Elecosoft®

Elecosoft plc

Annual Report and Accounts 2018

Building on Technology®

Introduction

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

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

Overview

Strategic Report

Governance

Financial Statements

Highlights

	2018 £'000	2017 £'000	Change
Financial			
Revenue	**22,220**	19,996	+11%
Operating profit	**2,619**	2,361	+11%
Profit before tax	**2,427**	2,254	+8%
Earnings per share (pence per share)	**2.4**	2.5	-4%
Recurring maintenance support and subscription revenue	**12,595**	11,018	+14%
Adjusted operating profit*	**3,903**	2,773	+41%
Adjusted earnings per share** (pence per share)	**3.9**	2.9	+34%
Free cash flow	**2,582**	2,645	-2%

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

** Adjusted earnings per share represents adjusted operating profit less net finance costs and tax, divided by a weighted average number of shares.

Operational

- Significant progress made in relation to Elecosoft's strategy to extend its software portfolio to cover each stage of a building's lifecycle, both before and after completion of the build phase:
  - Acquisition in July 2018 of Shire Systems Limited ("ShireSystem"), a leading UK provider of computerised maintenance management software ("CMMS").
  - Acquisition in November 2018 of Active Online GmbH ("ActiveOnline"), a German visualisation software business specialising in soft furnishings and materials for photographic room scenes using AR and VR technologies.
- Launch of Powerproject® Vision in the UK, a new cloud-based collaboration and construction planning software solution.
- Launch of Memmo, a new site management software by Elecosoft Sweden.
- Powerproject won Project Management/Planning Product of the Year, for the fifth consecutive year, at the Construction Computing Awards.
- Release of Staircon® web and continued success for Staircon staircase design software.
- Bidcon® Climate Module selected by Swedish Boverket, the Swedish National Board of Housing, Building and Planning, as one of three preferred Life Cycle Analysis estimation solutions in the Swedish market.
- Appointment of Mukul Mistry as Corporate Development Director, and Ben Moralee as Group Finance Director.

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www.ir.elecosoft.com

Executive Chairman's Statement

I am pleased to report on a year of continuing growth and significant progress in 2018.

Trading

Revenues

Group revenues for the year ended 31 December 2018 were £22.2m (2017: £20m), an increase of 11 per cent. Group revenues are generated from Project Management Software, Site Management Software, Estimating Software, Engineering Software, CAD/Design Software, Information Management Software, Visualisation Software and Maintenance Management Software and related training and support.

UK revenues increased 27 per cent to £8.2m (2017: £6.5m) equivalent to 37 per cent of Group revenues. UK revenues included sales of £1.1m by ShireSystem from 5 July 2018, the date of acquisition.

Overseas revenues increased 3.0 per cent to £14.0m (2017: £13.5), equivalent to 63 per cent of Group revenues. However our Swedish revenues were adversely affected by the weakness of the Swedish Krona in the year under review. Overseas revenues included £0.4m revenues of ActiveOnline from 6 November 2018, the date of acquisition.

Overseas revenues were generated as follows: Scandinavia: £6.8m (2017: £7.2m); Germany: £3.4m (2017: £3.1m); Rest of Europe: £2.5m (2017: £2.2m); and Rest of World £1.3m (2017: £1.0m).

Profits

Adjusted operating profit for the year, before deduction of exceptional items and amortisation of acquired intangible assets was £3.9m (2017: £2.8m), an increase of 41 per cent; and adjusted earnings per share were 3.9 pence (2017: 2.9 pence), an increase of 34 per cent.

Operating profit for the year under review was £2.6m (2017: £2.4m). Profit before tax for the year under review was £2.4m (2017: £2.3m) and profit after tax for the year was £1.8m (2017: £1.9m) a decrease of 4 per cent.

Financial Performance

The Board is very conscious of the need for a fast-growing technology business, such as Elecosoft, to have in place adequate access to the Company's own cash resources and banking facilities.

Cash generated from operations, in the year under review, amounted to £4.5m (2017: £4.2m) and Adjusted Free Cash Flow (before exceptional items), also increased by 24 per cent to £3.3m (2017: £2.6m).

We entered a facility agreement with Barclays Bank on 4 July for a £8.0m Sterling, five-year term loan facility, with a three-year fixed rate term basis reverting to a Floating Rate thereafter. Deducting cash balances of £6.0m, Elecosoft's net debt as at 31 December 2018 was £2.1m (2017: £1.0m net cash).

I would like to record the appreciation of the Board for the excellent well-structured banking facilities and support that we have received from Barclays to finance our growing business.

Group net assets at 31 December 2018 amounted to £15.7m (31 December 2017: £11.5m).

Software Development

Market-leading software has been key to the success of Elecosoft's business and its software portfolio has been developed over the years by its own teams of developers in the UK, Germany, Sweden and now Spain.

Our development teams which are the lifeblood of a software company, have continued to grow as a result of developers joining our existing teams of experienced colleagues and through acquisition.

I am proud to say that our development teams have made remarkable progress in developing market-leading construction software over the years because of the complexity and speed of innovation that is required in the development of construction software. Our software development teams are undoubtedly a valuable resource and the Board has therefore decided that we should develop a strategy specifically aimed at retaining our software developers and, where necessary, strengthening our development teams.

Mukul Mistry, Group Corporate Development Director, will be the Director responsible for the co-ordination and management of all the Group's software development interests, its software development teams and a comprehensive Group-wide software strategy.

Software development expenditure in the year under review increased to £2.8m (2017: £2.7m), which included expenditure on major software development projects totalling £1.0m, which were capitalised in the year (2017: £1.1m).

Acquisition, Trading and Marketing Highlights
2018 has been another significant year for Elecosoft with the acquisition of both Shire Systems Ltd ("ShireSystem") and ActiveOnline GmbH ("ActiveOnline"), each of which complement existing Elecosoft business.

ShireSystem, based in Southampton, was acquired in July 2018, and provided Elecosoft with an immediate foothold in the strategically important Computerised Maintenance Management Systems ("CMMS") market. It also increased Elecosoft's coverage of software solutions across the lifecycle of property assets and facilities.

ActiveOnline which is based in Wesel, Germany, was acquired in November 2018, and will collaborate closely with ESIGN, Elecosoft's international software visualisation business based in Hannover, Germany. ESIGN specialises in the development of software for the visualisation of hard and flat surfaces, and ActiveOnline specialises in the development of software for the visualisation of curved surfaces, soft fabrics and coverings. ActiveOnline has created and maintains an extensive world class visualisation software database of fabrics and materials.

Both companies are already actively pursuing cross-selling of products across the Group.

IconSystem® which is based in Market Harborough also successfully increased its market penetration of the property related data storage market in the year under review. It also won "EE" the mobile telephone company as a major client.

Marketing highlights included the launch of Elecosoft's German website, www.elecosoft.de; successful participation at trade events such as Nordbygg in Sweden and the BAU trade fair in Munich, Germany in January 2019. ESIGN also released "Pixmo" a new internet platform for visualising ceramic tiles in Germany www.pixmo.live; Elecosoft Sweden also launched Memmo, a new Site Management software, in Sweden.

Elecosoft celebrated Powerproject winning the award for Best Project Planning Software at the 2018 Construction Software Awards ("the Hammers") for the fifth year running, a truly momentous achievement for Powerproject and its dedicated team of developers. Elecosoft UK also launched Powerproject Vision, its new cloud-based collaboration application for construction planning in the year under review. It will also launch Powerproject XV, the latest version of its market-leading project management software in April 2019. The release in Germany of the latest version of Elecosoft's Arcon Evo® and Arcon Professional, Elecosoft's 3D CAD software, was also well-received by the German architectural sector resulting in strong direct and online sales of both products.

Executive Chairman's Statement continued

Brexit

As a Group, Elecosoft finds itself in the enviable position to be able to mitigate any uncertainty by continuing to refine the cash management strategies started in the period leading up to the Referendum on 23 June 2016.

Since this period, we have actively managed our revenue streams and local income and expenditures within and without the EU to ensure there is adequate cash generated and held in these regions.

This spread of business with local income and expenditures creates a natural hedge to volatility and uncertainty and while closely monitored we have yet to undertake any additional actions outside the normal course of business.

Elecosoft Employees

I am delighted that the average number of employees in the Elecosoft team has increased from 201 in 2017 to 228 in 2018. They are a strong and talented group of people who work with skill, enthusiasm and humour in all the markets we serve. On behalf of the Board and shareholders, I would like to take this opportunity to thank them for all their efforts and support in 2018 and to wish them every success in the year ahead. I also extend a warm welcome to those new employees, who have joined us during the year.

The Elecosoft Board

Executive Directors

Jonathan Hunter, Chief Operating Officer

Jonathan Hunter, Chief Operating Officer, is responsible for monitoring the management of the Group's existing operations and also for identifying potential acquisition opportunities and technologies which are compatible with our existing operations. Accordingly, he played a leading role in identifying and acquiring ShireSystem in the UK and in the acquisition of ActiveOnline in Germany, in the year under review. He is now collaborating with colleagues to maximise the synergistic potential of both these businesses.

Anders Karlsson, Managing Director of Elecosoft Consultec AB

Anders Karlsson, Managing Director of Elecosoft Consultec AB, is responsible for our Swedish operations which generate approximately a third of the Group revenues as well as developing and managing almost half of our products.

He has over 20 years of business development and management experience, he was initially appointed Managing Director of Consultec Byggprogram AB in August 2005 and then rejoined the Group after four years as CEO of an international signage company. He has been responsible for the growth of Staircon in both the US and Australia, and for the delivery of Elecosoft's Memmo® and Bidcon Climate module software products. I would like to take this opportunity to congratulate him and his team on their delivery.

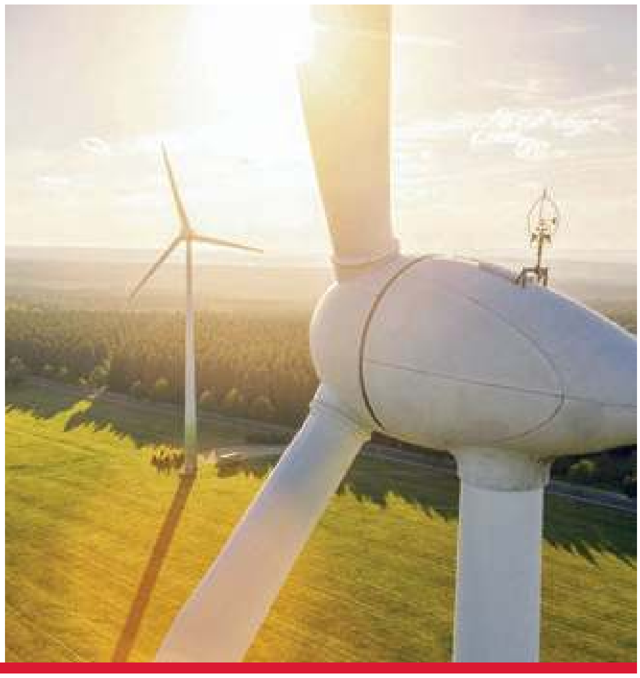
US Customer success

Mortenson, an Engineering News-Record ("ENR") Top 20 Contractor, has selected Powerproject for its project scheduling system in its Wind Energy Group.

Tim Johnson, Director of Planning & Scheduling in the Wind Energy Group, said:

"Powerproject's ease of use, depth of features and product nimbleness really made the difference for us. We found the software easier to use than other systems and with surprisingly deep functionality, which has made our teams more productive and effective in the field. And changes can be made much more quickly."

Find out more about Powerproject on our website:
www.elecosoft.com/powerproject



Mukul Mistry, Corporate Development Director
I take this opportunity formally to welcome Mukul Mistry, BSc to the Board. He joined the Board in June 2018 and was appointed Corporate Development Director. Mukul has 20 years of experience in the technology industry spanning continents, industries and a range of niche and mainstream technology specialties. He is responsible for business development initiatives in the US, international channels and our German operations where he will oversee the integration of ActiveOnline with our ESIGN business. As mentioned elsewhere in this report, he has also been appointed Group Head of Software.

Ben Moralee, FCA. Group Finance Director
Ben Moralee was appointed Group Finance Director in September 2018. Ben joined Elecosoft following the departure of Simon Morgan, in September 2018. He held a number of senior financial positions before joining Elecosoft, including Financial Controller at Serena Software Europe Limited, a subsidiary of Micro Focus International plc; and Head of Finance at Figleaves, a subsidiary of N Brown Group Plc.

Non-Executive Directors
The importance of the contribution effective Non-Executive Directors make to ensuring appropriate standards of Corporate Governance cannot be overstated and on behalf of my Executive colleagues and myself and shareholders, I would also like to thank our Non-Executive Directors, Serena Lang, our Deputy Chairman, David Dannhauser and Kevin Craig, for their sound judgements and constructive comments during the year.

Tomas Astrom
I would like to take this opportunity to thank Tomas Astrom, Finance Director of our Swedish business, on his 16 years of outstanding service to Elecosoft and wish him well in his retirement.

Proposed Dividend
In light of Elecosoft's strong trading performance and cash generation in 2018, the Board has decided to recommend a final scrip dividend of 0.40 pence per share, with a cash alternative dividend of 0.40 pence per share, to give a total dividend for the year of 0.68 pence per share.

This represents an increase of 13 per cent relative to the previous year (2017 total dividend: 0.60 pence per share). The scrip reference price is 74.74 pence, calculated from the average of the closing price for an Ordinary Share of the Company as derived from the Daily Official List of the London Stock Exchange during the period of five dealing days ending 18 March 2018.

Payment of the final dividend will be subject to approval by shareholders at the Annual General Meeting and will be paid on 31 May 2019 to shareholders on the register at the close of business on 29 March 2019; the ex-dividend date will be 28 March 2019.

