimators | |
| Project Management | Asta Powerproject® | Planners | Project Managers |
| Site Management | Sitecon® Matrix | | Site Managers |
| BIM | Elecosoft BIMCloud™ | Main Contractors | |

**Elecosoft provides solutions throughout the life cycle of a construction project**




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 make-over to full blown multi building sites – ESIGN® Interiormarket, Arcon® and o2c® help users to design, discuss and modify their plans in three dimensions.

**4D – Time**
Tracking activity & 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.

# Our Business Model

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

Our main sources of revenue are drawn from software licensing, recurring and support maintenance and professional services, sold direct to customers and via an expanding network of resellers.

Elecosoft is distinct from our more generic competitors as we are known for our technical expertise and ability to develop tailored solutions in line with the specific requirements of our construction industry customers.

Across the Group, as our teams grow progressively more integrated, we are shifting towards promoting a portfolio of software that covers the fundamental aspects of construction projects. Such an offering is increasingly appealing to customers who are driven to operate more efficiently.

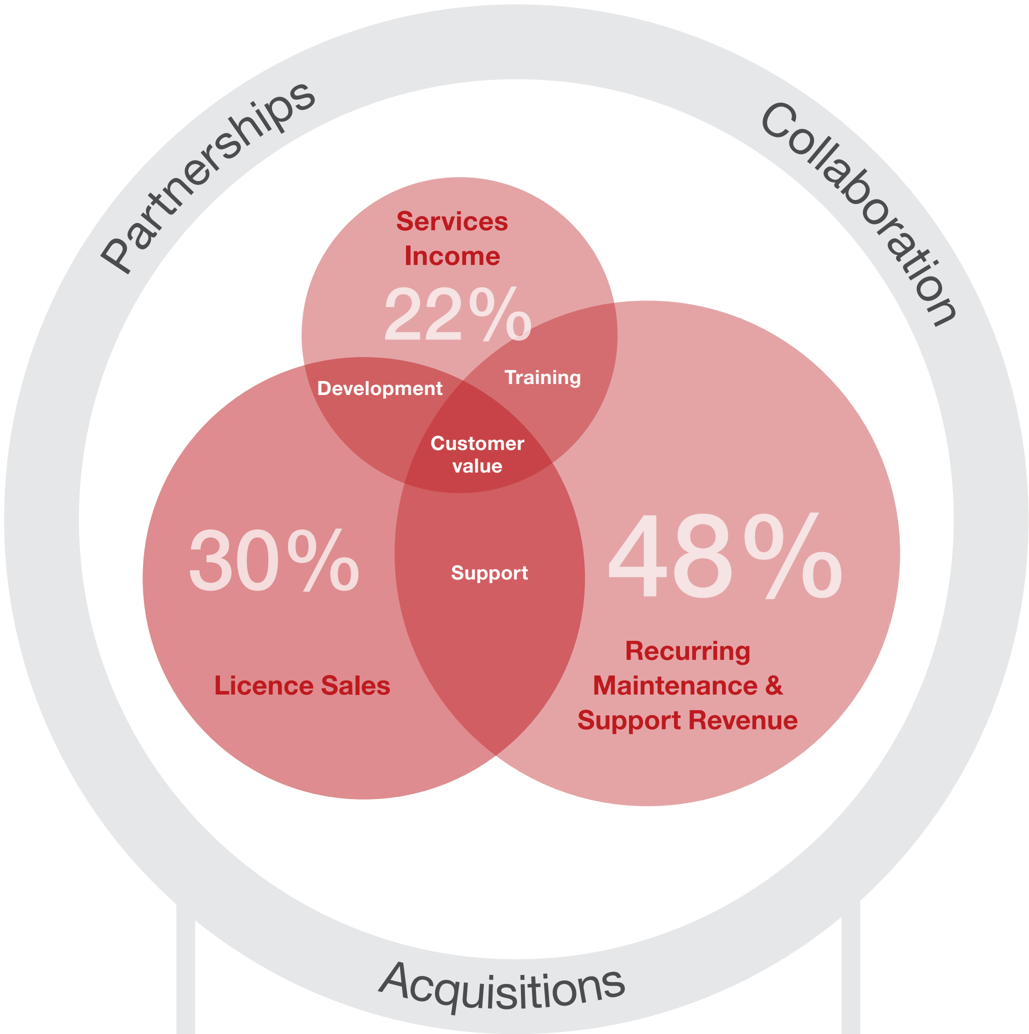
## Our Strategy

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

To that end, we continue to uphold the three pillars of activity outlined in our 2014 Annual Report & Accounts:

- **Innovation**
  Developing a portfolio of increasingly integrated software solutions, available across multiple platforms and devices, that continue to lead in their segments.
- **Growth**
  Expanding our sales and marketing capabilities, channel capacity and operational territories.
- **Stability**
  Continuing to strengthen our financial position, whilst consolidating and simplifying our operations.

# How we create value




## How we add value

- **Agile Product Development**
  The flexibility of an agile development team that can 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 construction customers in its core markets.
- **Brand**
  In 2015 the Group embarked on a rebranding project to consolidate the company messaging, moving to promoting an integrated portfolio in our core markets.

## How we protect value

- **People**
  Elecosoft employed an average of 178 people in 2015 of which over 55% have customer facing roles.
- **Strong Customer Relationships**
  Elecosoft works closely with its customers and partners to meet the specific industry requirements.
- **Market leading technology**
  Elecosoft has developed market leading products by working closely with its customers over several decades. Elecosoft continues its efforts to develop innovative solutions that generate efficiencies within its customer's operations.

# Our Marketplaces and Trends


## UK

The annual UK construction output in 2015 was estimated to have increased by 3.4% compared with the output in 2014. All new work increased by 6.8% while repair and maintenance decreased by 2.2%.*[1]

By 2050, the UK is expected to have the largest population in Western Europe, 77 million, the equivalent of another London, Scotland and Manchester, and the industry needs to demonstrate that it could deploy innovation to solve some of these massive challenges.[2]

## Scandinavia

Construction Output in Sweden averaged 3.24 percent from 1995 until 2015 and increased by 10.70 percent in November of 2015 over the same month in the previous year.[3] The Scandinavian countries remain successful, with underlying growth in all countries for the next three years.[4] In particular, the Swedish construction industry is set to expand to a value of US$68.3 billion between 2015-2019, with residential and commercial markets to record the fastest growth. The Government is also contributing to growth through the investment in infrastructure, energy and residential projects.[5]

## Germany

Germany is the largest construction market in Europe. Germany's construction industry is expected to continue to expand over (2015–2019), with investment in transport infrastructure, residential and renewable energy projects continuing to drive growth.[6]

## Rest of World

Construction is one of the largest global industry sectors with the US, in particular, set to pick up over the next five years. Research illustrates that the US construction sector's average annual growth will accelerate in real terms from 1.7% during 2014 to 3.1% in 2019, increasing from $1.0 trillion in 2014 to $1.1 trillion in 2019 in real terms. Investments to modernize the country's aging infrastructure and renewable energy sector, alongside the growing population which will generate demand for residential buildings, will be part of a number drivers of this growth.[7]

## Construction technology

The market for BIM has expanded greatly with the rise in construction activities around the globe. The major factors driving the growth of BIM market are desires for increased efficiency, long-term estimation of the project, and augmented workflow. Furthermore, government regulatory bodies undertaking construction activities are taking initiatives to raise the adoption of BIM in their respective countries. A large number of AEC small and medium enterprises (SMEs) have started adopting BIM.

The global BIM market was worth US$2.76 bn in 2014 and is expected to reach US$11.54 bn by 2022, expanding at a CAGR of 19.1% from 2015 to 2022. North America was the largest market for BIM in 2014. Growth in this region is expected to be driven by increases in construction activities and the penetration of cloud-based services for BIM software.[8]

## Top innovations in construction

New materials and energy, design approaches, as well as advances in digital technology and big data, are creating a wave of innovation within the construction industry.

The NBS National BIM Report 2015 found that 75% of UK businesses work collaboratively, and 68% produce 3D models. 54% share models outside of their organisations. These are criteria for Level 2 BIM. However, looking to further BIM maturity, less than a third use one model throughout the life of a project.

The primary barrier to adoption is a lack of in-house expertise and training; however, those who are yet to adopt BIM do not see it as a passing fad. Only 16% of companies surveyed are not sure that the industry will adopt BIM, and only 11% are unsure of the Government's commitment to BIM.

## Beyond 2016 – Level 3 Building Information Modelling

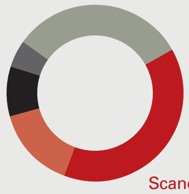
This strategy for the next stage of the BIM journey is building on the standards and savings being delivered by the BIM Level 2 initiative. Level 3 will enable the interconnected digital design of different elements in a built environment and will extend BIM into the operation of assets over their lifetime.

## Elecosoft's Market Position

Our products are most applicable to architects, project managers, contractors, house builders, staircase, timber frame and flooring manufacturers who require tools to manage complex tasks accurately and efficiently. Elecosoft also has a growing user community outside of the construction industry including pharmaceuticals, transport, warehouse management, information technology and consumer product sales and marketing.

In our core markets we have strong installed bases, for example 90% of the top 100 main construction contractors and house builders in the UK, 14 of the leading construction companies in Germany, 70% of European hardwood flooring manufacturers and 49 of the top 100 building companies in Europe are our customers.

## Revenue by Region




* Output is defined as the amount charged by construction companies to customers for the value of work excluding VAT and payments to sub-contractors.

1 Office for National Statistics (2016). Output in the Construction Industry: December 2015 and Quarter 4 (Oct to Dec) 2015 [online] *Available at: http://www.ons.gov.uk/businessindustryandtrade/constructionindustry/bulletins/outputintheconstructionindustry/december2015andquarter4octtodec2015* [Accessed 14 Apr. 2016]

2 Jim McClelland, (2015) Raconteur Future of Construction [online] Available at: *https://raconteur.uberflip.com/i/526740-future-of-construction* [Accessed 14 Apr. 2016]

3 Trading Economics (2016) Sweden Construction Output 1995 – 2016 [online] Available at: *http://www.tradingeconomics.com/sweden/construction-output* [Accessed 14 Apr. 2016]

4 Adrian Malleson. Analysis and Forecasting at RIBA Insight. European construction industry growth forecasts. [online] Available at: *http://www.riba-insight.com/monthlyBriefing/14-02/european-construction-industry-growth-forecasts.asp* [Accessed 14 Apr. 2016]

5 Timetric's Construction in Sweden – Key Trends and Opportunities to 2019

6 Timetric (2015) Construction in Germany – Key Trends and Opportunities to 2019

7 Timeric (2015) Construction in US – Key Trends and Opportunities 2019

9 Transparency Market Research (2015). Building Information Modeling (BIM) Market – Global Industry Analysis, Size, Share, Growth, Trends and Forecast, 2015-2022

# Our Strategy

Listed below are details of progress and our plan for 2016 against our strategic objectives:

## 1. Innovation

| 2015 Update | 2016 Strategic Priorities |
|---|---|
| **Product releases**<br>• Significant new release of Aron Evo® the next generation of Elecosoft's CAD product release in Germany and the UK.<br>• New release of Asta Powerproject®.<br>• New release of Bidcon® which was a multi-year project to consolidate numerous legacy products into a single solution strengthening our position in the Scandinavian market and opening opportunities in international markets.<br>• Advances in BIM with three update releases in 2015. | • Create a demonstrably integrated product portfolio.<br>• Develop bridging solutions that assist with integration by linking our core solutions using a common technology platform, principally based on collaboration and visualisation. For example: Asta Powerproject® BIM includes 3D viewing engine from Elecosoft's existing portfolio.<br>• Share our technology between products and integrate products to maintain a competitive advantage.<br>• Commence Sitecon upgrade project. |
| **Advancement**<br>• Received for the second consecutive year, the Project Management/Planning Product Award 2015 at the UK Construction Computing Awards.<br>• Maintained our investment levels in research and development to continue to meet industry needs.<br>• Established an internal developer community to share ideas and collaborate on development projects. | • Deliver best practice and standardisation amongst development teams.<br>• Continue to develop with industry standards in mind, for example BIM, cloud and cross device usage.<br>• Seek opportunities to integrate with third party technology to broaden our potential audience. |