Outlook
Despite the uncertainties engendered by Brexit, Elecosoft has performed well in the first two months of the current financial year. We also anticipate releasing a number of new products in the next few months, including the eagerly awaited Powerproject XV and Site Progress Mobile.

ShireSystem has performed very well since its acquisition and is already demonstrating the potential for cross-selling its products. The potential of the combination of ActiveOnline with ESIGN has also been evident since the acquisition of ActiveOnline.

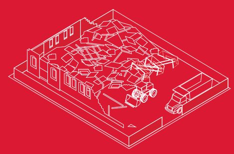
Our Development Centres in the UK, Sweden, Germany and now Spain, are close to our main customers, which is important because the success of our software development activities depends on close collaboration with our customers so that we are able to deliver to them software that exactly meets their requirements.

The rate of growth and international spread of our businesses also requires us to maintain close and prudent financial monitoring and financial policies. With these key elements in place and with a highly skilled development and management team, I believe that Elecosoft is well placed to improve further its performance and growth in 2019 for the benefit of our customers, our employees and our shareholders and I look forward with confidence in the year ahead.

John Ketteley
Executive Chairman
5 April 2019

Software

Our digital construction solutions are used throughout the building lifecycle. Combinations of our software products enable 4D and 5D Building Information Modelling by linking project schedules with cost plans and 3D models to drive greater collaboration and efficiency benefits.



3D: Visualisation
Our solutions are used to design and modify plans, from a kitchen makeover, to room configuration to multi-building sites.

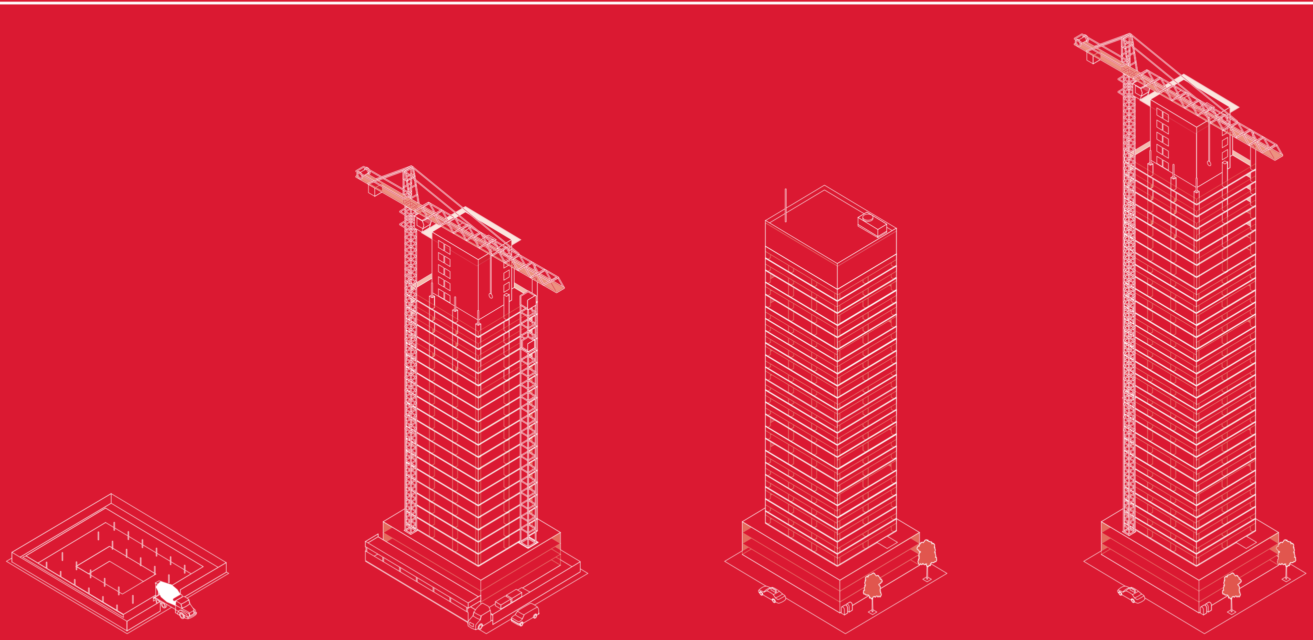
4D: Scheduling
Powerproject is a leading solution in project scheduling.

5D: Estimating
Our Bidcon software has a dominant position in the Swedish cost estimation market and is expanding in Europe.

6D: Asset Information
Our IconSystem manages design specifications and links asset information to 3D components, improving the design, build and management of a single building asset or a portfolio of property.

Facility Management
Our ShireSystem software provides management of assets and resource for maintaining cost efficient facility operation.

		Design/Planning
Visualisation	Interiormarket Materialo	Designers
CAD/Design	Arcon Evo® o2c®	Architects
Estimating	Bidcon®	Estimators
Project Management	Powerproject®	Planners
Information Management	IconSystem® Marketingmanager	Architects
Maintenance Management	ShireSystem	
Site Management	Memmo®	
Engineering	Staircon® Statcon® Framing	Structural Engineers



On-site Construction	Fit-out	Completion	Renovate/Renew
	Floor/Surface Manufacturers	Floor/Surface Manufacturers	Floor/Surface Manufacturers
	Interior Designers		
	2nd Fix Contractors	Maintenance Contractors	Maintenance Contractors
Project Managers	Project Managers	Project Managers	
Project Managers	Sub Contractors	Property Managers	Property Managers
Maintenance and Property Managers	Maintenance and Property Managers	Maintenance and Property Managers	Maintenance and Property Managers
Site Managers	Site Managers		
	Staircase Manufacturers		

Recent Acquisitions

ShireSystem

Acquired: July 2018

Shire Systems Limited (“ShireSystem”) is a leading UK provider of computerised maintenance management software (“CMMS”). The Company was founded in 1982, and is based in Southampton, UK.

ShireSystem is a well-established and profitable software business with a diverse and high-profile customer base in the manufacturing, healthcare, hospitality, construction, transport, education and utilities industries, to name a few.

The Board of Elecosoft is confident that ShireSystem’s asset maintenance and management expertise together with Elecosoft’s BIM industry expertise and construction data storage capability will provide significant opportunities for the development of new software applications in the post-construction phase of the life of a building. Importantly, as part of the Elecosoft Group, ShireSystem will continue to build on its commitment to developing maintenance management technology to enable its clients to operate effectively and efficiently, and to help them save time and money. The acquisition of ShireSystem represents another step towards achieving Elecosoft’s objective of developing a comprehensive BIM-led program of co-ordinated software applications for use in each stage of a building’s lifecycle, both before and after completion of the build phase.

Learn more at: **www.elecosoft.com/shiresystem**

The acquisition of ShireSystem represents another significant milestone in the development of Elecosoft as a leading provider of co-ordinated BIM-led software systems for the construction industry.

ActiveOnline

Acquired: November 2018

Active Online GmbH ("ActiveOnline") is a visualisation software business which specialises in soft furnishings and materials, such as curtains and blinds, fabrics, upholstery, paint and wallpaper, and also provides visualisation of different materials, colours and styles in photographic room scenes.

Founded in 1999, and based in Wesel, North-West Germany.

ActiveOnline's software focuses on the digitisation of textile visualisation, and together with Elecosoft's existing visualisation business 'ESIGN' will enhance the Group's portfolio by adding new products and technical capabilities as well as cross-selling and upselling opportunities with the new ActiveOnline products and existing ESIGN product.

The Directors have identified sales opportunities within the combined customer base of ActiveOnline and ESIGN as well as with other Elecosoft Group companies, along with cost synergies.

Learn more at: **www.ao.elecosoft.com**

ActiveOnline will bring with it AR and VR capabilities together with synergistic opportunities to develop new internet visualisation tools for the interior market worldwide.

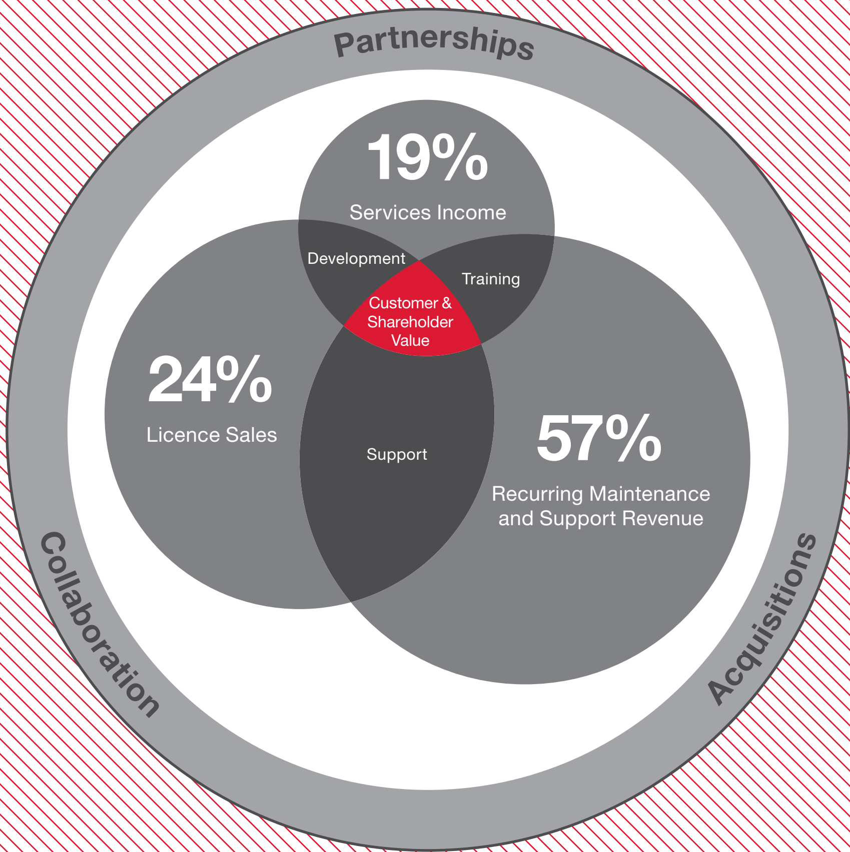
Our Business Model

Our Strategy

Elecosoft continues to uphold its three strategic objectives:

- Innovation
- Growth
- Stability

How We Create Value



Product Development

The flexibility of an in-house development team to meet the needs of customers and partners promptly and to a high standard.

Industry-Tailored Solutions

Our products and services are recognised for their alignment to the specific needs of AECO customers in its core markets.

Improved Market Presence

A cohesive message promoting our integrated portfolio.

Our Regions

£8.2m

UK

Following significant revenue growth and with the acquisition of ShireSystem, the UK is now Elecosoft's largest territory by revenue, and continues to drive sales.

£6.8m

Scandinavia

Scandinavia continues to contribute over 30 per cent of the Group's revenue.

£3.4m

Germany

Germany remains our third largest region by revenue, with a small contribution from ActiveOnline in the two months following its acquisition in November 2018. Germany represents good opportunity in 2019 for the Group, in particular for synergies with ESIGN and ActiveOnline.

£3.0m

Rest of World

The Rest of the World has seen revenues increase 17 per cent, driven by success in the Netherlands with Powerproject, and Staircon in Australia.

£0.8m

USA

Powerproject continues to grow in the US with 23 per cent of the top ENR 100 US construction contractors now using Powerproject.

We reinvest 13% of revenue in research and development

Our Strategy and KPIs

Our Strategic Objectives

Innovation

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

Progress in 2018

- Release of Powerproject Vision, Elecosoft's new cloud-based collaboration application for construction planning.
- Release of a new retailer platform Pixmo for visualising ceramic tiles.
- Release of Memmo in Sweden, Elecosoft's new Site Management software.
- Acquired mobile and web based maintenance software.
- Acquired Virtual Reality ("VR") and Augmented Reality ("AR") technology.
- Bidcon Climate Module selected by Swedish National Board of Housing.

Growth

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

- Expanded our portfolio and customer base to address maintenance phases of the building lifecycle.
- Expanded our customers base including over 1,400 newly supported customers from the acquisition of ShireSystem and ActiveOnline.
- Continued to grow our US customer base, now supporting 500 business customers in the US.
- Collaborated and centralised marketing; better control and management of the brand and its assets.

Stability

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

- Strong cash conversion which resulted in net debt of £2.1m.
- Maintained tight control of overhead costs.
- Continued to improve processes and procedures across all functions and identified an HR system for rollout in 2019.
- Simplified Elecosoft's corporate and product brands to emphasise a single Company strategy.

KPIs

Product development spend (£m)

2.8 +1%

2018	2.8
2017	2.7

Software developers headcount

58 +16%

2018	58
2017	50

Revenue (£m)

22.2 +11%

2018	22.2
2017	20.0

Reseller sales channel (£m)

1.3 +4%

2018	1.3
2017	1.2

Free cash flow (£m)

2.6

2018	2.6
2017	2.6

Net cash/(debt) (£m)

(2.1)

2018	(2.1)
2017	1.0

Priorities

- Continued investment in research and development to enhance SaaS, Cloud, Mobile to drive integration of our product portfolio.
- Develop our portfolio around the requirements for BIM and CDE.
- Deliver best practice and standardisation among development teams reduce duplications where possible.

- Concentrate efforts in identifying suitable technical resellers and partners to reach new international customers.
- Focus on expanding the use of Elecosoft technologies in the post-construction phase of a building.
- Continue to strengthen our position in home markets through increased portfolio-led selling to existing customers.
- Strengthen Elecosoft's brand identity in the industries we serve.

- Maintain customer satisfaction to ensure renewal of SaaS and maintenance subscriptions.
- Strengthen the Company's digital presence and communication.
- Improve reporting and introduce efficiencies in administration.