## 2. Growth

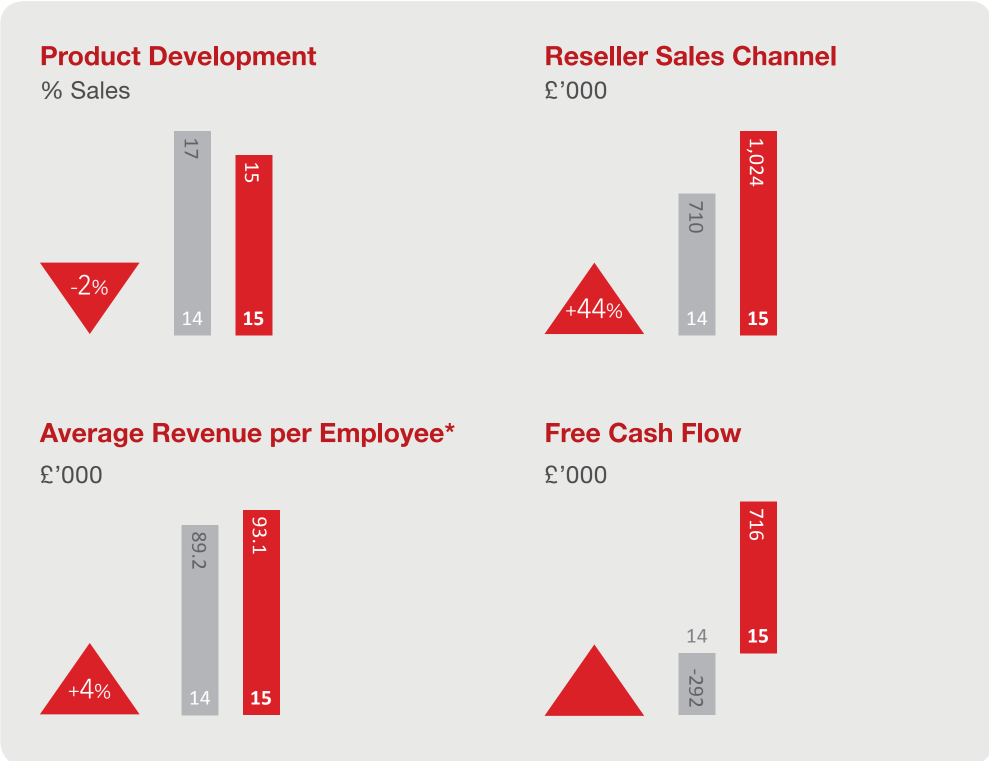
| 2015 Update | 2016 Strategic Priorities |
|---|---|
| **Territories**<br>• Opened a US operation to support the US reseller channel.<br>• Continued to focus the Staircon product in markets outside of Sweden, winning our first order in France.<br>• Won a significant order to supply a US Government department.<br>• Secured first ESIGN® order in China. | • Concentrate efforts on existing committed territories to maximise investment returns.<br>• Continue pipeline and sales expansion in the US through increased commitment to resellers.<br>• Expand product branding in territories managed by channel partners to improve global expansion. |
| **Cross-selling**<br>• Showcased the complete software portfolio at Bau Munich, Europe's largest construction trade fair.<br>• Introduced Bidcon, our leading Swedish estimating software, in the UK.<br>• Experienced more demand in Sweden for our portfolio of products to a single customer. | • Increase portfolio led selling to existing customers within our home markets through the growing demand for BIM.<br>• Strengthen market position with new products in home markets, in particular Bidcon® and Asta Powerproject®. |
| **Strengthen market position**<br>• Changed the name of the Group to Elecosoft. Changed the branding of UK operations to Elecosoft.<br>• ESIGN® continued its relationship with US customers and can now offer floor scanning services in California through a service partner. | • Complete branding transition selling as Elecosoft in all markets.<br>• Invest in incremental direct and channel sales resource to support revenue acceleration plans.<br>• Continue to identify suitable technical resellers and partners to reach new international customers.<br>• Actively identify strategic acquisition opportunities that will fit with Elecosoft's product portfolio and provide a competitive advantage in new markets. |

| 2015 Update | 2016 Strategic Priorities |
|---|---|

## 3. Stability

| 2015 Update | 2016 Strategic Priorities |
|---|---|
| **Financial stability**<br>• Successful completion of capital reduction.<br>• Significantly reduced level of bank borrowings.<br>• Completed disposal of non-core architectural consultancy business in Sweden.<br>• Delivered strong free cash flow.<br>• Maintained tight control on overhead expenditure. | • Proactive management to mitigate currency exposure.<br>• Mitigate interest costs through cash pooling arrangements.<br>• Business overhead review by territory to improve efficiency of operations.<br>• Maximise free cash flow through better working capital management and tighter capital expenditure control.<br>• Review allocation of resources in support of key growth objectives. |
| **Strengthening the team**<br>• Board appointments including new Finance Director.<br>• Appointment of sales managers in the US, UK, Germany and Sweden.<br>• Group lead developer community created. | • Simplify reporting structure and improve internal team management.<br>• Recruit high quality sales resource to support new market growth opportunities.<br>• Improve HR tools and related policies. |
| **Reorganisation**<br>• Completed the reorganisation of Swedish businesses to align them more closely with the requirements of their customers.<br>• Elecosoft Sweden relocated into a new head office in Skelleftea and celebrated their 40th anniversary.<br>• Divested in Swedish services business to focus on the more scalable software operations. | • Where appropriate, progressively remove duplication and inefficiency.<br>• Increase centralisation of functional management. |
| **Systems and procedures**<br>• Simplified the company message through rebranding.<br>• Implemented a single internal communication system.<br>• Standardised company naming to simplify messaging. | • Continue to simplify Elecosoft's corporate and product brands to emphasise a single company strategy.<br>• Invest in attainment of recognised industry standards eg ISO9001.<br>• Future system upgrades. |

# Key Performance Indicators and Business Monitoring




* at constant exchange rates

Elecosoft aims to deliver sustainable growth combined with continued investment in software product development and sales and marketing resources. Elecosoft's Board and Business Units utilise a number of appropriate Key Performance Indicators ("KPIs") as well as a structured planning and reporting process. This begins with long term planning, through to annual budgeting, quarterly reviews and monthly reporting.

The charts below 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 regularly used by the Group include:

- New licensing & maintenance revenue
- Maintenance and support renewal rates
- Consultancy and training revenue utilisation rates
- Product contribution before general overheads
- Business Unit contribution
- Forward sales pipeline
- Product Development milestone delivery

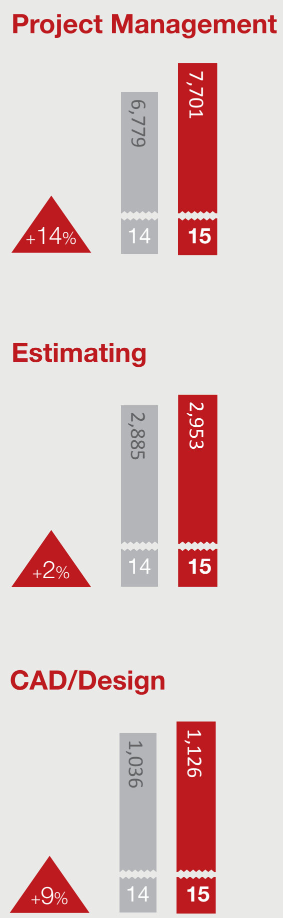
In 2016, Elecosoft plans to invest in updating and upgrading management information systems to improve its internal financial and reporting tools to enhance the visibility of the KPIs.

# Principal Risks and Uncertainties

| Risk | Mitigation |
|---|---|
| **Product Development Risks** | |
| Developing new and enhancing existing products requires continual appraisal of investments and the returns, which can be uncertain. Changing customer requirements and technological innovation increase the difficulty of developing complex software products. | Investments in development are regularly planned, reported and reviewed. Elecosoft works closely with key customers to ensure that new products and features align to needs and meet expectations. Elecosoft uses its own project management tools to support internal testing and quality assurance activity. |
| **Market Risks** | |
| The health of domestic and global economies strongly influences the commercial construction business cycle. A downturn in the construction business cycle may adversely affect Elecosoft's performance. | The risk is mitigated by existing operations spread between countries with plans to expand the geographical reach further. Elecosoft also continues to seek opportunities to market its software solutions outside of the construction industry. |
| **Foreign Exchange Risk** | |
| The Group earns a significant 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 partial, natural hedge against currency movements. In addition we may enter forward 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 asserts its rights where possible. |
| **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. Continuing to attract, develop and retain this pool of skilled staff is key to its ongoing success. | Elecosoft endeavours to ensure that its staff are motivated in their work and there is regular feedback on their performance. There are regular pay reviews and a range of incentive schemes to reward achievement over different time periods. |
| **Operations Risks** | |
| A certain number of our businesses provide personnel on a time charged basis to customers. Elecosoft carries the fixed cost of these members of staff whether they are utilised on customer work or not. | The impact of a lower utilisation rate is higher unrecovered costs. This risk is mitigated, in the short term, by the use of sub-contracted staff. The risk is also managed through the allocation of work within the Group prior to appointing external sub-contractors and agencies. |
| **Bank Covenants** | |
| 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.<br><br>The calculated headroom at 31 December 2015 was generous for both the EBITDA to gross financing costs and net borrowings to EBITDA covenants but was marginal for the cash flow to debt service covenant. | The Group has been in discussions with the Bank for a while regarding reducing the cash flow to debt service covenant to bring it more in line with the industry sector average.<br><br>The Bank recently agreed to reduce the covenant level from the next test date (31 March 2016) and this should result in a significant uplift in the headroom calculation. |

# Operating Review

**Revenue by Product Group* £'000**




*at constant exchange rates

As a management team we have a number of medium-term objectives which include moving to become a genuinely integrated business, achieving predictable growth in both revenue and profit ahead of the wider software market, financial stability and being recognised as a creator of innovative solutions. With our legacy business largely behind us, 2015 allowed us to concentrate solely on our future as a software business and on making progress towards these objectives. There were of course challenges but I believe the progress made in the year has set us up well for another solid performance in 2016.

## An integrated business

Historically, due to our structure, we had made limited efforts to integrate our businesses – something we addressed in 2015. As our customers are increasingly seeing the benefit of integrating offerings and owning a range of complementary, marketing-leading solutions it was a logical step to consolidate our branding. We changed the majority of our Operating Companies and our plc to Elecosoft – reflecting both our long heritage (Eleco) and our future focus (Software). From early 2016, we now trade in all markets bar Germany under the Elecosoft banner. This is part of a wider marketing restructure covering all major areas including product branding, websites and collateral. That work continues and we hope will be largely completed in 2016.

We brought disparate teams together, most notably our developer community to meet and talk regularly, to a structured agenda for the first time. This has already led us to work collectively in a number of areas including planning a common licensing platform, integrated product roadmaps, sharing of resource for problem solving and a move towards a standard User Interface Design across our platforms.

## Predictable growth in revenue and profits, ahead of industry averages market

2015 was the first time as a software-only business that we gave external guidance to the market on our performance. Taking into account currency we were in-line on revenue and ahead on PBT. In part this was due to improvements made to our reporting and planning activities. Our business model is based on growing revenue and profitability in tandem which we achieved in the year under review. Resource investment in 2015 (and budgeted for 2016) was predominately in sales and marketing roles and, in the main, hiring for new positions such as dedicated UK Bidcon, US channel resource and French Staircon sales staff.

## Delivering Innovation

2015 saw the launch of two significant releases of our BIM tool, a 3D viewer for our project scheduling tool (Asta Powerproject) and estimating (Bidcon). That the tool is designed to link to our Estimation tool has also helped us differentiate by bringing our two core products together to deliver a unique 5D BIM solution. Our ability to be agile and accommodating to customer specific requirements also helps set us apart from competitors who lack this flexibility due to their size or structure.

The complete rewrite of our main estimating solution, Bidcon, gave us the opportunity to sell this solution meaningfully in markets outside of Sweden for the first time. Despite competition from well-established local providers we were able to win customers in these new markets due to the technical strength of the offering. This was a significant milestone, validating the rewrite and underscoring the quality of the original Swedish-based approach.

The anticipated release of a new version of our CAD solution, Arcon Evo, also highlighted the benefit of our Research and Development (R&D) programme, with a significant increase in maintenance contracts reflecting customer confidence in the future development path of the products.

## Brands

### Project management

Our project management solution (Asta Powerproject) remains in great health and was the engine of our growth again in 2015. Our commitment to the US coincided with our largest license deal of the year, through a reseller to a US state department of transport which was strong validation of what great resellers can do in assisting with the scaling of our business. We also had a record turnout for our UK National User Forum in the Autumn.

Our Swedish based businesses had a mixed year – a stable domestic performance in Bidcon and Statcon was not matched internationally and we also faced challenges in our growing Staircon businesses. Considerable progress was made in the year to address the issues as part of a wider restructuring of our Swedish businesses.

**Visualisation**
We continued to see a strong performance from our Flooring visualisation business (ESIGN) and solid German domestic activity by Arcon. Growth was slower overall in our Arcon Evo business due to issues with our international reseller activity but work is underway to address this.

## Territories

With the backdrop of a buoyant UK construction market, we saw another strong year of growth in this market in our core offerings. We introduced two significant new offerings across our BIM and Bidcon solutions and saw increased interest in both product areas through the year that have carried into 2016.

As reported in our 2014 accounts, in Sweden we undertook a complete overhaul of our business, including installing an entirely new management team and a complete reorganisation of our operations. This included the disposal of our non-core consulting business to Tyrens AB, a consolidation of development teams and restructuring of our sales teams. This makes us more streamlined and better places us for an improved financial performance in 2016.

We expanded our direct investment in three key markets – the US, the Netherlands and Germany. The focus in the first two will initially be on Asta Powerproject but will expand beyond this as we become more established in these markets in 2016. The timing and size of our largest US win has helped create the momentum we needed to gain credibility in the market and saw underlying sales grow by 55% even with that deal excluded.