Principal Risks

Risk	Description	Mitigation
Product Development Risks	Changing customer requirements, industry and technological innovation contribute to the risk and challenges associated with developing complex software applications.	New product development and the enhancement of existing products both require continual appraisal of investment and returns. Product development is planned, reported and reviewed frequently. Elecosoft works closely with key customers and channel partners while monitoring industry trends to ensure that new products and features align to the market needs and expectations.
Market Risks	The health of domestic and global economies strongly influences the commercial construction business cycle. A downturn in the construction business cycle can adversely affect Elecosoft's performance.	The market risk is mitigated through operational spread between countries with plans to expand geographical reach through reseller channels. Elecosoft's position is strengthened by servicing the maintenance stages of the building lifecycle. Unfortunately it is not possible to predict with any degree of certainty the impact on our business, whether positive or negative, resulting from the current delay of the implementation of Brexit.
Foreign Exchange Risks	The Group earns a proportion of its revenue in currencies other than Sterling. The two 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 creates a natural hedge against currency movements. In addition, we will continue to review foreign exchange contracts to manage risk.
Protection of Intellectual Property	Elecosoft's success is built upon the development of sophisticated software which requires continual protection from competitive businesses who may seek to copy or otherwise replicate the software.	Elecosoft uses a variety of licensing technologies and defines the rights of customers in licence agreements. In addition, the Group seeks to ensure its intellectual property rights are protected by appropriate means and defends its rights where practicable.
Employees and Organisation	Elecosoft's reputation depends upon its products and services and, in turn, these are built upon the innovation and dedication of its employees.	Elecosoft endeavours to ensure that employees are motivated in their work and there is regular feedback on their performance. There are pay reviews and a range of incentive schemes to reward achievement over different time periods. Elecosoft attracts new talent by maintaining its focus on developing new and innovative applications.
Operations Risks	There is an increasing reliance on IT systems, local and cloud, to perform the daily operations of a business. Exposure to technology in general is rapidly increasing with cloud offerings and remote connections.	Good, effective technology risk management and close monitoring is essential to robustly handle potential IT security incidents and system failures, as well as ensuring customer information is protected from unauthorised access or disclosure. Continued investment and adhering to regulatory standards mitigates these risks.

Financial Review

2018 was another successful financial year, with revenue growth and operating profits up 11 per cent on 2017. The core business has grown in spite of the macroeconomic uncertainties and unfavourable movements in trading currencies.

We successfully completed the acquisitions of ShireSystem, a computerised maintenance management software business extending our software portfolio further into the building lifecycle, and ActiveOnline a visualisation software business, complementary to our existing ESIGN business.

Funding of ShireSystem was secured by way of entering into a new term loan facility of £8m and raising a further £2.25m through a share placing to accelerate the acquisition and integration of ActiveOnline with our existing visualisation business ESIGN.

We have continued to convert a high proportion of cash from our operating profits into operating cash flow and at the year end we have shown a net debt position of £2.1m, following the £8m term loan.

Revenue

Revenue from continuing operations for the year increased 11 per cent to £22.2m (2017: £20.0m). Underlying revenue growth (excluding the impact of acquisitions and movements in foreign exchange rates) was 5 per cent. The acquisitions of ShireSystem and ActiveOnline in July 2018 and November 2018 respectively contributed a further 8 per cent, while the overall negative impact of a foreign exchange offset the underlying revenue growth by 2 per cent.

The overall revenue profile of the Group remains strong, with the proportion of revenue derived from recurring maintenance support and subscription revenue which increased to 57 per cent (2017: 55 per cent). The level of deferred income at the balance sheet date, measuring future maintenance revenue, increased by 18 per cent to £5.7m (2017: £4.8m).

Revenue growth was driven by direct sales with an increase of 12 per cent to £21.0m (2017: £18.8m). Sales through reseller channels grew by 4 per cent to £1.3m.

The Group delivered solid growth of 22 per cent in its core mature markets of the UK and Germany, which together comprise 53 per cent of total revenue. Scandinavian revenues were down by 6 per cent, driven by unfavourable foreign currency impact between Sterling and Krona. The Group's strategy to penetrate new geographic markets was reflected in strong revenue growth in the USA, which grew 18 per cent to £0.8m, in the Rest of Europe, which grew 14 per cent to £2.5m and the Rest of World, which grew 34 per cent to £0.5m.

Profit

Gross profit is revenue less the direct cost of providing products and services to customers, principally the costs of training and consultancy staff.

Reported operating profit grew 11 per cent to £2.6m (2017: £2.4m).

The period includes costs of £0.7m in relation to the acquisition of ShireSystem and ActiveOnline. After excluding the impact of these costs, together with the impact of the non-cash amortisation of acquired intangible assets as set out below, adjusted operating profit for the Group increased by 41 per cent.

Financial Review continued

We convert a high proportion of cash from our operating profits into operating cash flow. Adjusted free cash flow before dividends and acquisition related expenses increased by 24 per cent in the year to £3.3m.

Recurring maintenance revenue (£'000)

12,595

14% increase

Free cash flow (£'000)

2,582

2% decrease

Profit continued

	2018 £'000	2017 £'000
Operating profit	2,619	2,361
Acquisition expenses	689	—
Amortisation of acquired intangible assets	595	412
Adjusted operating profit	**3,903**	2,773

Software product development expenses amounted to £2.8m for the year (2017: £2.7m) of which £1.0m (2017: £1.1m) was capitalised demonstrating the commitment to investing increasingly in new product development and substantial product upgrades. The spend capitalised in the year includes investments in Memmo, Staircon Online Designer and Powerproject Vision all launched in the second half of 2018, and investment in Powerproject XV to be launched in 2019. 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.

Finance costs in the year, largely in respect of the Group's term debt, totalled £0.2m (2017: £0.1m), resulting in a profit before tax of £2.4m (2017: £2.3m).

The Group tax charge in the year was £0.6m (2017: £0.4m) and represented 24.6 per cent of profit before tax (2017: 15.8 per cent). The increase in rate compared with 2017 reflects the disallowable nature of the acquisition related expenses.

The net profit attributable to Ordinary Shareholders decreased by 4 per cent to £1.8m (2017: £1.9m).

After adjusting for the post-tax effect of acquisition expense items and amortisation of acquired intangible assets adjusted net profit attributable to Ordinary Shareholders increased by 37 per cent to £3.0m (2017: £2.2m).

	2018 £'000	2017 £'000
Net profit after tax	1,829	1,897
Acquisition expenses	689	—
Amortisation of acquired intangible assets	482	291
Adjusted net profit after tax	**3,000**	2,188

Revenue (£m)

22,220

11% increase

Operating profit (£m)

2,619

11% increase

Cash Flows

Cash generated from operations increased to £4.5m (2017: £4.2m), reflecting the strong trading performance of the Group and continued focus on management of working capital. Overall working capital movements were favourable, contributing a net cash inflow of £0.4m (2017: £0.5m).

Capital expenditure on intangible assets, principally comprising the capitalisation of software product development costs of £1m, was £1.1m (2017: £1.2m), reflecting the increased focus on the development of new products and major product upgrades. Capital expenditure on property, plant and equipment was £0.1m (2017: £0.2m).

After deducting capital expenditure and acquisition related expenses, adjusted operating cash flow, as set out below, was £4.0m (2017: £2.8m), meaning that 101 per cent of adjusted operating profit (2017: 102 per cent) was converted into cash. This reflects the strength of the overall business model, where 57 per cent of the Group's revenue is recurring and typically invoiced annually in advance, and the close focus on management of working capital.

	2018 £'000	2017 £'000
Cash generated in operations	**4,455**	4,167
Purchase of intangible assets	**(1,064)**	(1,154)
Purchase of property, plant and equipment	**(123)**	(180)
Acquisition expenses	**689**	—
Adjusted operating cash flow	**3,957**	2,833

Free cash flow before dividends and acquisition related expenses increased by 24 per cent in the year to £3.3m (2017: £2.6m). Cash dividends paid to shareholders amounted to £0.2m (2017: £0.2m).

	2018 £'000	2017 £'000
Adjusted operating cash flow	**3,957**	2,833
Net interest paid	**(151)**	(98)
Tax paid	**(618)**	(251)
Proceeds from disposals of property, plant and equipment	**83**	161
Adjusted free cash flow	**3,271**	2,645
Acquisition expenses	**(689)**	—
Free cash flow	**2,582**	2,645

Funding and Liquidity

The Group ended the year with a net debt of £2.1m (2017: net cash of £1.0m).

The Group's net cash position comprises cash at hand of £6.0m (2017: £4.7m), offset in part by gross borrowings of £7.9m (2017: £3.4m) and obligations under finance leases of £0.3m (2017: £0.3m). Gross borrowings comprise a term debt of £7.6m from Barclays and a loan balance against the ActiveOnline property acquired of £0.3m. The £7.6m term debt taken out in July, replaced a previous loan balance of £2m. The loan is repayable in quarterly instalments over the next five years, with £1.6m annually. The term debt carries a fixed interest rate of 3.768 per cent over the next three years.

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: EBITDA to gross financing costs, EBITDA to gross borrowings and cash flow to debt service. These covenants are tested quarterly.

Earnings Per Share and Dividends

Basic earnings per share decreased 4 per cent to 2.4 pence (2017: 2.5 pence).

Adjusted basic EPS, adjusted for the impact of exceptional acquisition related expenses, amortisation of acquired intangible assets and for the associated tax impact, increased 34 per cent to 3.9 pence (2017: 2.9 pence).

The Board has recommended the payment of a final scrip dividend in respect of the year ended 31 December 2018 of 0.40 pence per share (2017 final dividend: 0.40 pence), with a cash alternative to be made available. This gives total dividends in respect of the financial year of 0.68 pence per share (2017: 0.60 pence), an increase of 13 per cent over 2017.

Ben Moralee FCA
Group Finance Director
5 April 2019

Operating Review

Q&A with Jonathan Hunter

Chief Operating Officer, Jonathan Hunter, outlines what sets Elecosoft apart, and the opportunities for the Group.

Elecosoft's ambition is to be a leading international provider of software solutions that service the full lifecycle of a building from conception and design to facility management. As an integrated software business Elecosoft continues to evolve and expand ensuring it builds a team that best supports its ambitions and in turn creates opportunities for career development at all levels in the Group.

Q What milestones has Elecosoft achieved in the year?

In 2018 we continued to transform our vision into reality by executing on our three strategic priorities of innovation, growth and stability. A number of new SaaS applications were released to market in addition to updates of our existing applications. We won Project Planning/Management Product of the Year for the fifth consecutive year at the UK Construction Computing Awards and at the UK Construction Manager of the Year Awards, all winners were Elecosoft customers.

We were also nominated, with Prosper architects, for the prestigious Architects' Journal Technology Award for our IconSystem design specification and property management solution for Primark stores.

We monitored our retail customer base who, despite experiencing a challenging trading year, increased their investment and usage of our property management software.

My marketing colleagues worked exceptionally hard to strengthen our portfolio branding as part of our move towards greater co-ordination and collaboration and positioning Elecosoft's identity in the industries in which we operate. This feeds into our strategic objective of offering a full solution for businesses.

Our investment in research and development in 2018 was geared towards SaaS applications and strengthening our core portfolio. While our Powerproject roadmap over the past four years has been focused on BIM and international markets, the anticipated release of Powerproject XV in April 2019 will excite our core construction planning community with the addition of new features and improvements.

Advancements in our Swedish Climate Impact Calculation module for Bidcon introduced climate impact on machine resources which enabled the capture of Life Cycle Analysis ("LCA") now covering stages Raw materials supply (A1), Transportation (A2), Manufacturing (A3), Transportation to construction site (A4) and Construction process (A5).

The awards and recognition we receive are commonly related to our well-regarded technology, however our support and client services teams must be recognised for providing first class service which plays an important role in maintaining our support renewals and longevity of customer relationships.

While the Board's reseller strategy has been focused on growing Elecosoft's geographical presence through controlled investment and risk, we continued to see encouraging sales in Australia, where our stair manufacturing software has been sold directly from Europe. We also acquired a number of new US customers now making up 23 per cent of the Engineering News-Record top 100.

Q What synergies will be created for Elecosoft following the acquisitions?

The acquisition of ShireSystem and ActiveOnline in 2018 was another significant advancement in Elecosoft's successful strategy to extend its software portfolio beyond early stage project planning, design and construction applications, to asset and facility maintenance and management.

When we consider the life of a building, it was identified that as little as 10 per cent of a building's cost relate to construction, with circa 90 per cent being related to ongoing maintenance. By servicing the post-construction life of a building, we experience lengthier customer relationships and open up new sales opportunities for Elecosoft.

ShireSystem's asset maintenance and management expertise, together with Elecosoft's BIM industry expertise and construction data storage capability will provide significant opportunities for the development of new software applications and opportunities in the post-construction phase of the life of a building.

ActiveOnline, a significant competitor to our ESIGN visualisation operation, provides expert knowledge and expertise in photorealistic product digitisation; the development of unique virtual rendering techniques for internet applications and efficient data-cloud management techniques.

ESIGN is a flooring internet visualisation business and ActiveOnline's soft furnishing visualisation will provide the opportunity to create a unique online interior platform for visualising all types and designs of interior coverings and flooring with the capability to transfer product data related to products included in the visualisation along the whole supply chain.

ActiveOnline has already made considerable capital investment in areas including scanning facilities and their database of materials, in addition to virtual reality and augmented reality ("VR/AR") technologies, elements which Elecosoft's ESIGN business does not yet have and currently outsources.

Q What differentiates Elecosoft from its competition?

Elecosoft's enviable track record and long-standing reputation means that it holds a robust position in the markets it serves. Its portfolio of well-established applications are used by a large number of high-profile companies across the many sectors we operate in including manufacturers, engineers, building contractors, housebuilders and building owners.