## Operations

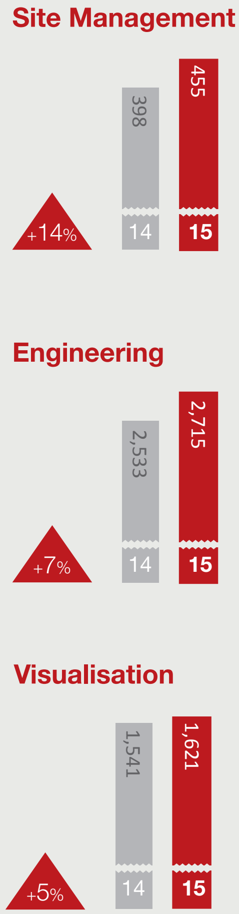
One of our biggest challenges in 2015, as with 2014 was the impact of currency and consequently our activity in mainland Europe was adversely impacted by the strengthening of Sterling. We made improvements to our day to day reporting and enhanced our budgeting process – all aimed at providing a more cohesive, standardised operating model across the Group.

## Outlook

Elecosoft's long-term goal remains to be a leading provider of integrated software solutions to the global architectural, engineering and construction ("AEC") industry. We made good progress towards this goal in 2015, in 2016 we will focus predominately in growing in the markets we are already committed to.

**John Ketteley**
Executive Chairman
15 April 2016

## Revenue by Product Group* £'000




*at constant exchange rates

# Financial Review

**Earnings per share***

**1.1p**

2014: 0.8p

**+38%**

The execution of the Group's strategy to grow its market share in existing and new markets during the year had a positive impact on the scale and growth rate of the Group's operations and financial performance. Exchange rate movements in the Group's core trading currencies during the year had an adverse impact but the Group enjoyed strong underlying sales growth.

## Revenue

Continuing operations revenue for the year increased 1% to £15.3m. This increase was adversely impacted by the strength of Sterling against the Swedish Krona and Euro which account for over 50% of the Group's sales. On a constant currency basis revenue would have been £16.6m which represents a growth of 9%.

The Group continues to enjoy high levels of recurring revenue from maintenance and support with the balance of the revenue coming from services and licence sales. The level of deferred income at the balance sheet date, which is a measure of future maintenance revenue, increased from £3.4m to £3.7m during the year representing a growth rate of over 7%.

Revenue through resellers grew 44% in the year to £1.0m and is key growth area moving into 2016. The revenue mix has changed since the disposal of the Swedish architectural consultancy business during the year with a reduced contribution from lower margin services income. The mix is now at: Licences 30% (2014: 24%), Maintenance 48% (2014: 45%) and Services 22% (2014: 31%).

The geographic performance of the Group was mixed with strong sales growth in the UK up 13% to £4.9m (2014: £4.3m) and the Rest of World up 100% to £0.8m (2014: £0.4m). These upsides were partly offset by weaker sales across the Rest of Europe due to the currency headwinds referred to above. On a constant currency basis revenue grew in both Scandinavia and Germany by 2% and 4% respectively.

## 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 2015 the gross profit margin improved slightly from 88% to 89% due to a changed mix of Licences, Maintenance and Services revenue.

## Overheads

Selling and administrative expenses were broadly flat at £12.4m after amortisation of intangible assets of £0.5m (2014: £0.4m) as the Group continued its tight control on overheads. The average number of employees during the year was 178 (2014: 170).

Software product development expenses amounted to £2.3m for the year (2014: £2.6m) of which £0.7m (2014: £0.6m) was capitalised. The projects which met the requirements of the accounting policy for capitalisation and were therefore capitalised in the year relate to the following products: Arcon Evo, BIM APP v2, BIM APP v3 and Bidcon.net. 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 £1.1m (2014: £0.9m) a growth of 24% over the prior period. Profit before tax was £1.0m, up £0.3m, over 46% compared to the prior period. Taxation cost was £0.2m in the period (2014: £0.2m) representing 20% of profit before tax. (2014: 25%).

## Balance Sheet and Cash Flow

Shareholder's equity increased to £7.9m, up £1.2m, 17% at 31 December compared to 2014. Net borrowings, including finance leases, were significantly lower at £0.8m compared to £2.0m in the prior period. This improvement was driven by strong free cash flow and business disposal proceeds and resulted in a significant drop in gearing from 30% at 1 January 2015 to 10% at 31 December.

Trade and other receivables decreased to £2.9m (2014: £3.1m) partly due to the business disposal during the year. This represented 48 days sales outstanding compared to 49 for the prior period. Trade and other payables decreased to £1.3m (2014: £1.6m) and accruals were lower at £1.4m (2014: £1.7m).

Cash generated from operations amounted to £1.6m in the year, compared to a cash outflow of £0.4m in the prior period. Free cash flow increased to £0.7m compared to a cash outflow of £0.3m in the prior period.

* continuing operations basic EPS.

Case study

## 5D Costing with Bidcon BIM helps Clarkson Alliance build foundation of a BIM future

The company had already standardised on Asta Powerproject for project management planning and was being introduced to Bidcon BIM when upgrading to Elecosoft's new BIM module.

**"As soon as we learned there was a quantities package that could support BIM, our ears pricked up. We asked what form of output it produced and the answer came back as NRM1 and NRM2. Until that time we had not found any system that could output costs in this industry-standard way.**

**Bidcon BIM ticked all our boxes and the more questions we asked, the more boxes it ticked. For example: Spon's is the standard industry price book for construction and with its inclusion, Bidcon BIM becomes a cost database too."**

*David Chapell, Head of Cost Management at Clarkson Alliance*

# Financial Review continued

**Net borrowings**

**£803,000**

2014: £2.0m

**-61%**

The table below summarises the cash flow performance in the year.

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Cash generated/(used) in operations | **1,640** | (353) |
| Net capital (expenditure)/proceeds | **(645)** | 392 |
| Net interest paid | **(152)** | (237) |
| Income tax paid | **(127)** | (94) |
| **Free cash flow** | **716** | (292) |
| Acquisitions and disposals | **726** | 448 |
| Loan (repayments)/proceeds | **(1,091)** | 1,487 |
| Finance lease repayments | **(251)** | (283) |
| Issue of share capital | **–** | 2,948 |
| **Net cash inflow** | **100** | 4,308 |
| Exchange difference | **(15)** | (97) |
| **Net increase in cash and cash equivalents** | **85** | 4,211 |

## Capital and financing

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

- a term loan of £3.0m, with 16 quarterly loan repayments of £187,500 commencing from October 2014, carrying an interest rate of 3.25% over base rate; and
- a £1.0m overdraft facility, carrying an interest rate of 2.75% 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.

A share capital reduction was completed on 1 July 2015 and consequently the share capital, share premium and other reserve accounts have been adjusted in both the Group and Company Balance Sheets.

## Business disposal / Discontinued operations

The Group disposed of its non-core architectural consultancy business in Sweden in December 2015 for a total consideration of £862,000 (Swedish Krona 11,075,000). The profit before tax on disposal of this business, net of related purchased goodwill, was £463,000. Consequently the trading results of this operation for the period up to the disposal date have been presented under discontinued operations and the prior period has been restated accordingly.

## Earnings per share and dividends

The basic earnings per share on continuing operations is 1.1p (2014: 0.8p).The basic earnings per share on total operations is 1.6p (2014: loss 0.2p before discontinued exceptional items).

The successful completion of the share capital reduction and improved trading performance during the year will give the Board the opportunity to consider and recommend dividends in the foreseeable future. At present the Board has not recommended the payment of a dividend in respect of the year ended 31 December 2015.

**Graham Spratling**
Group Finance Director
15 April 2016

The Strategic Report, as set out on pages 6 to 21, has been approved by the Board.

**John Ketteley**
Executive Chairman
15 April 2016

Case study

## Asta Powerproject used on the widest suspension bridge in the world

Hailed as a "symbol of modern Turkey," the 3rd Bosphorus bridge will be the widest suspension bridge in the world and features the highest suspension bridge tower ever seen. This massive engineering undertaking is set to propel Turkey towards its ambition to become one of the world's ten largest economies by the year 2023.

With an investment value of over £1 billion, the project's planning and construction, is being executed over a period of ten years, two months and twenty days.

**"Collaboration is crucial to achieving our goals in a megaproject like this. We have a large number of international partners, designers, subcontractors, and material suppliers in the same project – not to mention the 7,500 people involved on the construction side. Defining the right project strategy, implementing successful and transparent planning and building up healthy communication between project stakeholders are all tactics we use to ensure that everyone is working towards the same common goal with the same understanding.**

**We chose Asta Powerproject, because it enables us to understand the project's status in real time, and it is also user friendly for ease of adoption. We needed to find a way to track planning amongst a large number of stakeholders."**

*Cem Erer, Technical Director at IC-A Ictas - Astaldi JV*

**The 3rd Bosphorus Bridge**
The widest suspension bridge in the world
Asta Powerproject® and TILOS

# Governance

# Board of Directors

### John Ketteley FCA[3]
**Executive Chairman**

Appointed Executive Chairman in 1997, John Ketteley has an investment banking background. He was formerly non-executive Chairman of BTP plc, Country Casuals plc and Prolific Income plc.

### Graham Spratling ACMA
**Group Finance Director**

Appointed on the 8 July 2015. Graham Spratling joined Elecosoft in 2007 as Group Financial Controller, prior to which he had been a member of finance teams at Barclays Bank and Nestle UK. He then became a key member of Elecosoft's finance team supporting the Groups' transition from a building products and software Group to an international software business.

### Jason Ruddle
**Chief Operating Officer**

Appointed as Director on 29th 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 Ltd in January 2015. He was previous Business Development Manager for ITW Industry, a construction products subsidiary of Illinois Toll Works Inc. Prior to this, he worked at Gang-Nail Systems and Consultec UK, both former subsidiaries of Elecosoft.

### 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. He was previously Managing Director of Argen Limited, a risk management consultancy and is a Director of Harpenden Sports Ground Limited.

### 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 Castrol, the Lubricants division of BP.

Board composition as at the 18 April 2016.

* Independent Non-Executive Director

[1] Member of the Audit Committee [2] Member of the Remuneration Committee [3] Member of the Nominations Committee

# Company Advisors

## Secretary
**Andrew Courts FCCA**

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**E** ir@elecosoft.com
**W** www.elecosoft.com

## Registered Number
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**Reynolds Porter Chamberlain**
Tower Bridge House
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E1W 1AA

## Bankers
**Barclays Bank PLC**

# Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2015.

## Results for the year ended 31 December 2015

The Group profit on ordinary activities of continuing operations before taxation was £1,006,000 (2014 restated: £686,000). The profit on discontinued operations before taxation was £360,000 (2014 restated: £5,554,000). The detailed financial statements of the Group are set out on pages 32 to 67.

## Business review and future developments

A review of the Groups' operations during the year and its plans for the future is given in the Chairman's statement on pages 2 to 3, the Operating Review on pages 16 to 17 and in Our Strategy on pages 12 and 13.

## Dividends

No interim dividend was paid during the year (2014: nil). The Directors do not intend to recommend a final dividend for the year ended 31 December 2015 (2014: nil).

## Share capital

Details of the share capital are shown in Note 22 on page 61 of the consolidated financial statements.

## Share price

The middle market price of the Company's ordinary shares on 31 December 2015 was 27.5p and the range during the period under review was 21.0p to 34.0p.

## Business disposals

On 1 December 2015, the Groups' Swedish architectural consultancy business was sold to Tyrens AB for gross proceeds of £862,000. (Swedish Krona 11,075,000).

## Directors

The current composition of the Board of Directors is shown on page 24. Directors who held office during the year were:

J H B Ketteley

M B McCullen (resigned 9 January 2015)

N J B Caw

M A Greenwood (appointed 30 January 2015, resigned 29 June 2015)

G N Spratling (appointed 8 July 2015)

J Cohen (resigned 8 June 2015)

J Edwards

S Lang

## Subsequent to the year end

J B Ruddle was appointed as Director on the 29 February 2016.

G N Spratling and J B Ruddle 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 2015 excluding pension entitlements were:

| | Basic salary £'000 | Fees £'000 | Benefits £'000 | **Year to 31 December 2015 Total £'000** | Year to 31 December 2014 Total £'000 |
|---|---|---|---|---|---|
| **Executive** | | | | | |
| J H B Ketteley | 251 | 1 | 16 | **268** | 329 |
| N J B Caw | 140 | 10 | 10 | **160** | 85 |
| G N Spratling | 50 | 2 | 3 | **55** | – |
| M B McCullen | – | – | – | **–** | 280 |
| M A Greenwood | 71[1] | 2 | 3 | **76** | – |
| **Non-executive** | | | | | |
| J Cohen | – | 15 | – | **15** | 29 |
| J Edwards | – | 39 | – | **39** | 29 |
| S Lang | – | 36 | – | **36** | 3 |

[1] included in the basic salary figure is an amount of £11,000 for compensation for loss of office.

In addition J H B Ketteley received, as agreed, a cash supplement from the Company, in lieu of a pension contribution, amounting to £92,684, during the period and is not included in the table above. A payment was made to J H B Ketteley of £54,545 during the year relating to deferred emoluments owing including the deferred pension at the prior year end. The total amount of deferred emoluments owing to J H B Ketteley including the deferred pension at the year end amounted to £40,344 (2014; £94,889).

Contributions made by the company to personal pension plans of Directors are M B McCullen £nil (2014: £16,000) N J B Caw £14,000 (2014: £7,000), G N Spratling £3,500 (2014: £nil) and M A Greenwood £5,000 (2014: £nil).