Our strategy is underpinned by the continued digitisation of the building industry. The use and process of Building Information Modelling ("BIM") has been mandated during design and construction and is beginning to be used to gain efficiencies in the maintenance of a building further influencing design decisions on future building projects.

While information handover of a client's asset is provided it remains uncommon for handover information to be checked for completeness, accuracy and appropriateness at the point of receipt. Information is normally delivered in different formats, some scanned information, paper, USB or other digital media. To complicate matters further, the virtual BIM information risks being lost during handover; and when a Facilities Manager notices that there is information missing, they will need to spend unwanted time tracking it down.

We work with asset owners who see real returns from the processes and systems we offer. They gain more certainty of costs in building maintenance, refurbishment and in making future purchasing decisions that improve the maintenance costs.

Operating Review continued

How does Elecosoft engage and invest in its people?

Elecosoft's medium and long-term success is underpinned by the Group's employees and its corporate culture. Our reputation is key to driving success and Elecosoft promotes ethical behaviours to maintain its reputation within the industry.

We strive to be the best, and to be the best our colleagues are encouraged to collaborate and work as a team. To effectively work in teams, we cultivate a culture of trust. Processes and teams are evaluated and measured for effectiveness and efficiency on a regular basis and proactively supported to change in line with overall strategy.

Teamwork and collaboration is supported by the investment in Group-wide communication systems coupled with the flat operational structure which allows colleagues across the Group to discuss matters with their managers and senior directors. Furthermore the management teams meet monthly to promote communication, teamwork and agility.

What is the Group's vision and progress in achieving this?

Our ambition remains to become a leading international provider of software solutions serving the full lifecycle of a building from conception and design to facility management.

Significant progress was made in 2018 towards our vision with the acquisition of ShireSystem and ActiveOnline further extending our portfolio and addressable market into the design and maintenance phases of a building life.

Companies that operate in the architectural, engineering, construction, manufacturing and asset owner/operator industries continue to embrace technology, not only to build efficiencies, but as part of their strategic roadmaps.

It is therefore important that Elecosoft is recognised as a portfolio provider where any single user can be a customer but also a group of users working for a company can also be customers.

UK customer success

Wates breathes new life into the iconic Victoria and Albert Museum using Elecosoft planning software Powerproject.

Wates Group is one of the largest privately-owned construction, development and property services companies in the UK. This British business was awarded the privilege of breathing new life into an historic institution as the V&A planned its future facilities and updated its entrance and visitor areas for the modern age.

Wates used Powerproject to plan this complex and high-profile project. Its exemplary project management and on-time delivery gained team leader Neil Lock, the coveted top Construction Manager of the Year award, as well as a Gold medal – and, even more importantly, delighted its client.

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Read the full case study and more on our website:
www.elecosoft.com

Software Development

Q&A with Mukul Mistry

Q What are some of the key considerations that underpin the overall software development strategy of the Group when looking at the industry as a whole?

Digital transformation is a challenging process for many industries, possibly none more so than in construction – quite literally a 'bricks and mortar' business. Yet digitisation in the construction industry is accelerating, transforming our environment and the way in which companies in this space operate.

Elecosoft's stated intention to provide the most comprehensive suite of software solutions for the AECO industry are well served by our existing product families servicing the Plan, Design and Build phase of built assets and we are helping to innovate within this industry as much as this industry is transforming the world around us.

Through continuing innovations in materials and building techniques, ever more sophisticated manufacturing methods, with faster delivery times, are needed to adhere to ever-increasing levels of accuracy and deadlines. The need for technology to support and enable the development and delivery of these innovations across this industry remains a key driver for the continuing sophistication of our solutions.

With the recent acquisitions of ShireSystem and ActiveOnline, our software capabilities as a Group have taken a major leap beyond the 'Build' phase into Facilities Management, which broadly comprises the visualisation, maintenance, servicing, fit-out and refurbishment phase of the built asset's lifecycle. This provides us with a vastly increased market in which to offer solutions of a calibre unparalleled in this sub-sector.

Q How is the Software Development Group leveraging the advances made in new technologies for the AECO industry?

ActiveOnline's capabilities in augmented reality and virtual reality coupled with the work being done in artificial intelligence at ESIGN GmbH increases our coverage of cutting-edge technologies that are adding value to our combined customer base. Applying these technologies across our combined datasets from ESIGN and ActiveOnline has created arguably the largest database of high resolution rendered images for the interior wall coverings, flooring and design items in the world.

This puts us in an extremely strategic position from which to create compelling value propositions for consumers, wholesalers, distributors and manufacturers of items used in the interior design industry regardless of commercial, industrial or residential use.

Software Development continued

Q&A with Mukul Mistry

Having curated our suite of solutions to encompass and service the functional requirements of estimators, planners, architects, schedulers, contractors and now interior designers, our software development continues to be geared to provide advantages for industry users and an exceptional experience for our customers, regardless of the level of user sophistication.

The immense skills shortage across the world in the construction industry means product usability and ease of use is key for continuing our success as evidenced by the increase in features, functions, and ease of use of our software to cater for a wider range of skill sets and sophistication amongst the growing base of user profiles.

To this end, Elecosoft's development mindset is to continue aligning usability with enhanced functionality for best effect and this year saw numerous feature requests and updates released in line with the introduction of new products into our portfolio.

Q What are some of the key development goals for the coming year?

Maintaining our leadership and dominance in our key markets is critical for our existing customer base but making sure we cater to those global markets in line with our expansion plans is equally vital to our growth internationally. 2018 saw the further alignment of our global development teams with the introduction of standardised development processes, formalised peer reviews and improved feedback mechanisms with tighter communication with key customers to better take onboard any regional requirements for markets we serve.

Not a simple feat to accomplish when integrating newly acquired businesses and their respective development teams into the Group but with the longevity, experience and intellectual capital across our worldwide development teams the opportunities far outweigh the challenges and in the short space of time between acquiring ActiveOnline in November 2018, new product development resulted in the introduction of a combined product offering with its first customer win already in hand at the time of writing.

Our development teams continue to raise the bar in producing higher quality code with incredibly rich feature sets that serve to keep us a leader in our chosen fields. Our goal is to ultimately standardise an approach to building and running applications that make the best use of the cloud computing model that is beginning to become pervasive across the industry. As a software development group with a comprehensive portfolio, we have started to develop software faster using modern software engineering practices through the consistent application of development standards and maintaining pace with our customers' demands to build versions of our products for the cloud-native era.

Cloud-native is about how applications are created and not where they are deployed. As a Company, our delivery mechanisms now span every conceivable channel across physical and digital mediums with solutions that are pure SaaS, hosted solutions, burnt onto a disc and posted all the way through to traditional downloads to ensure we are aligned with all our customers' preferred methods of using our solutions. Given the 90 per cent + renewal year-on-year across our software solutions, this strategy of catering to our customers' requirements is clearly the correct one.

The volume of data being generated daily is increasing and the ability to access the almost limitless on-demand computing power is key for us to be able to maximise and monetise the usage of the data that inherently resides in our applications across our global customer base. We have started this process through the introduction in 2018 of our SaaS solution for site management, Memmo and the introduction of PowerProject Vision for Cloud.

While legacy application development is vital with so many customers in an industry dependent upon these applications used on a variety of devices, the advantages of moving away from an Operating System ("OS") dependency is clear. OS abstraction means that our development teams do not have to configure, patch and maintain operating systems, and the teams can now focus on what's important; the software.

We began this process of simplifying our architecture by instituting a formal, thorough review of our entire code base across the source code for all the products in our portfolio. We did so to highlight efficiency opportunities in managing compliance and maintaining both coding and delivery standards.

This ensures that extending our ability to deploy our software solutions across any conceivable channel establishes Elecosoft products and services as the solutions of choice we expect our customers to use to fuel the next phase of their growth.

What can we expect going forward?

2019 will see investment in new applications whilst also further enhancing existing product sets to maintain their competitiveness and appropriateness for core markets. These will include further enhancements to our award-winning Powerproject application with the launch of Powerproject XV which will provide features that are particularly important for customers in the US and overseas markets.

Powerproject's BIM capabilities will also be extended to support planners in their increased adoption of this fundamental component in the digitisation of construction. The functionality in Powerproject Vision, our Cloud version, will be revised, to further assist users in maintaining control over their project plans.

There will be an increased focus on knowledge sharing and cross-platform collaboration across the Elecosoft Group, none more so than between Sales and Development. Several new product developments are planned to begin in 2019 and, whilst features and functionality will differ, some of the underlying technologies and architecture needs will be similar, consistent with our intent to build software within a common development framework.

Collaboration between teams will ensure a consistent development approach, with shared technologies and built-in data sharing and integration incorporated across all new Elecosoft products. Recent product releases across the Group have enabled us to offer customers cloud-hosted services accessible via web and mobile applications, in addition to our portfolio of mature desktop tools.

Heading into 2019 and beyond, we see more cloud-enabled solutions being launched. As a result, we are aligning our design methods to enable Single Sign-On ("SSO") and cloud/on-premise interoperability across our solutions to ensure robust identity and account management functionality ("IDAM") and to enable data sharing between cloud and on-premise in a firewall-friendly and secure manner.

How do your customers see these changes?

We continue to see an increased interest in the market for our portfolio, especially in the area of interoperability within the portfolio, in order to have end-to-end coverage of our customers' most critical processes and workflows in the construction business.

This requirement to integrate our products with each other is increasing in line with the benefits our customers see in the seamless movement of information from one aspect of the build phase to the next.

2018 was a landmark year with the introduction of new products, the acquisition of two new companies and development teams and the strategic direction and alignment of the teams across the world becoming more pronounced. 2019 will see further work across our core product sets to provide our customers with an interoperable Elecosoft product portfolio with seamless integrations, further increasing our customers' return on investments in our solutions.

Board of Directors

John Ketteley FCA
Executive Chairman

Skills and Experience

Appointed Executive Chairman in 1997, John Ketteley is a Fellow of the Institute of Chartered Accountants in England and Wales; joined the merchant bank, SG Warburg & Co. Ltd in 1964 and Executive Director in 1972-81: appointed Managing Director of Rea Brothers plc 1981-1983; Barclays Merchant Bank Ltd 1983-1987; 1988 he resigned from Barclays Merchant Bank Ltd and became a corporate turnaround specialist. He joined the Boards of a number of listed companies as a Non-Executive Director, including inter alia, Dufay Bitumastic, Boosey & Hawkes, Country Casuals plc, as Non-Executive Chairman; Prolific Income plc, as Chairman. He had been Deputy Chairman of BTP plc in 1983 and was appointed Non-Executive Chairman of BTP in 1994.

As a member of the ICAEW, John is required by his professional body to undertake continuous professional development and register this with them annually. He is also a member of the IT Faculty of the ICAEW. To this effect, he is continually reviewing professional materials and keeping himself up to date. He is a member of the Worshipful Company of Chartered Accountants in England and Wales.

Committee Membership

N

Jonathan Hunter BBus BMm
Chief Operating Officer

Skills and Experience

Appointed to the Board on 14 June 2016, with Bachelor degrees in Business Management and Multimedia, Jonathan is responsible for Group operations and Chairman of the UK business units. He has played a major part in M&A activity since 2016.

Jonathan joined Elecosoft in 2010 as a Marketing Manager for the Building Systems division and in 2011 he became General Manager of Group Marketing. In 2016, Jonathan was appointed Marketing and Business Development Director and in 2017 became the Chief Operating Officer.

Jonathan continues to attend relevant training and during the year undertook courses run by QCA on corporate governance.

Anders Karlsson MSc
Managing Director of Elecosoft Sweden

Skills and Experience

Appointed in March 2017 Anders has over 22 years of business development experience. He was initially appointed as Managing Director of Consultec Byggprogram AB in August 2005 and then rejoined the Group again as the Managing Director of Elecosoft Consultec AB in November 2014, after a four-year session as the CEO of an international digital signage company. Working with product development, portfolio management and technical sales during his ten years within the telecom business in combination with a high focus on managing sales, marketing and brand building during the last eight years, all in strategic management positions, Anders adds a great deal of value to the Elecosoft executive team. His skill set is continuously updated via networking in the computer science, portfolio management, marketing, sales and performance management areas.

Mukul Mistry, BSc
Corporate Development Director

Skills and Experience

Mukul joined Elecosoft plc in June 2018 as Corporate Development Director and is currently responsible for international expansion, global business development and the software development of the Group and joins the Board with 20 years of international experience in the technology industry in a variety of roles encompassing global management, direct and channel sales management, professional services delivery and software development and has been responsible for managing the successful growth of technology start-ups prior to joining Elecosoft plc.

He was previously an Executive Director of systems integration and services business HTSA Pty Ltd and has also advised the boards of a number of international and UK software technology companies on their strategic development, international expansion plans and restructuring. Mukul has numerous qualifications and certifications in Fintech and Industry software and holds a Bachelor's degree in Physics and Mathematics.

Ben Moralee FCA BSc
Group Finance Director

Skills and Experience

Appointed to the Board in September 2018, Ben was Interim Deputy Finance Director of the Company since March 2018, working alongside the Board of the Company. He has extensive further experience in international finance and management positions having previously been Head of Finance at Figleaves (part of N Brown Group PLC) and being Financial Controller for Serena Software Europe Limited (part of Micro Focus PLC), the international provider of IT management products, for ten years. Ben qualified as a chartered accountant with Deloitte and is a fellow member of the ICAEW.

Ben has recent M&A and corporate finance experience.

As a member of the ICAEW, Ben is required to maintain his accreditation by attending relevant meetings, seminars, and undertaking appropriate training. In addition he is a member of the Information Technology Faculty of the ICAEW.