## Directors' shareholdings

The interests, beneficial unless otherwise indicated, in the ordinary shares of 1p each in the Company of the Directors who held office at 31 December 2015 were as follows:

| | At 31 December 2015 | At 31 December 2014 |
|---|---|---|
| J H B Ketteley | **9,049,760** | 9,049,760 |
| J Edwards | **113,700** | 113,700 |

There have been no changes in the Directors' interests since 31 December 2015.

## 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 | 15.38 |
| J H B Ketteley | 9,049,760 | 12.09 |
| Rights & Issues Investment Trust PLC | 4,520,781 | 6.04 |
| J D Lee | 3,181,927 | 4.25 |
| Lowland Investment Company PLC | 3,153,443 | 4.21 |
| P R & M J Ketteley | 3,127,408 | 4.18 |
| G V & S M Oury | 2,663,853 | 3.56 |
| T D Water House | 2,262,419 | 3.02 |

## 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 2015 were to N J B Caw £nil (2014: £10,000);

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); no awards were made under the Company's Long Term Incentive plan in the year ended 31 December 2014.

Share awards were made under the Company's Long Term Incentive Plan to N J B Caw amounting to 900,000 shares options at 20.75p, £186,750 (2014: £nil). The Options are exercisable after 3 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 N J B Caw leaves within the 3 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 shall be exercisable until 12 February 2025, 10 years after the date of grant.

## 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);
- N J B Caw (2 July 2014: twelve months);
- G N Spratling (8 July 2015: three months within the first year, six months thereafter); and
- J B Ruddle (29 February 2016: 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 (2014: £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 £35,000 (2014: £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 £20,328 (2014: £10,000) was paid to The Boardroom Partnership Limited a company in which J Cohen is a Director.

# Directors' Report

## Political donations

The Group did not make any political donations (2014: £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 25 on pages 62 to 66.

## 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 consisted during most of the year of the Executive Chairman, Chief Executive Officer and two independent non-executive Directors, meets at least ten times throughout the year. J Edwards 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 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 United Kingdom 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 auditor is 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 United Kingdom 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 39.

## 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 40 to 41.

## 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 any 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 re-appoint them as auditors and to determine their remuneration.

By Order of the Board

**Andrew Courts F.C.C.A.**
Secretary

Elecosoft plc
66 Clifton Street
London EC2A 4HB

15 April 2016


**Rathbone Market, Phase Two**
**Asta Powerproject®**

Leanne Broderick delivered phase 2 on time despite inheriting a 26 week delay. Leanne won the Silver award for Residential over 6 Storeys at the Construction Manager of the Year 2015.

# 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 2015 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, the company balance sheet and statement of changes in equity; and the 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 United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard applicable to the United Kingdom and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 28 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 Councils website at www.frc.org.uk/auditscopeukprivate.

## Opinion on financial statements

In our opinion the Group financial statements:

- the financial statements give a true and fair view of the state of the groups' and of the parent company's affairs as at 31 December 2015 and of the groups' 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard applicable to the United Kingdom and Republic of Ireland"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## 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
Central Milton Keynes

15 April 2016

# Consolidated Income Statement

for the year ended 31 December 2015

| | Notes | 2015 £'000 | 2014 (restated) £'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 1,2 | **15,260** | 15,172 |
| Cost of sales | | **(1,688)** | (1,858) |
| **Gross profit** | | **13,572** | 13,314 |
| Operating expenses before amortisation of intangible assets and exceptionals | | **(11,951)** | (11,898) |
| Amortisation of intangible assets | | **(495)** | (372) |
| Exceptional items | 3 | **–** | (138) |
| Selling and administrative expenses | | **(12,446)** | (12,408) |
| **Operating profit** | 2,4 | **1,126** | 906 |
| Finance income | 6 | **1** | 3 |
| Finance cost | 6 | **(121)** | (223) |
| **Profit before tax** | | **1,006** | 686 |
| Tax | 7 | **(204)** | (173) |
| **Profit for the financial period from continuing operations** | | **802** | 513 |
| Profit for the financial period from discontinued operations | 8 | **360** | 5,554 |
| **Profit for the financial period** | | **1,162** | 6,067 |
| *Attributable to:* | | | |
| Equity holders of the parent | | **1,162** | 6,067 |
| Earnings per share – basic | | | |
| Continuing operations | 9 | **1.1p** | 0.8p |
| Discontinued operations | 9 | **0.5p** | 8.3p |
| Total operations | 9 | **1.6p** | 9.1p |
| Earnings per share – diluted | | | |
| Continuing operations | 9 | **1.1p** | 0.8p |
| Discontinued operations | 9 | **0.5p** | 8.3p |
| Total operations | 9 | **1.6p** | 9.1p |

# Consolidated Statement of Comprehensive Income
for the year ended 31 December 2015

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| **Profit for the period** | **1,162** | 6,067 |
| **Other comprehensive income:** | | |
| Items that will be reclassified subsequently to profit and loss: | | |
| Translation differences on foreign operations | **(11)** | 60 |
| **Other comprehensive income net of tax** | **(11)** | 60 |
| **Total comprehensive income for the period** | **1,151** | 6,127 |
| *Attributable to:* | | |
| Equity holders of the parent | **1,151** | 6,127 |

# Consolidated Statement of Changes in Equity
for the year ended 31 December 2015

| | 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)** | **–** | **–** | **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** |

| | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Translation reserve £'000 | Other reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2014 | 6,066 | 6,396 | 4,086 | (221) | (358) | (18,322) | (2,353) |
| Issue of share capital | 1,421 | 1,527 | – | – | – | – | 2,948 |
| Transactions with owners | 1,421 | 1,527 | – | – | – | – | 2,948 |
| Profit for the period | – | – | – | – | – | 6,067 | 6,067 |
| Other comprehensive income: | | | | | | | |
| Exchange differences on translation of net investments in foreign operations | – | – | – | 60 | – | – | 60 |
| Total comprehensive income for the period | – | – | – | 60 | – | 6,067 | 6,127 |
| At 31 December 2014 | 7,487 | 7,923 | 4,086 | (161) | (358) | (12,255) | 6,722 |

# Consolidated Balance Sheet

At 31 December 2015

| | Notes | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 10 | **10,152** | 10,571 |
| Other intangible assets | 11 | **1,910** | 1,683 |
| Property, plant and equipment | 12 | **503** | 575 |
| **Total non-current assets** | | **12,565** | 12,829 |
| **Current assets** | | | |
| Inventories | 15 | **9** | 8 |
| Trade and other receivables | 16 | **2,871** | 3,110 |
| Current tax assets | | **173** | 148 |
| Cash and cash equivalents | | **1,957** | 1,198 |
| **Total current assets** | | **5,010** | 4,464 |
| **Total assets** | | **17,575** | 17,293 |
| **Current liabilities** | | | |
| Bank overdraft | 18 | **(674)** | – |
| Borrowings | 18 | **(750)** | (750) |
| Obligations under finance leases | 18 | **(139)** | (141) |
| Trade and other payables | 17 | **(1,255)** | (1,586) |
| Provisions | 19 | **(203)** | (142) |
| Current tax liabilities | | **(2)** | – |
| Accruals and deferred income | 20 | **(5,068)** | (5,189) |
| **Total current liabilities** | | **(8,091)** | (7,808) |
| **Non-current liabilities** | | | |
| Borrowings | 18 | **(972)** | (2,063) |
| Obligations under finance leases | 18 | **(225)** | (279) |
| Deferred tax liabilities | 21 | **(242)** | (162) |
| Non-current provisions | 19 | **(139)** | (220) |
| Other non-current liabilities | | **(13)** | (39) |
| **Total non-current liabilities** | | **(1,591)** | (2,763) |
| **Total liabilities** | | **(9,682)** | (10,571) |
| **Net assets** | | **7,893** | 6,722 |
| **Equity** | | | |
| Share capital | 22 | **749** | 7,487 |
| Share premium account | | **–** | 7,923 |
| Merger reserve | | **–** | 4,086 |
| Translation reserve | | **(172)** | (161) |
| Other reserve | | **(338)** | (358) |
| Retained earnings | | **7,654** | (12,255) |
| **Equity attributable to shareholders of the parent** | | **7,893** | 6,722 |

The financial statements of Elecosoft plc, registered number 00354915, on pages 33 to 67 were approved by the Board of Directors on 15 April 2016 and signed on its behalf by:

**John Ketteley**
Executive Chairman

# Consolidated Statement of Cash Flows

for the year ended 31 December 2015

| | Notes | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax (including discontinued operations) | | **881** | 7,788 |
| Net finance costs | | **123** | 228 |
| Depreciation charge | | **174** | 198 |
| Amortisation charge | | **495** | 397 |
| Profit on sale of property, plant and equipment | | **(18)** | (109) |
| Share-based payments charge | | **20** | – |
| Retirement benefit obligation – derecognition | | **–** | (7,738) |
| Decrease in provisions | | **(20)** | (618) |
| **Cash generated in operations before working capital movements** | | **1,655** | 146 |
| Decrease/(increase) in trade and other receivables | | **349** | (155) |
| (Increase)/decrease in inventories and work in progress | | **(1)** | 8 |
| Decrease in trade and other payables | | **(363)** | (244) |
| Net increase in discontinued operations working capital | | **–** | (108) |
| **Cash generated/(used) in operations** | | **1,640** | (353) |
| Interest paid | | **(153)** | (240) |
| Interest received | | **1** | 3 |
| Income tax paid | | **(127)** | (94) |
| **Net cash inflow/(outflow) from operating activities** | | **1,361** | (684) |
| **Investing activities** | | | |
| Purchase of intangible assets | | **(754)** | (637) |
| Purchase of property, plant and equipment | | **(58)** | (85) |
| Acquisition of subsidiary undertakings net of cash acquired | 24 | **(28)** | (26) |
| Proceeds from sale of property, plant, equipment and intangible assets | | **167** | 1,114 |
| Sale of business net of expenses | 8 | **754** | 474 |
| **Net cash inflow from investing activities** | | **81** | 840 |
| **Financing activities** | | | |
| Proceeds from new bank loan | | **–** | 3,000 |
| Repayment of bank loans | 18 | **(1,091)** | (1,513) |
| Repayments of obligations under finance leases | | **(251)** | (283) |
| Issue of share capital | | **–** | 2,948 |
| **Net cash (outflow)/inflow from financing activities** | | **(1,342)** | 4,152 |
| **Net increase in cash and cash equivalents** | | **100** | 4,308 |
| Cash and cash equivalents at beginning of period | | **1,198** | (3,013) |
| Effects of changes in foreign exchange rates | | **(15)** | (97) |
| **Cash and cash equivalents at end of period** | | **1,283** | 1,198 |
| **Cash and cash equivalents comprise:** | | | |
| Cash and short-term deposits | | **1,957** | 1,198 |
| Bank overdrafts | | **(674)** | – |
| | | **1,283** | 1,198 |

# Significant Accounting Policies

Elecosoft plc is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The consolidated financial statements for the year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the "Group"). The consolidated and parent company financial statements were authorised for issuance on 15 April 2016.

The address of the registered office is given on page 25. The nature of the Groups' operations and its principal activities are set out in the Chairman's Statement on pages 2 to 3, Strategic Report on pages 6 to 21, Directors' Report on pages 26 to 29 and Note 2 on pages 44 to 46.

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 2015 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 continuing operations consolidated income statement for 2014 was restated for the disposal of the Swedish architectural consultancy business sold in December 2015. The results from this business were reclassified to discontinued operations in the consolidated income statement.

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 10 on page 53.

### Carrying value of development 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 11 on page 54.

### 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.

### Discontinued operations

A discontinued operation is a component of the Groups' 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.

Disposal proceeds from the Swedish architectural consultancy business sold in December 2015 and related expenses have been recognised in the consolidated income statement under discontinued operations. In addition, certain non-recurring corporate overhead costs have been judged to relate to the activities of the former ElecoBuild businesses and are therefore reported under discontinued operations.

## C. Going concern

The Groups' clients include many top contractors in the building and construction sector in the UK, Sweden, Germany, Benelux and the United States. The software products provided by the Group are reasonably embedded in their client's core operations and 48% (2014: 48%) of the Groups' revenue is from recurring revenue contracts. These maintenance 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.

Historically, there is a low level of maintenance 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 and as a result, 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 Groups' interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

# **Significant Accounting Policies** continued

## 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 Groups' 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 at least annually 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 |
| Own product development | – up to five years |
| Other 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 incurred. Development expenditure on a project is written off as incurred unless it can be demonstrated that the following conditions for capitalisation, 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.

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 Groups' goodwill assets are assessed annually as to whether an impairment adjustment may be required. When annual impairment testing for assets is 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 Group makes an estimate of the asset's recoverable amount, based on the higher of the asset's value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows of the CGU are discounted to their present value based on an adjusted Group estimated weighted average cost of capital and the risks specific to the asset. 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.

# Significant Accounting Policies continued

## 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. There are a number of assumptions that affect the value 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 number 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.

### 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.

Merger relief is recorded in the merger reserve and represents the premium not recognised on the issues of shares pursuant to Section 131 of the Companies Act 1985 on acquisition of subsidiary companies. Merger relief that was recorded in the merger reserve on the acquisition of subsidiaries was reclassified to profit and loss account reserves during the year and is reported through the statement of changes in equity.

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 reserve relating to share options issued but not yet exercised and shares in the Company held by the Employee Share Ownership Trust are reported in the other reserves.

## T. Employee Share Ownership Trust

Equity shares in Eleco 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 2015:

| | Effective date |
|---|---|
| **International Accounting Standards (IAS/IFRS)** | |
| IFRS 9 Financial instruments – Classification and measurement | 1 January 2018 |
| IFRS 14 Regulatory deferral accounts | 1 January 2016 |
| IFRS 15 Revenue from contracts with customers. | 1 January 2017 |
| IFRS 16 Leases | 1 January 2019 |

No new standards becoming effective and applied in the current year have had a material impact on the financial statements. The impact of IFRS 15 – Revenue from contracts with customers will be considered for future periods. 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:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Licence sales | 4,536 | 4,008 |
| Recurring maintenance and support revenue | 7,278 | 7,351 |
| Services income | 3,446 | 3,813 |
| Total revenue | 15,260 | 15,172 |

## 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.

| | 2015 Software £'000 | 2014 Software £'000 |
|---|---|---|
| Revenue | 15,260 | 15,172 |
| Adjusted operating profit | 3,930 | 3,999 |
| Depreciation charge | (174) | (187) |
| Product development costs | (1,640) | (2,024) |
| Operating profit before exceptionals and amortisation | 1,621 | 1,416 |
| Amortisation of intangible assets | (495) | (372) |
| Exceptional items | – | (138) |
| Operating profit | 1,126 | 906 |
| Net finance cost | (120) | (220) |
| Segment profit before tax | 1,006 | 686 |
| Tax | (204) | (173) |
| **Segment profit after tax** | 802 | 513 |
| Development costs capitalised | (665) | (553) |
| **Total development costs** | (2,305) | (2,577) |
| Operating profit | 1,126 | 906 |
| Amortisation of intangible assets | 495 | 372 |
| Depreciation charge | 174 | 187 |
| **EBITDA** | 1,795 | 1,465 |

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 2015 are explained in the Financial Review on page 18 and the accounting policy requirements for capitalisation are set out on in the Significant Accounting Policies in section I.

| | 2015 Software £'000 | 2014 Software £'000 |
|---|---|---|
| **Group assets and liabilities** | | |
| Segment assets | **17,575** | 17,293 |
| Unallocated assets | **–** | – |
| Total Group assets | **17,575** | 17,293 |
| Segment liabilities | **9,682** | 10,571 |
| Unallocated liabilities | **–** | – |
| Total Group liabilities | **9,682** | 10,571 |

**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:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| UK | **4,857** | 4,291 |
| Scandinavia | **5,950** | 6,605 |
| Germany | **2,308** | 2,447 |
| Rest of Europe | **1,359** | 1,404 |
| Rest of World | **786** | 425 |
| | **15,260** | 15,172 |

Rest of World includes revenue from customers in the USA of £571,000 (2014: £163,000).

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

Revenue by product group is as follows:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Project management | **7,493** | 6,779 |
| Site management | **396** | 398 |
| Estimating | **2,557** | 2,885 |
| Engineering | **2,373** | 2,533 |
| CAD/Design | **1,001** | 1,036 |
| Visualisation | **1,440** | 1,541 |
| | **15,260** | 15,172 |

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

# Notes to the Consolidated Financial Statements continued

## 2. Segment information continued

Revenue by sales channel is as follows:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Direct | 14,236 | 14,462 |
| Reseller | 1,024 | 710 |
| | 15,260 | 15,172 |

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:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| UK | 7,130 | 6,780 |
| Scandinavia | 4,350 | 4,902 |
| Germany | 1,040 | 1,147 |
| Rest of Europe | 44 | – |
| Rest of World | 1 | – |
| | 12,565 | 12,829 |

### Information about major customers

Revenues arising from sales to the Groups' largest customer were below the reporting threshold of 10% of Group revenue (2014: Below 10% reporting threshold).

## 3. Exceptional items

Exceptional items represent income and costs considered necessary to be separately disclosed by virtue of their size or nature:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Restructuring costs | – | (113) |
| Capital reduction expenses | – | (25) |
| | – | (138) |

## 4. Operating profit

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

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Software product development | **1,640** | 2,024 |
| Depreciation of property, plant and equipment | **174** | 187 |
| Amortisation of intangible assets acquired | **380** | 360 |
| Amortisation of capitalised development costs | **115** | 12 |
| Profit on disposal of property, plant and equipment | **(18)** | (17) |
| Foreign exchange losses | **85** | 58 |
| Fees payable to the Company's auditor for: | | |
| The audit of the parent company and consolidated financial statements | **35** | 47 |
| Fees payable to the Company's auditor and its associates for other services: | | |
| The audit of the Company's subsidiaries | **32** | 47 |
| Other services | **22** | 8 |
| Operating lease rentals: | | |
| Plant, equipment and vehicles | **47** | 144 |
| Properties | **359** | 247 |
| Non-recurring items: | | |
| Directors' termination payment | **11** | 100 |

# Notes to the Consolidated Financial Statements continued

## 5. Employee information

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

| | 2015 number | 2014 number |
|---|---|---|
| Sales and marketing | 57 | 50 |
| Client services | 52 | 50 |
| Software development | 41 | 42 |
| Management and administration | 28 | 28 |
| | 178 | 170 |

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

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Wages and salaries | 6,279 | 6,546 |
| Social security | 1,255 | 1,381 |
| Pension costs | 379 | 370 |
| Share-based payments | 20 | – |
| | 7,933 | 8,297 |
| Less: Development staff costs capitalised | (665) | (553) |
| | 7,268 | 7,744 |

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 is 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:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Short-term employee benefits | 643 | 647 |
| Post-employment benefits | 22 | 23 |
| Termination benefits | 11 | 100 |
| Share based payments | 20 | – |
| Executive Directors | 696 | 770 |
| Fees – non-executive Directors | 90 | 61 |
| | 786 | 831 |

The emoluments of the highest paid Director were £361,000 (2014: £382,000). Employers NIC payments in respect of the Directors' remuneration was £95,000 (2014: £83,000)

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.

## 6. Net finance income/(cost)

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

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Finance income: | | |
| Bank and other interest receivable | **1** | 3 |
| Finance costs: | | |
| Bank overdraft and loan interest | **(107)** | (209) |
| Finance leases and hire purchase contracts | **(14)** | (14) |
| Total net finance cost | **(120)** | (220) |

## 7. Taxation

### (a) Tax on profit on ordinary activities

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

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Current tax: | | |
| UK corporation tax on profits of the year | **2** | – |
| | **2** | – |
| Foreign tax | **121** | 153 |
| Total current tax | **123** | 153 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | **74** | 20 |
| Tax adjustments in respect of previous years | **7** | – |
| Total deferred tax | **81** | 20 |
| Tax charge in the income statement | **204** | 173 |

Income tax for the UK has been calculated at the standard rate of UK corporation tax of 20.25% effective from 1 April 2015 (2014: 21.49%) 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

## 7. 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 20.25% for the period under review. The reconciliation is explained below:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Profit on continuing operations before tax | **1,006** | 686 |
| Tax calculated at the average standard rate of UK corporation tax of 20.25% (2014: 21.49%) applied to profits before tax | **204** | 147 |
| Effects of: | | |
| Expenses not deductible for tax purposes | **46** | 73 |
| Research & development tax relief | **(94)** | (81) |
| Group relief/losses surrendered not paid | **4** | (13) |
| Non taxable statutory compensation | **(15)** | – |
| Deferred tax not recognised | **39** | 31 |
| Share option deduction | **4** | – |
| Prior year adjustments | **7** | – |
| Utilisation of losses | **(17)** | – |
| Tax rate differences in foreign jurisdictions | **24** | 12 |
| Other differences | **2** | 4 |
| Continuing operations tax charge for the year | **204** | 173 |

### (c) Unrecognised tax losses

The Group has tax losses of £762,000 (2014: £828,000) arising at one of its operations in Germany for which no deferred tax asset has been recognised and tax losses of £1,874,000 (2014: £2,127,000) arising in the UK. Deferred tax un-provided in respect of losses in UK subsidiaries is £390,000 (2014: £440,000). No deferred tax is recognised on the unremitted earnings of overseas subsidiaries.

## 8. Discontinued operations

The trading results and profit on the disposal of the Swedish architectural consultancy business net of costs of disposal in the twelve months to 31 December 2015 are reported under discontinued operations. In addition, non-recurring corporate overhead costs which are attributable to the former ElecoBuild businesses during the year are reported under discontinued operations.

The results from discontinued operations which have been included in the income statement are set out below:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Revenue | **1,400** | 1,312 |
| Cost of sales | **(717)** | (657) |
| **Gross profit** | **683** | 655 |
| Administrative expenses | **(685)** | (1,024) |
| Other operating costs | **(120)** | (259) |
| **Operating loss before exceptionals** | **(122)** | (628) |
| Exceptionals | **–** | 7,738 |
| **Operating (loss)/profit** | **(122)** | 7,110 |
| Finance cost | **(3)** | (8) |
| **(Loss)/profit before tax** | **(125)** | 7,102 |
| Taxation on discontinued operations | **22** | (1,548) |
| **(Loss)/profit for the period from discontinued operations before disposals** | **(103)** | 5,554 |
| Profit on disposals after tax | **463** | – |
| **Profit for the period from discontinued operations** | **360** | 5,554 |

The net profit from the disposal of the Swedish architectural consultancy business sold during the year and included in the income statement are set out below:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Consideration on disposal | **862** | – |
| Net liabilities on disposal | **17** | – |
| Goodwill on disposal | **(395)** | – |
| Other disposal costs | **(21)** | – |
| **Profit on disposal before tax** | **463** | – |
| Tax on disposal of discontinued operations | **–** | – |
| **Profit on disposal after tax** | **463** | – |

The cash consideration received on the disposal of the Swedish architectural consultancy business before liabilities transferred and expenses was £862,000. The net cash proceeds on the disposal after liabilities transferred and expenses was £754,000.

The results from discontinued operations which have been included in the cash flow statement are set out below:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Operating activities | **92** | (1,250) |
| Investing activities | **54** | 960 |
| Financing activities | **(124)** | (11) |
| **Total cash flows** | **22** | (301) |

# Notes to the Consolidated Financial Statements continued

## 9. Basic and diluted earnings per share

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

| | 2015 | 2014 |
|---|---|---|
| Continuing operations | £802,000 | £513,000 |
| Discontinued operations before exceptionals | £360,000 | £(636,000) |
| Discontinued operations exceptionals | £0 | £6,190,000 |
| Discontinued operations | £360,000 | £5,554,000 |
| **Total profit after taxation** | £1,162,000 | £6,067,000 |
| Basic weighted average number of shares | 73,970,534 | 66,610,703 |
| Dilutive effect of share options | 882,000 | – |
| Diluted weighted average number of shares | 74,852,534 | 66,610,703 |

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. The basic earnings per share from discontinued operations is based on the discontinued operations profit before exceptional items 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/(loss) per share** | 2015 | 2014 |
|---|---|---|
| Continuing operations | 1.1p | 0.8p |
| Discontinued operations before exceptionals | 0.5p | (1.0)p |
| Discontinued operations exceptionals | –p | 9.3p |
| Discontinued operations | 0.5p | 8.3p |
| Total operations | 1.6p | 9.1p |

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 2015.

| **Diluted earnings/(loss) per share** | 2015 | 2014 |
|---|---|---|
| Continuing operations | 1.1p | 0.8p |
| Discontinued operations before exceptionals | 0.5p | (1.0)p |
| Discontinued operations exceptionals | –p | 9.3p |
| Discontinued operations | 0.5p | 8.3p |
| Total operations | 1.6p | 9.1p |

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

## 10. Goodwill

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Cost: | | |
| B/f | 10,571 | 10,690 |
| Disposal of business | (395) | – |
| Exchange | (24) | (119) |
| | 10,152 | 10,571 |
| Impairment: | | |
| B/f | – | – |
| | – | – |
| **Net book value** | 10,152 | 10,571 |

The disposal during the year relates to the Swedish architectural consultancy business sold in December 2015. Goodwill denominated in currencies other than sterling is revalued at the appropriate closing exchange rate.

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

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Elecosoft UK | 4,804 | 4,804 |
| Asta Development Germany | 199 | 209 |
| Elecosoft Consultec Sweden | 4,416 | 4,824 |
| Eleco Software Germany | 363 | 364 |
| Esign Software Germany | 370 | 370 |
| | 10,152 | 10,571 |

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 has 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 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 | 2.3% | 0.8% | 12.0% | 2.0% |
| Asta Development Germany | 1.9% | 0.7% | 12.0% | 2.0% |
| Elecosoft Consultec Sweden | 3.4% | 0.1% | 12.0% | 2.0% |
| Eleco Software Germany | 1.9% | 0.7% | 12.0% | 2.0% |
| Esign Software Germany | 1.9% | 0.7% | 12.0% | 2.0% |

# Notes to the Consolidated Financial Statements continued

## 10. Goodwill continued

These budgets and strategic plans cover a five year period. The growth rates used to extrapolate the cash flows beyond this period ranges between 2.9% and 3.2% depending on the geographical location of the CGU. A business risk factor of 2.0% 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 CGU Budget cash flows. Sensitivity analysis is carried out on all budgets and strategic plans used in the calculations. The discount rates used for all CGU's is 12.00% (2014: 12.00%) 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 CGU's with a significant amount of goodwill together with the results of the sensitivities are shown below:

| | Base scenario £'000 | Sensitivity 1% reduction in growth rate pa £'000 | Sensitivity 1% increase in discount rate pa £'000 |
|---|---|---|---|
| Elecosoft UK | 15,450 | 13,299 | 13,329 |
| Elecosoft Consultec Sweden | 875 | 84 | 196 |

The cumulative impairment charge recognised at 31 December 2015 was £nil (2014: £nil).