Serena Lang MBA
Deputy Chairman, Senior Independent Non-Executive Director

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

Serena brings a depth of experience to bear on the long-term strategy of the business, international growth, merger and acquisitions as well as software development.

As Senior Independent Director ("SID"), Serena serves as a sounding board for the Chairman and acts as an intermediary for other Directors. She holds annual meetings with the other Non-Executive Directors, without the Chairman present, to appraise the Chairman's performance and discuss succession planning. Additionally, during the year, she undertook courses run by QCA on corporate governance.

Committee Membership
A R N

Kevin Craig BA
Independent Non-Executive Director

Skills and Experience
Kevin Craig is Founder and CEO of the award-winning Political Lobbying and Media Relations Ltd ("PLMR") communications company. Named as Best Political Consultant in the UK in 2011, he has served over 13 years to date as a Councillor in London local government and formerly worked for Saatchi and Saatchi (Rowland Company) and DLA Piper. He recently attended leadership training at Harvard Business School in Boston, USA. He is a graduate of the University of Southampton.

Other Appointments
Kevin is also a Non-Executive Director of Company Shop, the UK's leading food and surplus redistribution company.

Committee Membership
A R N

David Dannhauser FCA FIOD MA
Independent Non-Executive Director

Skills and Experience
David Dannhauser is Chairman of the Audit Committee. He was for over 20 years the Finance Director for a number of listed companies, including from 1994 to 2010 the Company, during which time he was closely involved in the establishment and development of the Group's software activities, which today form the core of Elecosoft's software operations. More recently, he has also advised a number of companies on their capital raising, M&A and strategic planning activities.

His business background also includes some ten years operating as a senior Board executive within the Construction Sector as well as a term from 2011 to 2013 as a Non-Executive Director of Altitude Group plc, the AIM listed SaaS solutions provider operating in North America and the UK. As a member of the ICAEW, his accreditation requires the maintenance of an appropriate level of continuing professional development, which is further enhanced through his membership of the Institute of Directors and the NED Group at Winmark Global. He holds a master's degree in Economics from Cambridge University.

Committee Membership
A R N

Executive Directors

Non-Executive Directors

Key to Committee Membership

- A Audit Committee
- R Remuneration Committee
- N Nominations Committee
- Committee Chair

Chairman's Statement of Corporate Governance

Composition of the Board

During the year, the Board comprised the Chairman, three Non-Executive Directors (including the Senior Independent Director) and four Executive Directors (being the Chief Operating Officer, the Group Finance Director and two other Executive Directors).

Operation of the Board

The Chairman, along with the Executive Directors and Company Secretary, ensures that the Board functions effectively and has established Board processes designed to maximise its performance and effectiveness. Key aspects of these processes are:

- The Board met nine times during the year, these meetings, together with any Committee meetings, are generally held at the Group's Head Office in London and are approximately one day in duration. The attendance of individual Directors at Board meetings in 2018 is set out in the table below and Committee meetings in the Committee reports on pages 29 to 34.

	Main Board meetings		Additional procedural meetings	
	Number	%	Number	%
Executive				
J H B Ketteley	9	100	13	87
J Hunter	9	100	15	100
A Karlsson	9	100	13	87
M Mistry	3	100	7	87
B Moralee*	4	100	7	100
S Morgan	5	63	6	60
Non-Executive				
S Lang	9	100	12	80
K Craig	8	89	9	60
D Dannhauser	9	100	6	50

* Ben Moralee attended meetings while Simon Morgan was on paternity leave.

- Each Board meeting has an over-arching theme. These are budget, business strategy, long-term plan, interim and final results.
- In addition, the Board holds regular procedural Board meetings to discuss issues of importance between the intervening Board meetings. An example for the current year would be the acquisition of ShireSystem and ActiveOnline, meetings to approve the funding and the placing of new shares for both the scrip issue and the funding of ActiveOnline.
- Executive Directors and members of the senior management team make presentations covering progress against current strategy and objectives and ideas for future investment.
- The Board delegates the day-to-day responsibility for managing the Group to the Executive Directors.
- To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed by the Company Secretary to all Directors usually four working days in advance of Board and Committee meetings.
- A monthly reporting pack containing management accounts with commentary and reports from each Executive is distributed to the Board on a monthly basis.
- Meetings were held between the Chairman and the Non-Executive Directors during the year, without the Executives being present, to discuss appropriate matters as necessary.
- The Chairman ensures that the Directors take independent professional advice where they judge it necessary to discharge their responsibilities as Directors at the Group's expense. All members of the Board have access to the advice of the Company Secretary. A summary of the advisors and their roles are listed on page 96.
- Non-Executive Directors and Executive Directors are encouraged annually to undertake training in furtherance of their specific roles and general duties as a Director. The Company Secretary forwards to all Directors materials and details of courses to keep their skills up to date and relevant to the Group at the Group's expense. During the year, some Board members attended courses run by the London Stock Exchange and QCA. In addition, the full Board received briefings from finnCap, the Group's Nomad, covering Directors' responsibilities for the acquisitions and placing. Details on how each individual Director has approached their personal development are set out in their biographies on pages 24 and 25.

Corporate Governance

During the year the Company adopted the Quoted Companies Alliance Corporate Governance Code "QCA Code" and has been working to comply with its principles. The Company understands that this is an organic process and will continue to review and improve its governance procedures going forward. Details of how the Company has dealt with each principle of the code are detailed below or referred to another section of the Report and Accounts: www.elecosoft.com/investor-relations/corporate-governance.

Control Environment

The Board acknowledges its responsibility for the Group's 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 Group's 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 within the Group Controls Handbook.

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.
- Monitoring of business risks, with key risks identified and reported to the Board. These risks can be identified on page 14.

The Board Evaluation Process

The Company has had a more informal approach to Board evaluation than advocated by the QCA Code. The performance of individual Directors is reviewed on an annual basis in February of each year by the Remuneration Committee, headed by Serena Lang, the senior Non-Executive Director. The review looks at the individual and the Group's performance as well as any feedback from the Board members or Senior Executives in the Group along with individual Company and Group results. The Remuneration Committee will consider feedback on each Executive provided by the Chairman and will then report back to the individual Director.

Having adopted the QCA Code, going forward the Board will now undertake a more formal review of the Board as a whole, its subcommittees and individual members. This will comprise questionnaires. The Board considered other ways of carrying out the Board evaluation in the future but concluded that the questionnaire method with an anonymised summary was an appropriate approach for the Company at this point in time. It is intended to carry out this process within a year of adopting the Code and continue to evaluate Board performance each year. To supplement the evaluation process, it was decided to ensure that the Non-Executive Directors meet at least once per annum without the Executive Directors to discuss their performance.

Results of Board Performance and Recommendations

During the last informal review the Board identified that with the expected increase in the size of the Group and planned acquisition it would need to strengthen its Board. To this effect, the Board appointed a new Director, Mukul Mistry, on 6 June 2018 as Corporate Development Director.

The Company considers that it has a strong Board. Board succession has been organic to date, with an emphasis on recruiting individuals who bring significant value to the Board as the Group's business develops. More formal succession planning as the Group's business continues to develop is expected to form part of the Board evaluation process.

Succession Planning

With the exception of the Deputy Chairman to succeed the Chairman in the event of illness or injury in the interim, as is common with many small companies, the Company does not have internal candidates to succeed existing Directors. This will be kept under review, especially when recruiting for senior roles as vacancies arise. However, the Board does not believe it is appropriate to recruit additional Directors or senior personnel solely for the purpose of succession planning.

Chairman's Statement of Corporate Governance continued

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. New Directors are subject to election at the first Annual General Meeting of the Company following their appointment.

Senior Independent Director

Serena Lang is the Senior Independent Director, whose time commitment is one day per week and her key responsibilities are:

- to act as a sounding board for the Chairman and to carry out the performance evaluation of the Chairman;
- to be available to hear shareholders' views/concerns and attend meetings with major shareholders; and
- to act as a route of access for Directors who have concerns that cannot access normal channels.

Non-Executive Directors

Each of the Non-Executive Directors is considered independent of management and free of any relationship that could materially interfere with the exercise of their independent judgement. At the date of appointment, Non-Executive Directors were assessed for independence against the main Corporate Governance code issued by the FRC in April 2016:

- they have not been an employee of the Group in the last five years;
- they have not had a material business relationship with the Group in the last three years;
- they do not receive any remuneration other than Directors' fees and do not participate in the option scheme or have membership of the Group pension scheme;
- they do not have any family ties with the Company's advisors, Directors or senior employees of the Group;
- they do not hold cross directorships or have significant links with the Directors through their involvement with other Companies or Bodies; and
- they do not represent a significant shareholder.

Each Non-Executive Director does not have a specific time commitment however they are expected to be able to read the Board reports, comment in advance of any Board meeting and attend all Board meetings.

Company Secretary

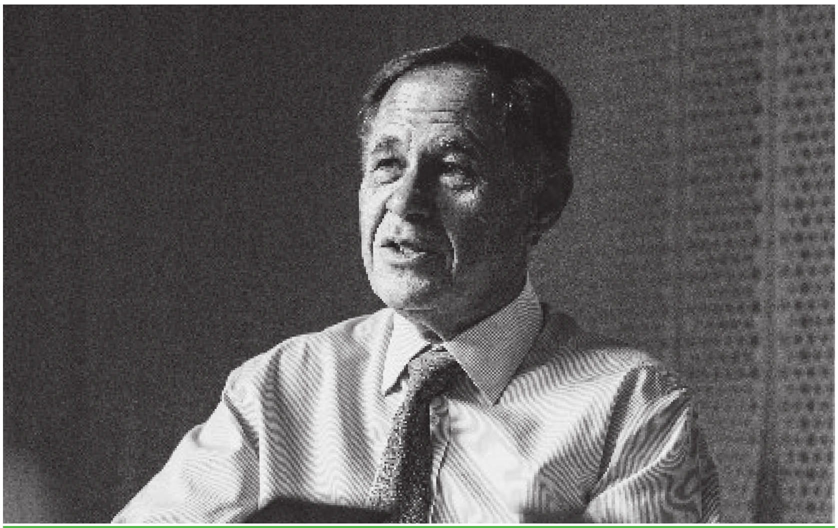
Andrew Courts is the Non-Executive Company Secretary, whose time commitment is one day per week. His key responsibilities are as an advisor to the Chairman and the Board and to act as a go-between for the Company's professional advisors and the Board. His further duties include:

- ensuring the Company follows good governance procedures;
- ensuring that the Company complies with legal, statutory and regulatory requirements;
- assisting the Chairman with the effective running of Board meetings;
- acting as the initial shareholder link for shareholders' views/concerns; and
- acting as a confidential sounding board for Directors.

The Directors have access to independent professional advice in executing their duties on behalf of the Company. The Company's main external advisors used by the Board during the year can be found on page 96. Other advisors used during the year in relation to the acquisition of ActiveOnline and ShireSystem are as follows: Brauch Corporate & Commercial, RSM Corporate Finance LLP, RSM GmbH, Risk Crew, Sci-Tech Systems Ltd and Source Code Control Limited. Stephens Europe was used to advise on corporate transactions.

John Ketteley
Executive Chairman
5 April 2019

Audit Committee Report



Dear Shareholder

It has been a year of change for the Audit Committee, with the appointment of a new Audit Chairman in February and the rotation of the audit partner in September; the Committee welcomes both appointments as the Company adopts the QCA code.

The primary roles and responsibilities of the Committee are:

- reviewing financial statements prior to their recommendation to the Board;
- assisting the Board in ensuring that appropriate accounting policies, internal financial controls and compliance procedures are in place;
- reviewing the effectiveness of the Company's internal controls and risk management systems;
- overseeing the relationship with the external Auditor;
- whistleblowing; and
- making recommendations to the full Board for consideration and approval.

The full terms of reference for the Audit Committee may be found using the attached link: www.ir.elecosoft.com.

The Committee, which consists of the Non-Executive Directors, and is chaired by David Dannhauser, met twice during the year to consider the year end Accounts for 31 December 2017 and interim reports for 30 June 2018. Company officers invited to Audit Committee meetings during the current year were the Group Finance Director Simon Morgan, who attended both meetings and the Chairman, Company Secretary, and Group Financial Controller who attended the interim report meeting.

External Auditor

Grant Thornton UK LLP is the Company's external Auditor who has been engaged to undertake the audit of the Group's year end 31 December 2018.

Committee Composition and Meeting Attendance

Director	Number of meetings	Attendance %
David Dannhauser FCA (Chair)	**2**	**100%**
Kevin Craig BA	**1**	**50%**
Serena Lang MBA	**1**	**50%**

The Committee oversees the relationship with the external auditor, and is responsible for developing and monitoring the Company's policy on external audit and auditor independence.

The Committee welcomes the rotation of the audit partner during the year to comply with ethical rules for auditor independence and is satisfied that Grant Thornton remains independent and has therefore recommended to the Board that it be reappointed in 2019. Grant Thornton has indicated its willingness to continue in office and a resolution will be proposed at the Annual General Meeting to reappoint it as auditor and to determine its remuneration.

The total fees paid to Grant Thornton in the year are shown on page 59 note 3.

The Company used separate advisors for taxation and due diligence work carried out on the two acquisitions during the year.

Internal Audit

The Committee has considered whether the Group's internal controls process would be significantly enhanced by an internal audit function and has taken the view that given the size of the Group, the internal controls in place and significant Executive involvement in the Group's day-to-day business that an internal control function would not be cost-effective at this time. However the Committee will continue to monitor the Group's increasing size and complexity.

Risk Management

Internal controls and risk management are detailed on page 27 of the Report and Accounts.