## 11. Other intangible assets

| | **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 | **–** | **(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 | **–** | **(18)** | **(18)** |
| **At 31 December 2015** | **2,443** | **1,139** | **3,582** |
| **Net book value at 31 December 2015** | **815** | **1,095** | **1,910** |

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.

Additions in the year represent purchased intangible assets of £89,000 (2014: £84,000) and internal development costs capitalised of £665,000 (2014: £553,000). Internal development relates to 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 18.

Amortisation charges are shown separately on the Consolidated Income Statement.

| | Customer relationships £'000 | Intellectual property £'000 | Total £'000 |
|---|---|---|---|
| Cost: | | | |
| At 1 January 2014 | 3,258 | 1,023 | 4,281 |
| Additions | – | 84 | 84 |
| Additions – internal development | – | 553 | 553 |
| Disposals | – | (1) | (1) |
| Exchange | – | (53) | (53) |
| At 31 December 2014 | 3,258 | 1,606 | 4,864 |
| Accumulated amortisation and impairment: | | | |
| At 1 January 2014 | 1,905 | 914 | 2,819 |
| Amortisation charge for the year | 269 | 128 | 397 |
| Disposals | – | (1) | (1) |
| Exchange | – | (34) | (34) |
| At 31 December 2014 | 2,174 | 1,007 | 3,181 |
| Net book value at 31 December 2014 | 1,084 | 599 | 1,683 |

## 12. Property , plant and equipment

| | **Leasehold 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 | **–** | **(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 | **–** | **(18)** | **(18)** |
| **At 31 December 2015** | **16** | **1,006** | **1,022** |
| **Net book value at 31 December 2015** | **–** | **503** | **503** |

Additions in the year include £223,000 (2014: £317,000) 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 £371,000 (2014: £429,000) in respect of assets held under finance leases and hire purchase agreements.

# Notes to the Consolidated Financial Statements continued

## 12. Property , plant and equipment continued

| | Leasehold land and buildings £'000 | Plant, equipment and vehicles £'000 | Total £'000 |
|---|---|---|---|
| Cost: | | | |
| At 1 January 2014 | 16 | 1,680 | 1,696 |
| Additions | – | 402 | 402 |
| Disposals | – | (361) | (361) |
| Exchange | – | (171) | (171) |
| At 31 December 2014 | 16 | 1,550 | 1,566 |
| Accumulated depreciation and impairment: | | | |
| At 1 January 2014 | 16 | 1,091 | 1,107 |
| Depreciation charge for the year | – | 198 | 198 |
| Disposals | – | (206) | (206) |
| Exchange | – | (108) | (108) |
| At 31 December 2014 | 16 | 975 | 991 |
| Net book value at 31 December 2014 | – | 575 | 575 |

## 13. Operating lease commitments

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

| | **Property 2015 £'000** | **Other 2015 £'000** | Property 2014 £'000 | Other 2014 £'000 |
|---|---|---|---|---|
| Within one year | **355** | **30** | 412 | 32 |
| Between two and five years | **932** | **75** | 916 | 90 |
| After five years | **1,046** | **–** | 1,497 | – |
| | **2,333** | **105** | 2,825 | 122 |

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.

## 14. Capital commitments

Capital expenditure commitments of £nil (2014: £nil) have been placed with suppliers at 31 December 2015.

## 15. Inventories

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Finished goods | **9** | 8 |
| | **9** | 8 |

At 31 December 2015 the Groups' inventory provisions were £nil (2014: £nil). The amount written off to the continuing operations income statement in respect of written down inventories was £nil (2014: £nil). There is no material difference between the book value and the replacement cost of the inventories shown.

## 16. Trade and other receivables

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Gross trade receivables | **2,427** | 2,645 |
| Impairment | **(41)** | (155) |
| Net trade receivables | **2,386** | 2,490 |
| Other receivables | **134** | 120 |
| Prepayments and accrued income | **351** | 500 |
| | **2,871** | 3,110 |

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 48 days (2014: 49 days). No interest is charged on past due trade receivables (2014: £nil).

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

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Sterling | **754** | 820 |
| Euro | **496** | 596 |
| Swedish Krona | **1,557** | 1,621 |
| US Dollar | **36** | – |
| Other | **28** | 73 |
| | **2,871** | 3,110 |

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

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| B/f | **(155)** | (387) |
| Written off as uncollectable | **116** | 172 |
| Recovered during the period | **1** | 67 |
| Provided against during the period | **(5)** | (11) |
| Exchange | **2** | 4 |
| | **(41)** | (155) |

The amount written off as uncollectable during the year includes a legacy balance of £113,000 relating to the discontinued ElecoBuild operations sold in 2013. The debt was fully provided against at the time the business was sold.

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:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Not more than 3 months | **265** | 512 |
| More than 3 months but less than 6 months | **–** | 38 |
| | **265** | 550 |

# Notes to the Consolidated Financial Statements continued

## 17. Trade and other payables

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Trade payables | **455** | 668 |
| Other taxation and social security | **446** | 582 |
| Deferred consideration payable | **6** | 31 |
| Other liabilities | **348** | 305 |
| | **1,255** | 1,586 |

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 37 days. (2014: 41 days) The Directors consider that the carrying amount of trade payables approximates to their fair value.

## 18. Borrowings

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Current liabilities: | | |
| Bank loans and overdrafts | **1,424** | 750 |
| Obligations under finance leases and hire purchase contracts | **139** | 141 |
| | **1,563** | 891 |
| Non-current liabilities: | | |
| Bank loans | **972** | 2,063 |
| Obligations under finance leases and hire purchase contracts | **225** | 279 |
| | **1,197** | 2,342 |
| Total loans and borrowings | **2,760** | 3,233 |
| Cash and cash equivalents | **(1,957)** | (1,198) |
| Net borrowings | **803** | 2,035 |

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

- a term loan of £3.0m, with 16 quarterly loan repayments of £187,500 commencing from October 2014, carrying an interest rate of 3.25% over base rate; and
- a £1.0m overdraft facility, carrying an interest rate of 2.75% 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.

In addition to the quarterly loan repayments of £187,500 a one-off loan repayment of £341,000 was made in December from the sale proceeds of the Swedish architectural consultancy business.

The bank loans and overdrafts are repayable as follows:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| In one year or less | **1,424** | 750 |
| Between one and two years | **750** | 750 |
| Between two and five years | **222** | 1,313 |
| | **2,396** | 2,813 |

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

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Plant, equipment and vehicles: | | |
| In one year or less | 139 | 141 |
| Between one and two years | 129 | 132 |
| Between two and five years | 96 | 147 |
| | 364 | 420 |

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 | 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 |
| In one year or less | 141 | 11 | 152 |
| Between one and two years | 132 | 6 | 138 |
| Between two and five years | 147 | 3 | 150 |
| At 31 December 2014 | 420 | 20 | 440 |

## 19. Provisions

| | 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 |

Reorganisation costs following the disposal of the ElecoBuild businesses in 2013 are reported under the restructuring provision. This provision includes a charge to the income statement in the year for legal fees relating to an ongoing dispute.

Dilapidation costs related to the occupancy of the head office is shown under the property dilapidation provision. The expected ongoing cost of the professional indemnity run off insurance premiums to 2019 relating to the former ElecoBuild businesses and a possible excess professional indemnity premium on a claim made in Sweden is included under the insurance premium provision.

# Notes to the Consolidated Financial Statements continued

## 19. Provisions continued

| | Onerous contract provision £'000 | Property dilapidation provision £'000 | Restructuring provision £'000 | Insurance premium provision £'000 | Total £'000 |
|---|---|---|---|---|---|
| At 1 January 2014 | 252 | – | 290 | 439 | 981 |
| Charge to the income statement | – | 12 | 40 | – | 52 |
| Utilised in the year | (252) | – | (290) | (129) | (671) |
| At 31 December 2014 | – | 12 | 40 | 310 | 362 |
| Current liabilities | – | 12 | 40 | 90 | 142 |
| Non-current liabilities | – | – | – | 220 | 220 |
| | – | 12 | 40 | 310 | 362 |

## 20. Accruals and Deferred Income

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Accruals | **1,360** | 1,743 |
| Deferred income | **3,708** | 3,446 |
| | **5,068** | 5,189 |

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.

## 21. Deferred Tax

The movement in the deferred tax liabilities analysed by category is shown below:

| | | Temporary differences | | |
|---|---|---|---|---|
| | Non-deductible intangible assets £'000 | Accelerated capital allowances £'000 | Other £'000 | Total £'000 |
| At 1 January 2015 | **275** | **(147)** | **34** | **162** |
| Charge to the income statement | **57** | **24** | **–** | **81** |
| Exchange | **–** | **–** | **(1)** | **(1)** |
| **At 31 December 2015** | **332** | **(123)** | **33** | **242** |
| At 1 January 2014 | 296 | (134) | (13) | 149 |
| (Credit)/charge to the income statement | (21) | (13) | 54 | 20 |
| Exchange | – | – | (7) | (7) |
| At 31 December 2014 | 275 | (147) | 34 | 162 |

The charge to the Consolidated Income Statement comprises a charge to continuing operations of £81,000 (2014: £20,000).

Deferred tax on temporary differences has been calculated at the rate of 20.0% (2014: 20.0%)

Deferred tax liabilities are presented as non-current in the consolidated balance sheet. Deferred tax un-provided in respect of losses in UK subsidiaries is £390,000 (2014: £444,000) due to the unpredictability of future profit streams against which these losses may be offset. These losses may be carried forward indefinitely.

## 22. Called up share capital

| | **2015 Nominal value £'000** | 2014 Nominal value £'000 |
|---|---|---|
| Authorised: | | |
| 85,000,000 (2014: 85,000,000) ordinary shares of 1p each (2014: 10p each) | **850** | 8,500 |
| Allotted, called up and fully paid: | | |
| 74,867,127 (2014: 74,867,127) ordinary shares of 1p each (2014: 10p each) | **749** | 7,487 |

On 1 July 2015 the High Court issued an order confirming the Capital Reduction and proposals which were set out in the circular to Shareholders on 11 May 2015 and which were resolved on by a Special Resolution duly passed.

As a consequence of the Capital Reduction, the Company's share premium account and share capital reduction shares issued pursuant to the capitalisation of the Company's merger reserve have been cancelled, and the nominal share capital of each Ordinary Share has reduced from 10 pence to 1 pence each.

## 23. Share-based payments

The Company operates one share scheme and options outstanding at 31 December 2015 over ordinary shares granted under this scheme were as follows:

| | | Vesting dates | | |
|---|---|---|---|---|
| Date awarded | Number of ordinary shares | Earliest | Latest | Weighted average remaining contractual life (months) |
| 13 February 2015 | 900,000 | 1 February 2018 | 12 February 2025 | 110 |
| | 900,000 | | | 110 |

Share awards were made under the Company's Long Term Incentive Plan (LTIP) during the year amounting to 900,000 shares at an exercise price of 20.75p per share and a fair value of £73,000 (2014: £nil) was calculated at the grant date and is used as a basis for charging the income statement.

The Options are exercisable after 3 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 3 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, 10 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 2015** | | at 31 December 2014 | |
|---|---|---|---|---|
| | **Number** | **Weighted average fair value per share** | Number | Weighted average fair value per share |
| Outstanding at the beginning of the year | **–** | **–** | – | – |
| Granted during the year | **900,000** | **20.8** | – | – |
| Exercised during the year | **–** | **–** | – | – |
| Lapsed during the year | **–** | **–** | – | – |
| Outstanding at the end of the year | **900,000** | **20.8** | – | – |
| Exercisable at the end of the year | **–** | | – | |

The options outstanding at 31 December 2015 had a weighted average exercise price of 20.8p and remaining contractual life of 110 months.

# Notes to the Consolidated Financial Statements continued

## 23. Share-based payments continued

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 2015 was £20,000 (2014: £nil).

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

| | |
|---|---|
| Share price at grant date | 20.5p |
| Fair value per share | 20.8p |
| Exercise price per share | 20.75p |
| % Expected to vest (at date of grant) | 98% |
| Expected life (years) | 3 |
| Dividend yield | 4.17% |
| Fair value | £73,000 |

## 24. Acquisitions

No acquisitions were made during the year. Deferred consideration paid in respect of acquisitions completed in previous years was £28,000 and relates to Nilsson & Sahilin Arkitekter AB acquired in 2011 and was subsequently part of the Swedish architectural consultancy business sold in December 2015.