David Dannhauser FCA
Audit Committee Chairman
5 April 2019

Nominations Committee Report

This report forms part of the Directors' Report. The primary roles and responsibilities of the Committee are:

- reviewing the structure, size and composition of the Board and its Committees;
- evaluating potential candidates for nomination when and if it is deemed necessary to appoint a new Director to the Board; and
- making recommendations to the full Board for consideration and approval.

The full terms of reference for the Nominations Committee may be found using the attached link: www.ir.elecosoft.com.

Dear Shareholder

On behalf of the Board and Committee I am pleased to present the Nominations Committee Report for the year ended 31 December 2018.

The Nominations Committee consists of the Non-Executive Directors and is chaired by the Executive Chairman.

The Committee uses technology to review candidates and communicate and recommended three new appointments to the Board during the year:

David Dannhauser was appointed Non-Executive and Chairman of the Audit Committee in February, following Jonathan Edwards completing three terms in office (seven years). The Committee would like to take this opportunity to publicly thank Jonathan for all his years of service on the Board as a Non-Executive Director and Chairman of the Audit Committee.

Committee Composition and Meeting Attendance

Director	Number of meetings	Attendance %
John Ketteley FCA (Chair)	4	100%
Serena Lang MBA	4	100%
Kevin Craig BA	4	100%
David Dannhauser FCA	3	100%

As the Company was undertaking acquisitions and international growth, the Committee identified the requirement for additional Board support to assist with the integration and future development of the Group and so a new role of Corporate Development Director was created and Mukul Mistry was appointed in June.

In September, the Board looked to recruit a new Finance Director after Simon Morgan announced that he would step down as Finance Director after a year in office. While Simon ceased being a Director of the Company on 12 September, he was employed until 23 November. This allowed for a good transition between the outgoing and new Finance Director, Ben Moralee. Ben had been working for the Company prior to becoming the Finance Director on both the acquisition of ShireSystem and ActiveOnline and was a natural choice to succeed Simon.

The Committee takes the view that it should appoint the best candidate for the role irrespective of gender, age, marital status, disability, sexual orientation, race and religion, ethnic or national origin. It is committed to equal opportunities and has been a champion of training and promoting within the organisation, with three of the five Executive Directors working for the Company before being appointed to the Board.

The external agency Robert Half was used to recruit for Board appointments during the year.

John Ketteley
Nominations Committee Chairman
5 April 2019

Remuneration Committee Report

Committee Composition and Meeting Attendance

Director	Number of meetings	Attendance %
Serena Lang MBA (Chair)	**2**	**100%**
Kevin Craig BA	**2**	**100%**
David Dannhauser FCA	**2**	**100%**

Dear Shareholder

The Remuneration Committee determines and agrees with the Board the framework or broad policy for the remuneration of the Company's Executive Chairman, Executive Directors, and Company Secretary and, as appropriate, other senior members of the executive management. No Director is involved with decisions as to their own remuneration.

The members of the Remuneration Committee are Serena Lang as Chair, Kevin Craig and David Dannhauser. The Board considers all members of the Remuneration Committee to be independent and therefore the Committee constitution is compliant with the Code.

The Committee met twice in the year. In February they reviewed with the Executive Chairman the performance of the Executive team and awarded the appropriate bonus payments and salary increases. In June they met to discuss and increase the salary of Anders Karlsson, the Executive responsible for Sweden and the Nordic countries.

Serena Lang
Remuneration Committee Chair
5 April 2019

This report forms part of the Directors' Report. The primary roles and responsibilities of the Committee are to:

- agree with the Board the framework or broad policy for the remuneration of the Company's Executive Chairman, Executive Directors, and Company Secretary and, as appropriate, other senior members of the executive management;
- approve the design of and determine targets for any performance-related pay scheme operated by the Company;
- review the ongoing appropriateness and relevance of the remuneration policy;
- oversee any major changes in employees' benefits structures across the Company or Group;
- review the design of the share incentive plan; and
- agree the terms of reference of any remuneration consultants.

The full terms of reference for the Remuneration Committee may be found using the attached link: www.ir.elecosoft.com.

The Committee did not use any external advisors during the year, it did however look at remuneration trends and market rates when considering the remuneration packages for Directors appointed during the year.

Remuneration Committee Report continued

Directors' Remuneration

	Basic salary plus bonus £'000	Fees £'000	Benefits £'000	LTIP £'000	Pension £'000	**Year to 31 December 2018 £'000**	Year to 31 December 2017 £'000
Executive							
J H B Ketteley	275	5	5	16	—	**301**	291
J Hunter	152	5	5	12	14	**188**	167
A Karlsson	115	9	1	10	25	**160**	152
M Mistry	78	3	3	—	5	**89**	—
B Moralee	40	2	1	—	3	**46**	—
S Morgan	126	5	5	—	9	**145**	22
J Ruddle	—	—	—	—	—	**—**	168
D Pearson	—	—	—	—	—	**—**	89
Non-Executive							
S Lang	10	68	—	—	—	**78**	68
K Craig	—	37	—	—	—	**37**	28
D Dannhauser	—	38	—	—	—	**38**	—
J Edwards	—	—	—	—	—	**—**	44

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 allowance and medical insurance);

ii) a non-pensionable performance-related annual bonus based on the Group's performance and individual contribution to that performance. The Executive Directors are contractually entitled to be considered for a bonus annually, but the amount to be paid is determined by the Remuneration Committee (if applicable); bonuses awarded in respect of the year ended 31 December 2018 are:

- J H B Ketteley £25,000 (2017: £16,000)
- J Hunter £13,742 (2017: £25,181)
- A Karlsson £14,133 (2017: £14,506)
- M Mistry £8,692 (2017: not applicable)
- B Moralee £5,000 (2017: not applicable)

Other bonuses awarded during the year were:

- S Lang £10,000 (2017: not applicable);

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 element of remuneration is operated solely for Executive Directors. Employees below Board level receive base salary, pension, a discretionary annual bonus and 19 senior employees participate in the LTIP in addition to three Directors.

Company's Long Term Incentive Plan

The Company operates a long-term share investment plan which issued 250,000 (2017: 1,265,000) options during the year. Details of the long-term share investment plan options in issue are tabled below:

Options	Expiry date	Amount in issue	Criteria for vesting options
2018	08/08/2027	100,000	The performance target for vesting for the year ended 31 December 2019 is an EPS of at least 2.97 pence
2017	06/08/2027	1,015,000	The performance target for vesting for the year ended 31 December 2019 is an EPS of at least 2.97 pence
2016	26/10/2026	400,000	The performance target for vesting for the year ended 31 December 2018 is an EPS of at least 2.76 pence and revenue is at least £21,400,000
2015	16/02/2025	300,000	Available to exercise option for new shares at 20.75 pence per share
		1,815,000	

Share awards made under the Company's Long Term Incentive Plan amounting to 150,000 options to acquire new shares at 45 pence were issued during the year to S Morgan which lapsed when he resigned from the Company.

Directors' Share Options

	Directors options in issue	**2018** Issued	**2018** Exercisable £	**2018** £	2017 Issued	2017 Exercisable £	2017 £
J H B Ketteley	350,000	**—**	**0.45**	**—**	100,000	0.48	48,000
J Ruddle*	—	**—**	**0.45**	**—**	100,000	0.48	48,000
J Hunter	250,000	**—**	**0.45**	**—**	100,000	0.48	48,000
A Karlsson	150,000	**—**	**0.45**	**—**	150,000	0.48	72,000
D Pearson*	—	**—**	**0.45**	**—**	150,000	0.48	72,000
S Morgan*	—	**150,000**	**0.45**	**67,500**	—	0.48	—
	750,000	**150,000**		**67,500**	600,000		288,000

* Options lapsed following resignation.

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);
- J Hunter (14 June 2016: three months);
- A Karlsson (27 March 2017: six months);
- M Mistry (6 June 2018: three months); and
- B Moralee (12 September 2018: one month in the first six months thereafter three months).

Remuneration Committee Report continued

Non-Executive Directors

The Non-Executive Directors do not have service contracts but instead have letters of appointment which contain details of the terms of office, period of appointment, fees and reasonable expenses incurred in the performance of their duties. The Non-Executives serve for a term of three years from the date of appointment subject to approval at the AGM, the Non-Executive Directors are subject to reappointment on a rotation basis along with the Executive Directors. A Non-Executive Director can be reappointed for an additional term following the completion of their first term in office.

Commencement dates:

- S Lang (31 October 2014);
- K Craig (27 March 2017); and
- D Dannhauser (2 February 2018).

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 (2017: £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 £72,916 (2017: £36,250) was paid to J H B Ketteley & Co Limited under a lease for occupation by the Company of 66 Clifton Street, London EC2A 4HB.

Gender Pay Gap

The Company and its UK subsidiaries currently employ 101 employees in the UK following the acquisition of ShireSystem in July 2018.

The Company is not obliged to undertake a formal review of a potential gender pay gap. However, the Chairman has requested a review of gender and remuneration levels across the UK Group. The Board notes that the Group's highest paid (pro-rata) employee is female and also that 28 per cent of UK employees are female.

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2018.

The Company is a member of the Quoted Companies Alliance ("QCA"). The QCA publishes its own Corporate Governance Code ("the QCA Code"). Recognising that good corporate governance helps deliver business success and growth, during the year the Board has worked on ensuring full compliance with the Code.

In accordance with section 414c of the Companies Act 2006, certain matters that would otherwise be required in the Directors' Report are included in the Strategic Review or elsewhere in the financial statements as indicated in the table below are incorporated into this report by reference.

Biographical details of the Directors	Board of Directors	Page 24
Corporate governance	Statement of Corporate Governance	Page 26
Directors' remuneration and interest	Remuneration Committee Report	Page 31
Independent auditor	Audit Committee Report	Page 29
Financial risk management	Principal Risks	Page 14
Going concern	Notes to the Consolidated Financial Statements	Page 51
Group's treasury policies	Notes to the Consolidated Financial Statements	Pages 74 to 78
Research and development activities	Notes to the Consolidated Financial Statements	Page 53
Risk management	Principal Risks	Page 14
Share capital	Notes to the Consolidated Financial Statements	Page 70
Strategic review	Our Business Model	Page 10

Directors' Report continued

Results for the Year Ended 31 December 2018

The Group profit on ordinary activities before taxation was £2,427,000 (2017: £2,254,000). The detailed financial statements of the Group are set out on pages 44 to 79.

Business Review and Future Development

A review of the Group's operations during the year and its plans for the future is set out in the Chairman's Statement on pages 2 to 5, the Operating Review on pages 18 to 20 and in Strategy on pages 12 and 13.

Dividends

In light of Elecosoft's strong trading performance and cash generation in the second half, the Board has decided to recommend a final scrip dividend of 0.40 pence (2017: 0.40 pence) per share, with an alternative cash dividend of 0.40 pence (2017: 0.40 pence) per share, to give a total for the year of 0.68 pence (2017: 0.60 pence) per share, an increase of 13 per cent relative to the previous year. The scrip reference price is 74.74 pence, calculated from the average of the closing price for an Ordinary Share of the Company as derived from the Daily Official List of the London Stock Exchange during the period of five dealing days ending 18 March 2019.

Payment of the final dividend will be subject to approval by shareholders at the Annual General Meeting and will be paid on 31 May 2019 to shareholders on the register at the close of business on 29 March 2019; the ex-dividend date will be 28 March 2019.

Share Price

The middle market price of the Company's Ordinary Shares on 31 December 2018 was 68.50 pence and the range during the period under review was 42.00 pence to 92.90 pence.

Directors

The current composition of the Board of Directors is shown on pages 24 and 25. Directors who held office during the year were:

- J H B Ketteley
- J Hunter
- A Karlsson
- M Mistry (appointed 6 June 2018)
- B Moralee (appointed 12 September 2018)
- S Lang
- K Craig
- D Dannhauser (appointed 5 February 2018)
- S Morgan (resigned 12 September 2018)

A Karlsson and K Craig will resign at the forthcoming Annual General Meeting and, being eligible, will offer themselves for re-election.

B Moralee and M Mistry will resign at the forthcoming Annual General Meeting by reason of appointment in their first year in office and, being eligible, will offer themselves for re-election.

Policy on Remuneration of Executive Directors

The emoluments of the Directors for the year ended 31 December 2018 are included with the report of the Remuneration Committee on page 32.

Directors' Shareholdings

The interests, beneficial unless otherwise indicated, in the Ordinary Shares of 1 pence each in the Company of the Directors who held office at 31 December 2018 were as follows:

	At 31 December 2018	At 31 December 2017
J H B Ketteley	9,132,048	9,068,319
J Hunter	16,514	16,382
K Craig (Non-Executive)	22,060	22,060
D Dannhauser (Non-Executive)	449,339	445,000*

* At appointment on 5 February 2018.

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	No. of shares	%
H A Allen	11,641,369	14.23
J H B Ketteley	9,132,048	11.16
JO Hambro Capital Management	5,242,857	6.41
J D Lee	4,977,338	6.08
Rights & Issues Investment Trust PLC	4,520,781	5.53
Lowland Investment Company PLC	3,153,443	3.85
P R & Mrs M J Ketteley	3,136,440	3.83
G V & S M Oury	2,681,451	3.28
Hargreaves Lansdown Nominees Limited, private clients none of which hold more than 3%	2,599,504	3.18
Schroder Investment Capital	2,494,191	3.05

Political Donations
The Group did not make any political donations (2017: £nil).

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 page 53.

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

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

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

UK company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS UK Accounting Standards, including FRS 102, "the Financial Reporting Standard applicable to the UK and Republic of Ireland", have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare financial statements on the going concern basis unless it is inappropriate to presume the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's 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 auditor is aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Ben Moralee
Group Finance Director
5 April 2019

Elecosoft plc
66 Clifton Street
London
EC2A 4HB

Independent Auditor's Report

To the members of Elecosoft plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Elecosoft Plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2018 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 statement of changes in equity, the Company balance sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ("IFRS") 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, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall materiality: £200,000, which represents 1 per cent of the group's preliminary turnover.
- Key audit matters were identified as revenue recognition, development costs capitalised during the year may not meet capitalisation criteria, the carrying value of goodwill and other intangible assets may not be recoverable and acquisition accounting.
- There have been full scope audits of the parent company and the UK and Swedish non-dormant subsidiaries. Specific scope audit procedures have been carried out in respect of subsidiaries in Germany and analytical review procedures in respect of the US and Dutch subsidiaries.
- The change in the scope of the audit this year was to add a full scope audit of a UK entity acquired by the group in current year and to add specific scope audit procedures in respect of an entity in Germany acquired during the year.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in the audit	Key observations
Risk 1 Revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. Revenue is generated through the sale of maintenance, support and subscription services, licence sales and other services. There is an audit risk that revenue recognised is not supported by a relevant sale taking place. The group also adopted IFRS 15 "Revenue from contracts with customers" for the first time on 1st January 2018. The new standard is a significant change from the previous accounting standard and requires management to exercise more judgement. We therefore identified the risk of inappropriate recognition of revenue as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Checking the revenue recognition policy is in accordance with IFRS 15 "Revenue from contracts with customers"; • For a sample, testing that revenues had been recognised in accordance with IFRS 15 and the group's accounting policy; • assessing and checking the impact of IFRS 15 on the group's accounting policy and result of the year; • vouching individual sales invoices back to purchase orders and/or cash receipts to confirm the occurrence of revenues; • recalculating the deferral of maintenance and subscription incomes • testing income relating to services to be provided in the next accounting period has been appropriately deferred; and • tested the operating effectiveness of certain controls over sales transactions at Elecosoft UK Limited. The group's accounting policy on revenue recognition is shown in note B to the financial statements and related disclosures are included in notes 1 and 2.	Based on our audit work performed we concluded that revenue is not materially misstated.
Risk 2 Development costs capitalised during the year may not meet capitalisation criteria Under International Accounting Standards ("IAS") 38 "Intangible Assets", development costs must be capitalised if recognition criteria are met, including determining whether the project provides a future economic benefit to the group. This involves significant management judgement and therefore there is a risk that development costs may be incorrectly capitalised. The group capitalised £1.0m of development costs (2017: £1.1m) relating to intangible fixed assets during the year. We therefore identified the risk that inappropriate capitalisation of development costs was a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • assessment of the group's product development activities to ensure that capitalisation is in accordance with the appropriate criteria under IAS 38 "Intangible Assets"; • discussions with management responsible for product development to understand the nature and validity of assets being developed; • assessed and challenged assumptions used in budgets confirming commerciality; and • detailed testing of a sample of additions in the year including agreeing amounts to supporting documentation (e.g. labour hours were agreed to time sheets and development department costs were agreed to the ledger) to ensure the amounts capitalised were appropriate. The group's accounting policy on capitalisation of development costs is shown in note H to the financial statements. Significant accounting policies, and related disclosures are included in note 10.	Our testing did not identify any material misstatements in the capitalisation of development costs in accordance with IAS 38.

Independent Auditor's Report continued

To the members of Elecosoft plc

Key audit matters continued

Key audit matter	How the matter was addressed in the audit	Key observations
Risk 3 The carrying value of goodwill and other intangible assets may not be recoverable The group has goodwill of £15.7m (2017: £11.5m and other intangible assets of £7.5m (2017: £3.4m). For goodwill and other assets which are not being amortised management is required to perform an annual impairment test in accordance with IAS 36 "Impairment of Assets". For other assets which are being amortised an impairment review is required if there are any indicators of impairment. Impairment reviews and the associated forecasts are subjective, involve management judgement and estimation. The associated balance sheet amounts are highly material. We therefore identified the risk that the carrying value of goodwill and other intangible assets may be misstated as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • assessing management's impairment review which compared project carrying values to management's estimates of the net present value of future income streams and confirming the impairment test is in accordance with IAS 36; • using our valuation experts to assess the methodology applied in the impairment review of goodwill; • assessed and challenged the key assumptions within the impairment review including growth rates, changes and discount rates; • checking the accuracy of historic estimates and performing sensitivity analyses of expected revenue for 2019 onwards for reasonableness; and • checked amortising intangible assets for any indicators of impairment. The group's accounting policy and consideration of impairment is disclosed in notes J of the significant accounting policies note to the financial statements. Related disclosures are included in note 9 and 10.	Our testing concluded that goodwill and other intangible assets are not impaired and we did not identify any material misstatements.
Risk 4 Acquisition accounting During the year the group acquired two new subsidiaries: Shire Systems Limited for £6.3m and ActiveOnline GmbH for £3.0m. The fair value of the consideration was allocated to the assets and liabilities of the acquired businesses in a purchase price allocation exercise. As part of this exercise the group identified intangible assets for customer relationships and intellectual property with a residual goodwill balance. The acquisition accounting including valuation of acquired intangible assets involves significant management judgement and estimation. We therefore identified the risk associated with the acquisition accounting and in particular acquired intangible assets to pose a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • assessing and checking management's purchase price allocation exercise; • checking the acquisition agreements as a completeness check on assets and liabilities to be fair valued; • assessing the appropriateness of the opening balance sheet which included checking amounts back to agreed closing balance sheet valuations; • using our valuation experts to support our assessment of the reasonableness of key assumptions and the basis for valuation models and the appropriateness of capitalised tax amortisation benefit; and • checking and agreeing key assumptions in management's valuation model (e.g. revenue forecasts, growth rates and discount rates) to supporting evidence The group's accounting policy on business combinations and acquired intangible assets is disclosed in note D and H to the financial statements. Significant accounting policies, and related disclosures are included in note 23.	Our testing concluded that management's impairment policy complies with IAS 36 and did not identify any material misstatements.

There were no Key Audit Matters in respect of the parent company.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	£200,000 which is 1 per cent of group's preliminary turnover. This benchmark is considered the most appropriate because the group is a commercial organisation with a focus on increasing its market share and turnover demonstrated by a number of acquisitions and investment in development of new products in recent years. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2017 to reflect the change in our assessment of most appropriate benchmark and due to the increase in turnover.	£180,00 which is 1 per cent of total assets but restricted to 90% of group materiality. This benchmark is considered the most appropriate because the parent company does not generate revenues and holds investments in the subsidiaries. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2017 to reflect the change in the group materiality.
Performance materiality used to drive the extent of our testing	75 per cent of financial statement materiality.	75 per cent of financial statement materiality.
Specific materiality	We also determined a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions of £1,000 due to the inherent sensitivity of these transactions and related disclosures.	We also determined a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions of £1,000 due to the inherent sensitivity of these transactions and related disclosures.
Communication of misstatements to the Audit Committee	£10,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£9,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- evaluation of group entities' internal controls environment;
- testing of controls over revenue at one trading subsidiary;
- evaluation by the group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. Significance was determined as a percentage of the group's total assets, revenues and profit before taxation, with revenue being the key factor for trading entities;
- full scope audit procedures were performed at Elecosoft Plc and its UK and Swedish non-dormant subsidiaries. Specific scope audit procedures were performed for the audit of the German subsidiaries and analytical procedures for the US and Dutch subsidiaries;
- component auditors were used to complete audit procedures for the Swedish and German entities. The group audit team sent group instructions to the component auditors as to the required procedures to be completed for group purposes within each component. The group audit team visited and reviewed the audit working papers of the Swedish component auditors as a source of audit evidence for the consolidated financial statements;
- the total percentage coverage of full-scope and targeted procedures over the group's revenue was 95%.

Independent Auditor's Report continued

To the members of Elecosoft plc

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our Auditor's Report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinions on other matters prescribed by the Companies Act 2006 are unmodified

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of Directors for the financial statements

As explained more fully in the directors' responsibilities in relation to the financial statements, as set out on page 37, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Use of our report

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.

Adrian Bennett
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
5 April 2019

Consolidated Income Statement

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Continuing operations			
Revenue	1,2	**22,220**	19,996
Cost of sales		**(2,684)**	(2,421)
Gross profit		**19,536**	17,575
Amortisation and impairment of intangible assets	2,3,10	**(1,124)**	(1,035)
Acquisition expenses	3	**(689)**	—
Other selling and administrative expenses		**(15,104)**	(14,179)
Selling and administrative expenses	3	**(16,917)**	(15,214)
Operating profit	2,3	**2,619**	2,361
Finance income	5	**—**	—
Finance cost	5	**(192)**	(107)
Profit before tax		**2,427**	2,254
Tax	6	**(598)**	(357)
Profit for the financial period		**1,829**	1,897
Attributable to:			
Equity holders of the parent		**1,829**	1,897

Earnings per share – (pence per share):			
Basic	8	**2.4p**	2.5p
Diluted	8	**2.3p**	2.5p

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2018

	2018 £'000	2017 £'000
Profit for the period	**1,829**	1,897
Other comprehensive income:		
Items that will be reclassified subsequently to profit and loss:		
Translation differences on foreign operations	**(82)**	14
Other comprehensive income net of tax	**(82)**	14
Total comprehensive income for the period	**1,747**	1,911
Attributable to:		
Equity holders of the parent	**1,747**	1,911

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

	Share capital £'000	Share premium £'000	Merger reserve £'000	Translation reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2017	**771**	**—**	**578**	**(80)**	**(339)**	**8,786**	**9,716**
Dividends	—	—	—	—	—	(197)	(197)
Share-based payments	—	—	—	—	56	—	56
Issue of share capital	3	—	(3)	—	—	—	—
Transactions with owners	3	—	(3)	—	56	(197)	(141)
Profit for the period	—	—	—	—	—	1,897	1,897
Other comprehensive income:							
Exchange differences on translation of net investments in foreign operations	—	—	—	14	—	—	14
Total comprehensive income for the period	—	—	—	14	—	1,897	1,911
At 31 December 2017	**774**	**—**	**575**	**(66)**	**(283)**	**10,486**	**11,486**
Dividends	—	—	—	—	—	(188)	(188)
Share-based payments	—	—	—	—	106	—	106
Issue of share capital	44	2,050	429	—	—	—	2,523
Transactions with owners	44	2,050	429	—	106	(188)	2,441
Profit for the period	—	—	—	—	—	1,829	1,829
Exchange differences on translation of net investments in foreign operations	—	—	—	(82)	—	—	(82)
Other	—	(1)	—	—	—	1	—
Total comprehensive income for the period	—	(1)	—	(82)	—	1,830	1,747
At 31 December 2018	**818**	**2,049**	**1,004**	**(148)**	**(177)**	**12,128**	**15,674**

Consolidated Balance Sheet
at 31 December 2018

	Notes	2018 £'000	2017 £'000
Non-current assets			
Goodwill	9	**15,746**	11,480
Other intangible assets	10	**7,536**	3,432
Property, plant and equipment	11	**1,203**	833
Deferred tax assets		**139**	219
Total non-current assets		**24,624**	15,964
Current assets			
Inventories	14	**8**	16
Trade and other receivables	15	**4,491**	3,738
Current tax assets		**54**	37
Cash and cash equivalents		**6,036**	4,737
Total current assets		**10,589**	8,528
Total assets		**35,213**	24,492
Current liabilities			
Bank overdraft and borrowings	17	**(1,648)**	(1,802)
Obligations under finance leases	17	**(98)**	(120)
Trade and other payables	16	**(1,600)**	(1,496)
Provisions	18	**(144)**	(209)
Current tax liabilities		**(343)**	(241)
Accruals and deferred income	19	**(7,713)**	(6,592)
Total current liabilities		**(11,546)**	(10,460)
Non-current liabilities			
Borrowings	17	**(6,202)**	(1,580)
Obligations under finance leases	17	**(197)**	(204)
Deferred tax liabilities	20	**(1,553)**	(721)
Non-current provisions	18	**(41)**	(41)
Total non-current liabilities		**(7,993)**	(2,546)
Total liabilities		**(19,539)**	(13,006)
Net assets		**15,674**	11,486
Equity			
Share capital	21	**818**	774
Share premium account		**2,049**	—
Merger reserve		**1,004**	575
Translation reserve		**(148)**	(66)
Other reserve		**(177)**	(283)
Retained earnings		**12,128**	10,486
Equity attributable to shareholders of the parent		**15,674**	11,486

The financial statements of Elecosoft plc, registered number 00354915, on pages 44 to 79 were approved by the Board of Directors on 5 April 2019 and signed on its behalf by:

John Ketteley
Executive Chairman

Consolidated Statement of Cash Flows

for the year ended 31 December 2018

	Notes	**2018 £'000**	2017 £'000
Cash flows from operating activities			
Profit before tax		**2,427**	2,254
Net finance costs		**192**	107
Depreciation charge		**263**	247
Amortisation charge		**1,124**	1,035
Profit on sale of property, plant and equipment		**(16)**	(15)
Share-based payments charge		**106**	56
Decrease in provisions		**(63)**	(20)
Cash generated in operations before working capital movements		**4,033**	3,664
Increase in trade and other receivables		**(753)**	(65)
Decrease/(increase) in inventories and work in progress		**15**	(5)
Increase in trade and other payables and accruals and deferred income		**1,160**	573
Cash generated in operations		**4,455**	4,167
Interest paid		**(151)**	(98)
Interest received		**—**	—
Income tax paid		**(618)**	(251)
Net cash inflow from operating activities		**3,686**	3,818
Investing activities			
Purchase of intangible assets		**(1,064)**	(1,154)
Purchase of property, plant and equipment		**(123)**	(180)
Acquisition of subsidiary undertakings net of cash acquired	23	**(7,169)**	—
Proceeds from sale of property, plant, equipment and intangible assets		**83**	161
Sale of business net of expenses		**—**	—
Net cash inflow from investing activities		**(8,273)**	(1,173)
Financing activities			
Proceeds from new bank loan		**6,025**	—
Repayment of bank loans	17	**(807)**	(790)
Repayments of obligations under finance leases		**(139)**	(226)
Equity dividends paid		**(188)**	(197)
Issue of share capital		**2,083**	—
Net cash (outflow)/inflow from financing activities		**6,974**	(1,213)
Net increase in cash and cash equivalents		**2,387**	1,432
Cash and cash equivalents at beginning of period		**3,725**	2,237
Effects of changes in foreign exchange rates		**(76)**	56
Cash and cash equivalents at end of period		**6,036**	3,725
Cash and cash equivalents comprise:			
Cash and short-term deposits		**6,036**	4,737
Bank overdrafts		**—**	(1,012)
		6,036	3,725

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 2018 comprise the Company and its subsidiaries (together referred to as the "Group"). The consolidated and parent company financial statements were authorised for issuance on 5 April 2019.