## 25. 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.

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Loans and receivables: | | |
| Cash and cash equivalents | 1,957 | 1,198 |
| Trade and other receivables | 2,520 | 2,610 |
| **Loans and receivables** | **4,477** | 3,808 |
| Financial liabilities: | | |
| Trade and other payables | 809 | 1,004 |
| Bank loans and overdrafts | 2,396 | 2,813 |
| Accruals | 1,360 | 1,743 |
| Non-current liabilities | 13 | 39 |
| Financial liabilities held at amortised cost | 4,578 | 5,599 |

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 | | |
|---|---|---|---|---|---|
| | Floating rate £'000 | Total £'000 | Floating rate £'000 | Total £'000 | Net financial (assets)/liabilities £'000 |
| 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** |
| Sterling | 3,897 | 3,897 | 738 | 738 | 3,159 |
| Euro | 232 | 232 | 929 | 929 | (697) |
| Swedish Krona | 1,462 | 1,462 | 2,006 | 2,006 | (544) |
| South African Rand | 2 | 2 | 53 | 53 | (51) |
| Other | 6 | 6 | 82 | 82 | (76) |
| At 31 December 2014 | 5,599 | 5,599 | 3,808 | 3,808 | 1,791 |

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 | | weighted average | |
|---|---|---|---|---|
| | **2015 Years** | 2014 Years | **2015 %** | 2014 % |
| Sterling | **1.3** | 1.9 | **5.77** | 5.71 |
| Euro | **n/a** | n/a | **n/a** | n/a |
| Swedish Krona | **2.0** | 1.9 | **5.09** | 4.66 |

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 is 3.25% over the Bank of England base rate and the interest rate on the overdraft is 2.75% over the Bank of England base rate.

# Notes to the Consolidated Financial Statements continued

## 25. Financial instruments continued

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

The table below shows the net un-hedged 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 | – | (2) | – | 24 | 10 | 32 |
| Euro | – | – | – | – | – | – |
| Swedish Krona | (5) | 71 | – | 1 | 19 | 86 |
| **At 31 December 2015** | **(5)** | **69** | **–** | **25** | **29** | **118** |
| Sterling | – | 23 | – | 15 | 3 | 41 |
| Euro | – | – | – | – | – | – |
| Swedish Krona | (2) | 168 | – | 1 | 57 | 224 |
| At 31 December 2014 | (2) | 191 | – | 16 | 60 | 265 |

### (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 £120,000 compared to £220,000 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 25c above), arising from fluctuations in exchange rates. The Groups' mitigation of its currency risk is set out on page 15 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 £190,000 lower if Sterling strengthen by 10 per cent and £232,000 higher if Sterling weakened by 10 per cent.

| | 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 |

| | Net financial (assets)/liabilities: | | | Profit/(loss) | | Equity | |
|---|---|---|---|---|---|---|---|
| Effect of change in Sterling +/-10% | 2014 £'000 | Rate +10% £'000 | Rate -10% £'000 | Rate +10% £'000 | Rate -10% £'000 | Rate +10% £'000 | Rate -10% £'000 |
| Denominated in Sterling | 3,159 | – | – | – | – | – | – |
| Not denominated in Sterling | (1,368) | 124 | (152) | (40) | 49 | (152) | 186 |
| Total net financial liabilities | 1,791 | 124 | (152) | (40) | 49 | (152) | 186 |

### (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 25b 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.

| | | Effect of increase in interest rates of 1% | | | Effect of decrease in interest rates of 1% | | |
|---|---|---|---|---|---|---|---|
| Continuing operations | 2015 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** |

| | | Effect of increase in interest rates of 1% | | | Effect of decrease in interest rates of 1% | | |
|---|---|---|---|---|---|---|---|
| Continuing operations | 2014 As reported £'000 | Rate +1% £'000 | Profit/(loss) £'000 | Equity £'000 | Rate -1% £'000 | Profit/(loss) £'000 | Equity £'000 |
| Net finance cost | (220) | (59) | (59) | (59) | 62 | 62 | 62 |

### (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 | **455** | **455** | **–** | **–** | **–** | **–** |
| Bank loans and overdraft | **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** |
| Trade and other payables | 668 | 668 | – | – | – | – |
| Bank loans | 3,024 | 214 | 212 | 419 | 817 | 1,362 |
| Obligations under finance leases | 440 | 38 | 38 | 76 | 138 | 150 |
| Non-current liabilities | 39 | – | – | – | 20 | 19 |
| At 31 December 2014 | 4,171 | 920 | 250 | 495 | 975 | 1,531 |

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 20 of the Financial Review.

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

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Expiring in one year or less | **1,750** | 1,750 |
| Expiring between one and two years | **750** | 750 |
| Expiring between two and five years | **222** | 1,313 |
| | **2,722** | 3,813 |

# Notes to the Consolidated Financial Statements continued

## 25. Financial instruments continued

### (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:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| UK | 522 | 682 |
| Germany | 176 | – |
| Scandinavia | 1,371 | 1,371 |
| Rest of Europe | 290 | 548 |
| Rest of World | 68 | 44 |
| | 2,427 | 2,645 |

### (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.

As a consequence of the Capital Reduction during the year, the Company's share premium account and share capital reduction shares issued pursuant to the capitalisation of the Company's merger reserve have been cancelled, and the nominal share capital of each Ordinary Share has reduced from 10 pence to 1 pence each.

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 2015, the continuing operations EBITDA for the year was £1,795,000 (2014: restated £1,465,000) and net bank borrowings were £439,000 (2014: £1,615,000).

## 26. 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 2015 and have concluded that no material loss is likely to accrue from any such un-provided claims.

## 27. 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 a result of service agreements. An amount of £35,000 (2014: £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 (2014: £5,000) for a contribution to the office costs at Burnham-on-Crouch. An amount of £20,000 was paid to The Boardroom Partnership for recruitment services during the year of which J Cohen (former non-executive Director) is a Director. J H B Ketteley deferred £nil (2014: £95,000) of his salary during the year. The amount unpaid at 31 December 2015 is £40,000 (2014: £95,000).

## 28. Post balance sheet events

Elecosoft plc recently operated one defined benefit pension scheme in the UK, the Eleco Retirement and Benefits Scheme (ERBS). On 9 June 2014, the Official Receiver was appointed to the Statutory Employers of the pension scheme. At 31 December 2015, the scheme was in an assessment period with the Pension Protection Fund (PPF) after which, in the absence of unforeseen circumstances, the ERBS would transfer to the PPF and members of the ERBS would be entitled to PPF compensation.

The Company received notification from the PPF on 4 March 2016 that the assets of the ERBS have transferred to the Board of the PPF with effect from the notice date. As a result of the notification the reference to the ERBS has been removed from the contingent liabilities note.

On 4 January 2016, the Group acquired the business and assets of Asta BV, of The Netherlands, a software reseller of Asta Powerproject in the Dutch market for a total consideration of £64,000. The consideration comprised the payment of £48,000 in cash on completion and deferred consideration of £16,000.

# Company Statement of Changes in Equity

for the year ended 31 December 2015

| | 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** | **–** |
| **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** |

| | Share capital £'000 | Share premium £'000 | Other reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|
| **At 1 January 2014** | 6,066 | 6,396 | 6,779 | (17,982) | 1,259 |
| Issue of share capital | 1,421 | 1,527 | – | – | 2,948 |
| Reclassification of merger reserve on business disposal | – | – | (2,919) | 2,919 | – |
| Transactions with owners | 1,421 | 1,527 | (2,919) | 2,919 | 2,948 |
| Profit for the period | – | – | – | 3 | 3 |
| Total comprehensive income for the period | – | – | – | 3 | 3 |
| **At 31 December 2014 (restated)** | 7,487 | 7,923 | 3,860 | (15,060) | 4,210 |

# Company Balance Sheet

At 31 December 2015

| | Notes | 2015 £'000 | 2014 (restated) £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 2 | 28 | – |
| Tangible assets | 3 | 6 | 16 |
| Investments | 4 | 1,099 | 1,099 |
| Debtor due after more than one year | 5 | 13,585 | 15,263 |
| | | 14,718 | 16,378 |
| **Current assets** | | | |
| Debtors | 6 | 1,257 | 1,009 |
| | | 1,257 | 1,009 |
| **Creditors:** amounts falling due within one year | 7 | (11,095) | (10,752) |
| **Net current assets/(liabilities)** | | (9,838) | (9,743) |
| **Total assets less current liabilities** | | 4,880 | 6,635 |
| **Creditors:** amounts falling due after more than one year | 8 | (972) | (2,063) |
| Provisions for liabilities | 9 | (332) | (362) |
| **Net assets** | | 3,576 | 4,210 |
| **Capital and reserves** | | | |
| Called up share capital | 10 | 749 | 7,487 |
| Share premium account | | – | 7,923 |
| Other reserve | 12 | (124) | 3,860 |
| Profit and loss account | | 2,951 | (15,060) |
| **Shareholders' equity** | | 3,576 | 4,210 |

The financial statements of Elecosoft plc, registered number 00354915, on pages 68 to 81 were approved by the Board of Directors on 15 April 2016 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 United Kingdom accounting standards including Financial Reporting Standard 102, the financial Reporting Standard applicable to the United Kingdom and Ireland, and with the Companies Act 2006. This is the first year in which the Company financial statements have been prepared under FRS 102. Under the requirements of FRS 102 all intercompany loans have been reclassified from investments to debtors on the Balance Sheet (refer to Note 4).

The Directors have reviewed the requirements of the new standard and in addition to the reclassification of the intercompany loans have identified a transition adjustment relating to an intercompany loan. The transition adjustment represents a fair value adjustment to an intercompany loan receivable that is not considered to be at an appropriate market rate and the required adjustment is set out in Note 13. As a result there is an impact on the loss reported for the financial year ended 31 December 2014.

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 profit and loss account 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
- 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. See Note 13 for adjustments on transition to FRS 102.

### 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 twenty 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:

| | |
|---|---|
| Long leasehold buildings | – 50 years |
| Plant, equipment and vehicles | – 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. There are a number of assumptions that affect the value 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.

# Statement of Company Accounting Policies continued

## 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 Eleco 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 loss for the financial year was £654,000 (2014: profit £3,000).

## 2. Intangible fixed assets

| | Intellectual property £'000 |
|---|---|
| Cost: | |
| At 1 January 2015 | **1,610** |
| Additions | **69** |
| **At 31 December 2015** | **1,679** |
| Accumulated amortisation and impairment: | |
| At 1 January 2015 | **1,610** |
| Amortisation charge for the year | **41** |
| **At 31 December 2015** | **1,651** |
| **Net book value at 31 December 2015** | **28** |
| Net book value at 31 December 2014 | **–** |

## 3. Tangible fixed assets

| | Leasehold land and buildings £'000 | Plant, equipment and vehicles £'000 | Total £'000 |
|---|---|---|---|
| Cost: | | | |
| At 1 January 2015 | **19** | **238** | **257** |
| Additions | **–** | **1** | **1** |
| Disposal | **–** | **–** | **–** |
| **At 31 December 2015** | **19** | **239** | **258** |
| Accumulated depreciation: | | | |
| At 1 January 2015 | **19** | **222** | **241** |
| Depreciation charge for the year | **–** | **11** | **11** |
| Disposals | **–** | **–** | **–** |
| **At 31 December 2015** | **19** | **233** | **252** |
| **Net book value at 31 December 2015** | **–** | **6** | **6** |
| Net book value at 31 December 2014 | – | 16 | 16 |

# **Notes to the Company Financial Statements** continued

## 4. Investments in subsidiaries

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

| | Shares at cost £'000 | Investments £'000 | Loans £'000 | Total £'000 |
|---|---|---|---|---|
| Cost: | | | | |
| At 1 January 2014 (originally stated) | 21,076 | – | 65,704 | 86,780 |
| Reclassification to debtors | – | – | (65,704) | (65,704) |
| Additions | – | 728 | – | 728 |
| At 1 January 2014 (restated) | 21,076 | 728 | – | 21,804 |
| At 1 January 2014 (originally stated) | 21,076 | – | 65,704 | 86,780 |
| Additions | – | – | 787 | 787 |
| Disposals | – | – | (10,606) | (10,606) |
| **At 31 December 2014** | **21,076** | **–** | **55,885** | **76,961** |
| Additions | **–** | **728** | **–** | **728** |
| Reclassification to debtors | **–** | **–** | **(55,885)** | **(55,558)** |
| **At 31 December 2014 (restated)** | **21,076** | **728** | **–** | **21,804** |
| **At 31 December 2015** | **21,076** | **728** | **–** | **21,804** |
| Accumulated provision: | | | | |
| At 1 January 2014 (originally stated) | 20,705 | – | 48,213 | 68,918 |
| Reclassification to debtors | – | – | (48,213) | (48,213) |
| At 1 January 2014 (restated) | 20,705 | – | – | 20,705 |
| At 1 January 2014 (originally stated) | 20,705 | – | 48,213 | 68,918 |
| **At 31 December 2014** | **20,705** | **–** | **48,213** | **68,918** |
| Reclassification to debtors | **–** | **–** | **(48,213)** | **(48,213)** |
| **At 31 December 2014 (restated)** | **20,705** | **–** | **–** | **20,705** |
| **At 31 December 2015** | **20,705** | **–** | **–** | **20,705** |
| **Net book value at 31 December 2015** | **371** | **728** | **–** | **1,099** |
| Net book value at 31 December 2014 (restated) | 371 | 728 | – | 1,099 |

Under the requirements of FRS 102 intercompany loans are not permitted to be recognised as investments and therefore have been reclassified to long term debtors. Investment additions represent a fair value adjustment to a particular intercompany loan receivable and 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 2015.

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 United Kingdom. Overseas subsidiary undertakings are incorporated in their country of operations. All other subsidiary undertakings are dormant and are listed on page 83.

| 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 |
| Consultec Group AB | Sweden | Ordinary | 100% | Administration |
| 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 Pvt Limited | India | Ordinary | 100% | Software |
| Elecosoft Ltd | UK | Ordinary | 100% | Holding company |

The ordinary shares in the above companies are held through an intermediate holding company except Esign Software GmbH.

## 5. Debtor due after more than one year

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Amounts due from subsidiary undertakings | **13,585** | 15,263 |
| | **13,585** | 15,263 |

## 6. Debtors

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Trade debtors | **16** | 6 |
| Other debtors | **10** | 19 |
| Prepayments and accrued income | **68** | 134 |
| Deferred tax | **31** | 46 |
| Amounts due from subsidiary undertakings | **1,132** | 804 |
| | **1,257** | 1,009 |

# Notes to the Company Financial Statements continued

## 7. Creditors: amounts falling due within one year

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Bank loans and overdrafts | **1,639** | 786 |
| Trade creditors | **159** | 75 |
| Other creditors | **36** | 72 |
| Accruals and deferred income | **116** | 302 |
| Other taxation and social security | **(10)** | 169 |
| Current tax | **40** | 21 |
| Amounts due to subsidiary undertakings | **9,115** | 9,327 |
| | **11,095** | 10,752 |

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

The Groups' facilities with Barclays Bank plc are explained on page 20 of the Financial Review.

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Bank loans | **972** | 2,063 |
| | **972** | 2,063 |

Bank loans and overdrafts are repayable as follows:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| In one year or less | **1,639** | 786 |
| Between one and two years | **750** | 750 |
| Between two and five years | **222** | 1,313 |
| | **2,611** | 2,849 |

## 9. Provisions for liabilities

| | 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 profit and loss account | **–** | **40** | **–** | **40** |
| Utilised in the year | **–** | **–** | **(70)** | **(70)** |
| **At 31 December 2015** | **12** | **100** | **220** | **332** |
| At 31 December 2014 | 12 | 40 | 310 | 362 |

Further information on the details of the provisions is set out in note 20 of the consolidated accounts.

## 10. Called up share capital

| | **2015 Nominal value £'000** | 2014 Nominal value £'000 |
|---|---|---|
| Authorised: | | |
| 85,000,000 (2014: 85,000,000) ordinary shares of 1p each (2014: 10p each) | **850** | 8,500 |
| Allotted, called up and fully paid: | | |
| 74,867,127 (2014: 74,867,127) ordinary shares of 1p each (2014: 10p each) | **749** | 7,487 |

On 1 July 2015 the High Court issued an order confirming the Capital Reduction and proposals which were set out in the circular to Shareholders on 11 May 2015 and which were resolved on by a Special Resolution duly passed.

As a consequence of the Capital Reduction, the Company's share premium account and share capital reduction shares issued pursuant to the capitalisation of the Company's merger reserve and share-based payment reserve have been cancelled, and the nominal share capital of each Ordinary Share has reduced from 10 pence to 1 pence each.

## 11. Share-based payments

The Company operates one share scheme and options outstanding at 31 December 2015 over ordinary shares granted under this scheme were as follows:

| | | Vesting dates | | |
|---|---|---|---|---|
| Date awarded | Number of ordinary shares | Earliest | Latest | Weighted average remaining contractual life (months) |
| 13 February 2015 | 900,000 | 1 February 2018 | 12 February 2025 | 110 |
| | 900,000 | | | 110 |

Share awards were made under the Company's Long Term Incentive Plan (LTIP) during the year amounting to 900,000 shares at an exercise price of 20.75p per share and a fair value of £73,000 (2014: £nil) was calculated at the grant date and is used as a basis for charging the income statement.

The Options are exercisable after 3 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 3 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 13 February 2025, 10 years after the date of grant.

# Notes to the Company Financial Statements continued

## 11. Share-based payments continued

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

| | at 31 December 2015 | | at 31 December 2014 | |
|---|---|---|---|---|
| | Number | Weighted average fair value per share | Number | Weighted average fair value per share |
| Outstanding at the beginning of the year | – | – | – | – |
| Granted during the year | **900,000** | **20.8** | – | – |
| Exercised during the year | – | – | – | – |
| Lapsed during the year | – | – | – | – |
| Outstanding at the end of the year | **900,000** | **20.8** | – | – |
| Exercisable at the end of the year | – | | – | |

The options outstanding at 31 December 2015 had a weighted average exercise price of 20.8p and remaining contractual life of 110 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 2015 was £20,000 (2014: £nil).

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

| | |
|---|---|
| Share price at grant date | 20.5p |
| Fair value per share | 20.8p |
| Exercise price per share | 20.75p |
| % Expected to vest (at date of grant) | 98% |
| Expected life (years) | 3 |
| Dividend yield | 4.17% |
| Fair value | £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 Employee Share Ownership Trust held 896,593 shares at 31 December 2015 with a market value of £247,000 (2014: £161,000) 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 2015 £'000** | **Other 2015 £'000** | Property 2014 £'000 | Other 2014 £'000 |
|---|---|---|---|---|
| Leases expiring: | | | | |
| Within one year | **9** | **2** | 9 | – |
| Between two and five years | **–** | **1** | – | – |
| | **9** | **3** | 9 | – |

## 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 Eleco plc had no material transactions with the Company during the year, other than as a result of service agreements or as disclosed in the Directors' Report. Details of the Directors' remuneration are disclosed in the Directors' Report on page 26.

The Directors of the Company had no material transactions with the Company during the year, other than a result of service agreements. An amount of £35,000 (2014: £35,000) was paid to J H B Ketteley & Co Limited under a lease for occupation by the Group of 66 Clifton Street, London, EC2A 4HB and £5,000 (2014: £5,000) for a contribution to the office costs at Burnham-on-Crouch. An amount of £20,000 was paid to The Boardroom Partnership for recruitment services during the year of which J Cohen (former non-executive Director) is a Director. J H B Ketteley deferred £nil (2014: £95,000) of his salary during the year. The amount unpaid at 31 December 2015 is £40,000 (2014: £95,000).

## 15. FRS 102 Transition Adjustments

Transition to FRS 102 required a change in the accounting treatment and the carrying value of loans to subsidiaries. These loans were previously treated as part of the investment in subsidiaries but this treatment is not permitted under FRS 102 and so they have been reclassified as long term debtors. See note 4. Such loans are required to be held at the present value of the future payments discounted at a market rate of interest for a similar debt instrument. This has resulted in a reduction of the debtor balance at the transition date of £728,000 with a corresponding increase in investment in subsidiaries to reflect the benefit passed to the subsidiaries via the loan at below market rate. The difference of £728,000 will unwind through the profit and loss over the period of the loan as interest income receivable. In the restated figures for the year to 31 December 2014 the additional interest income added was £103,000 with a tax charge on that amount of £21,000. Net assets at 31 December 2014 have therefore been restated by £82,000.

The impact on the Statement of Changes in Equity at 31 December 2014 as a result of the adoption of FRS 102 effective from 1 January 2014 is set out below.

| | Share capital £'000 | Share premium £'000 | Other reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|
| **At 31 December 2014 (originally stated)** | 7,487 | 7,923 | 3.860 | (15,142) | 4,128 |
| Intercompany loan interest income | – | – | – | 103 | 103 |
| Tax | – | – | – | (21) | (21) |
| Transition adjustments | – | – | – | 82 | 82 |
| **At 31 December 2014 (restated)** | **7,487** | **7,923** | **3,860** | **(15,060)** | **4,210** |

# Notes to the Company Financial Statements continued

## 15. FRS 102 Transition Adjustments continued

The impact on the Balance Sheet at 1 January 2014 as a result of the adoption of FRS 102 effective from 1 January 2014 is set out below.

| | At 1 January 2014 £'000 | Reclassify intercompany loans £'000 | Fair value intercompany loans receivable £'000 | At 1 January 2014 (restated) £'000 |
|---|---|---|---|---|
| **Fixed assets** | | | | |
| Intangible assets | 5 | – | – | 5 |
| Tangible assets | 785 | – | – | 785 |
| Investments | 17,862 | (17,491) | 728 | 1,099 |
| Debtor due after more than one year | – | 17,491 | (728) | 16,763 |
| | 18,652 | – | – | 18,652 |
| **Current assets** | | | | |
| Stocks | 2 | – | – | 2 |
| Debtors | 3,441 | – | – | 3,441 |
| | 3,443 | – | – | 3,443 |
| **Creditors:** amounts falling due within one year | (20,045) | – | – | (20,045) |
| **Net current assets/(liabilities)** | (16,602) | – | – | (16,602) |
| **Total assets less current liabilities** | 2,050 | – | – | 2,050 |
| **Creditors:** amounts falling due after more than one year | | | | |
| Provisions for liabilities | (791) | – | – | (791) |
| **Net assets** | 1,259 | – | – | 1,259 |
| **Capital and reserves** | | | | |
| Called up share capital | 6,066 | – | – | 6,066 |
| Share premium account | 6,396 | – | – | 6,396 |
| Other reserve | 6,779 | – | – | 6,779 |
| Profit and loss account | (17,982) | – | – | (17,982) |
| **Shareholders' equity** | 1,259 | – | – | 1,259 |

The impact on the Balance Sheet at 31 December 2014 as a result of the adoption of FRS 102 effective from 1 January 2014 is set out below.

| | At 31 December 2014 £'000 | Reclassify intercompany loans £'000 | Fair value intercompany loans receivable £'000 | intercompany interest income £'000 | At 31 December 2014 (restated) £'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | – | – | – | – | – |
| Tangible assets | 16 | – | – | – | 16 |
| Investments | 16,362 | (15,991) | 728 | – | 1,099 |
| Debtor due after more than one year | – | 15,991 | (728) | – | 15,263 |
| | 16,378 | – | – | – | 16,378 |
| **Current assets** | | | | | |
| Stocks | – | – | – | – | – |
| Debtors | 906 | – | – | 103 | 1,009 |
| | 906 | – | – | 103 | 1,009 |
| **Creditors:** amounts falling due within one year | (10,731) | – | – | (21) | (10,752) |
| **Net current assets/(liabilities)** | (9,825) | – | – | 82 | (9,743) |
| **Total assets less current liabilities** | 6,553 | – | – | 82 | 6,635 |
| **Creditors:** amounts falling due after more than one year | (2,063) | – | – | – | (2,063) |
| Provisions for liabilities | (362) | – | – | – | (362) |
| **Net assets** | 4,128 | – | – | 82 | 4,210 |
| **Capital and reserves** | | | | | |
| Called up share capital | 7,487 | – | – | – | 7,487 |
| Share premium account | 7,923 | – | – | – | 7,923 |
| Other reserve | 3,860 | – | – | – | 3,860 |
| Profit and loss account | (15,142) | – | – | 82 | (15,060) |
| **Shareholders' equity** | 4,128 | – | – | 82 | 4,210 |

# Five Year Summary

| | **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 | 18 months ended 31 December 2011* £'000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Software | **15,260** | 15,172 | 16,318 | 15,779 | 23,448 |
| Discontinued operations | **1,400** | 1,312 | 16,144 | 18,398 | 60,413 |
| **Operating profit before amortisation of intangible assets and exceptionals** | | | | | |
| Software | **1,621** | 1,416 | 1,357 | 1,261 | 1,567 |
| Continuing operations* | **1,621** | 1,416 | 1,357 | 1,261 | 1,051 |
| Amortisation of intangible assets | **(495)** | (372) | (376) | (419) | (908) |
| Exceptionals | **–** | (138) | – | (152) | (365) |
| Operating profit/(loss) | **1,126** | 906 | 981 | 690 | (222) |
| Finance income/(expense) | **(120)** | (220) | (357) | (223) | (708) |
| Profit/(loss) before taxation | **1,006** | 686 | 624 | 467 | (930) |
| Taxation | **(204)** | (173) | (174) | (69) | (279) |
| Profit/(loss) after taxation | **802** | 513 | 450 | 398 | (1,209) |
| Basic earnings/(loss) per share (continuing operations) | **1.1p** | 0.8p | 0.8p | 0.7p | (2.0)p |
| Shareholders equity/(deficit) | **7,893** | 6,722 | (2,353) | 8,850 | 14,155 |
| Dividend per share | **0.00p** | 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% | Dormant |
| 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% | Dormant |
| 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% | Dormant |
| Eleco Construction Group Limited | UK | Ordinary | 100% | Dormant |
| Eleco Creative Technology | UK | Ordinary | 100% | Dormant |
| Eleco Directors 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% | Dormant |
| Eleco Media Limited | UK | Ordinary | 100% | Dormant |
| Eleco Pension Trustees Limited | UK | Ordinary | 100% | Dormant |
| Eleco Rail Limited | UK | Ordinary | 100% | Dormant |
| Eleco Retirement and Benefits | UK | Ordinary | 100% | Dormant |
| Elecoprecast Limited | UK | Ordinary | 100% | Dormant |
| 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% | Dormant |
| 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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