The address of the registered office is given on page 96. The nature of the Group's operations and its principal activities are set out in the Chairman's Statement on pages 2 to 5, Strategic Report on pages 10 to 23, Directors' Report on pages 35 to 37 and Notes to the Consolidated Financial Statements on pages 57 to 79.

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 2018 and the Companies Act 2006 applicable for companies reporting under IFRS.

New standards applicable to the Company in the current year include:

The Group has adopted IFRS 15 and applied if as at 1 January 2018. The adoption has not had a material impact on the Group's financial position or cash flow, and therefore there has been no requirement to restate comparative figures for the year end 31 December 2018.

The Group has adopted IFRS 9 and applied it as at 1 January 2018, without restating comparatives.

Standard	Description	Effective Date	Expected Impact
IFRS 16	Leases	1 January 2019	See below, T

B. Basis of preparation

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

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

Significant accounting judgements and estimates

Application of the Group'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 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

IFRS 15 "Revenue from Contracts with Customers" is the new standard for the recognition of revenue and it replaces IAS 18 "Revenue" for accounting period beginning 1 January 2018.

The core principle of IFRS 15 is that an entity will recognise revenue when control of goods or services is transferred to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework:

1. Identify the contract(s) with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognise revenue when (or as) the entity satisfies a performance obligation.

Application of this guidance will depend on the facts and circumstances present in a contract with a customer and will require the exercise of judgement.

Significant Accounting Policies continued

B. Basis of preparation continued

Revenue recognition continued

The table below shows the main revenue recognition differences for each performance obligation under IAS 18 and IFRS 15:

Performance obligation	IAS 18	IFRS 15
Licence revenues (perpetual)	On transfer of economic benefit of the licence to the customers (delivery)	No change At the point of transfer (delivery) of the licence to a customer, the customer has control and benefit of the software. It therefore remains appropriate under IFRS 15 to recognise revenue at the point of sale and acceptance by the customer. There is no obligation to provide updates which are provided under maintenance contracts.
Subscription licences	Over the period in which the licence is provided on a straight-line basis	No change The licence does not provide the customer with the ownership of the software, nor the right to use it in perpetuity. The performance obligations associated with the software as a service are access to software, hosting of software, hosting of client data and maintaining software and client data. These performance obligations are not distinct the obligations are highly interdependent. The customer simultaneously receives and consumes the benefits of the contract as the Company provides the services. As these services are provided over the term of the contract, revenue should correctly continue to be amortised over the life of the contract.
Maintenance and support contracts	Over the period in which the service is provided on a straight-line basis	No change The customer simultaneously receives and consumes the benefits of the contract as the Company provides the services. As these services are provided over the term of the contract, revenue should correctly continue to be amortised over the life of the contract.
Hosted services (licence, maintenance and hosted services performance obligations)	On transfer of economic benefit of the licence element to the customers (delivery) Over the period in which the service (Maintenance and Hosting) is provided on a straight-line basis	No change The licence is considered a separate service, and hence treated as a separate performance obligation, where the customer could have the licence installed on their own systems. For the licence element, the point of transfer (delivery or access to the hosted system) of the licence to the customer remains the point to recognise revenue. For Maintenance and Hosting Services, the customer simultaneously receives and consumes the benefits of the contract as the Company provides the services. As these services are provided over the term of the contract, revenue should correctly continue to be amortised over the life of the contract.
Consultancy	As work is performed	No change Consulting revenue are considered to have passed to the customer upon consulting hours being worked. Revenue will therefore continue to be recognised in line with delivery of consulting.
Training	As training is provided	No change Training revenues are considered to have passed to the customer upon delivery of training. Revenue will therefore continue to be recognised in line with delivery of training.
Development consultancy	As development is provided	No change Such projects are typically small in scale and completed over a relatively short space of time. In such cases, control of the asset is assumed to pass to the customer when they obtain possession of the developed software and have accepted the software.
Scanning and rendering	As service is provided	No change The performance obligation is satisfied on delivery of images to the customers, and revenue is recognised at that point in time.

B. Basis of preparation continued

Revenue recognition continued

The Group recognised Deferred Revenue in respect of contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these as Deferred Revenues in the Consolidated Balance Sheet (see note 19).

Impairment of goodwill

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

Carrying value of other intangible assets

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

Provisions and contingent liabilities

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

Brexit

As a Group, Elecosoft finds itself in the enviable position to be able to mitigate any uncertainty by continuing to refine the cash management strategies started in the period leading up to the Referendum on 23 June 2016.

Since this period, we have actively managed our revenue streams and local income and expenditures within and without the EU to ensure there is adequate cash generated and held in these regions.

This spread of business with local income and expenditures creates a natural hedge to volatility and uncertainty and while closely monitored we have yet to undertake any additional actions outside the normal course of business.

C. Going concern

The Group's clients include many top contractors in the building and construction sector in the UK, Scandinavia, Germany, Benelux and the United States with no significant client concentration. The software products and services provided by the Group are reasonably embedded in their client's core operations and 57 per cent (2017: 55 per cent) of the Group's revenue is from recurring revenue contracts.

These contracts are renewed throughout the year although there is a slightly greater weighting in the fourth quarter. For these reasons, the Group has good visibility on any potential deterioration in its trading outlook and potential risk to the business. Not-withstanding the Group has net current liabilities of £957,000 at 31 December 2018 (2017: £1,932,000) these amounts are after deferred income of £5,660,000 (2017: £4,789,000) relating to annual maintenance contracts which are non-refundable. Historically, there is a low level of cancellations each year and the Board closely monitors clients that are potentially at risk of cancellation as well as the pipeline of new business.

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

D. Basis of consolidation

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

All intercompany 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.

Significant Accounting Policies continued

D. Basis of consolidation continued

Business combinations

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

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

E. Exceptional items

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.

F. 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.

G. 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.

H. Intangible assets

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

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

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

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

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

H. Intangible assets continued

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

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

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

I. 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.

J. Impairment of assets

Goodwill

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

Property, plant and equipment and intangible assets excluding goodwill

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

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

Significant Accounting Policies continued

K. 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.

L. 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.

M. 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. The Board has used a Black-Scholes model to estimate the fair value of the options. Various assumptions affect the value of the options and the Board has considered these assumptions in order to derive an appropriate charge for the cost of the options. The key assumptions used to derive the charge include the probability of performance achievement and the expected future dividend yield of the shares.

N. 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.

O. Pensions

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

P. 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 Group's 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.

Q. Financial instruments
As noted under A. Statement of Compliance, the Group has adopted IFRS 9 and applied it as at 1 January 2018. It has not, as permitted by IFRS 9, restated prior periods and has not made a prior year adjustment in respect of the carrying value of financial assets at 1 January 2018 since the impact was not significant.

The Group reviewed its business model for its financial assets which comprise only basic loan and receivable and concluded that they are held for collecting contractual associated cash flows. Under the new guidance, loans and receivable, are initially recognised at fair value and will subsequently be measured at amortised cost.

Financial Assets
The new Standard for financial instruments, IFRS 9, replaces IAS 39 'Financial Instruments: Recognition and measurement' and makes changes to the classification and measurement of financial assets and introduces an 'unexpected credit loss' model for impairment of financial assets.

As required, the Group will apply the impairment requirements and recognise a loss allowance for expected credit losses on its financial assets. At each reporting date, it will always measure the loss allowance at an amount equal to the lifetime expected credit losses.

The Group will recognise in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with IFRS 9.

Trade and Other Receivables
Trade receivables are initially measured at fair value and subsequently at amortised cost. At each period end, there is an assessment of the expected credit loss in accordance with IFRS 9; with any increase or reduction in the credit loss provision charged or released to other selling and administrative expenses in the statement of comprehensive income. IFRS 9 was adopted as at 1 January 2018 and as permitted the prior year actuals comparatives were not restated.

Cash and Cash Equivalent
Cash and cash equivalents comprise cash on hand and short-term deposits with an original maturity of three months or less, which are subject to an insignificant risk of changes in value.

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.

Financial liabilities are recorded initially at fair value and subsequently at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the profit and loss.

A financial liability is derecognised when the obligation is extinguished.

R. Equity
Share capital reflects the nominal value of the Company's shares in issue. The share premium account reflects any premium arising on the issuance of those shares, net of issue costs.

The merger reserve arose on the premium on shares issued to acquire 100 per cent of Integrated Computing & Office Networking Limited (2016) and Active Online GmbH (2018). The reserve relates to merger relief applied under s.612 of the Companies Act 2006.

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

S. Employee Share Ownership Trust
Equity shares in Elecosoft plc held by the Employee Share Ownership Trust ("ESOT") are treated as a deduction from the weighted average number of shares. The consideration paid is deducted from equity (other reserves) 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.

Significant Accounting Policies continued

T. New standards and interpretations not applied

The following new amendments to standards were in issue and are effective for the financial year beginning 1 January 2019:

	Effective date
International Accounting Standards (IAS/IFRS)	
IFRS 16 "Leases"	1 January 2019

IFRS 16

On implementation of IFRS 16, the Group will recognise a right of use asset and corresponding liability in respect of its current lease obligations.

As set out in note 12, the Group has future aggregate minimum lease payments under non-cancellable operating leases at 31 December 2018 of £2,382,000 which would need to be fair valued and recognised as a liability on the consolidated balance sheet with a right to use asset also recognised.

In 2018 the charge recognised in the consolidated income statement relating to operating leases was £481,000 (2017: £496,000) and was disclosed within operating expenses. Under IFRS 16, this charge would be reversed and a depreciation charge for the right of use asset would be recognised as well as an interest charge on the liability. The impact on the income statement has not yet been quantified.

Notes to the Consolidated Financial Statements

1. Revenue

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

	2018 £'000	2017 £'000
Licence sales	**5,271**	5,135
Recurring maintenance, support and subscription revenue	**12,595**	11,018
Services income	**4,354**	3,843
Total revenue	**22,220**	19,996

Revenue recorded in the year includes £4.8m (2017: £4.4m) of income that had been deferred in the balance sheet in the previous year because the associated performance obligations were not fully satisfied. Payments are received from certain customers on maintenance or subscription contracts either 3 months or 1 year in advance, which leads to the recognition of deferred income in advance of satisfaction of the performance obligation over time. During the year the Group acquired two businesses which resulted in addition to deferred income in the year of £0.3 million (2017: nil).

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 and profits are not monitored or recorded in the same way the information is presented as one segment and as such the information is presented in line with management information.

	2018 Software £'000	2017 Software £'000
Revenue	**22,220**	19,996
Adjusted EBITDA	**4,695**	3,643
Amortisation and impairment of purchased intangible assets	**(529)**	(623)
Depreciation	**(263)**	(247)
Adjusted operating profit	**3,903**	2,773
Amortisation of acquired intangible assets	**(595)**	(412)
Acquisition expenses	**(689)**	—
Operating profit	**2,619**	2,361
Net finance cost	**(192)**	(107)
Segment profit before tax	**2,427**	2,254
Tax	**(598)**	(357)
Segment profit after tax	**1,829**	1,897
Operating profit	**2,619**	2,361
Amortisation of intangible assets	**1,124**	1,035
Depreciation charge	**263**	247
Acquisition expenses	**689**	—
Adjusted EBITDA	**4,695**	3,643

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 2018 are explained in the Financial Review on page 16 and the accounting policy requirements for capitalisation are set out on in the Significant Accounting Policies in section H.

Notes to the Consolidated Financial Statements continued

2. Segment information continued

	2018 Software £'000	2017 Software £'000
Group assets and liabilities		
Segment assets	**35,213**	24,492
Unallocated assets	**—**	—
Total Group assets	**35,213**	24,492
Segment liabilities	**19,539**	13,006
Unallocated liabilities	**—**	—
Total Group liabilities	**19,539**	13,006

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:

	2018 £'000	2017 £'000
UK	**8,227**	6,468
Scandinavia	**6,772**	7,239
Germany	**3,442**	3,066
USA	**777**	656
Rest of Europe	**2,482**	2,178
Rest of World	**520**	389
	22,220	19,996

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

Revenue by product group is as follows:

Software for:	2018 £'000	2017 £'000
Project Management	**9,774**	9,161
Site Management	**411**	460
Estimating	**2,843**	2,973
Engineering	**2,350**	2,008
CAD/Design	**2,070**	2,352
Information Management	**1,180**	1,044
Visualisation	**2,395**	1,998
Maintenance Management	**1,197**	—
	22,220	19,996

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

2. Segment information continued

Revenue by sales channel is as follows:

	2018 £'000	2017 £'000
Direct	**20,950**	18,780
Reseller	**1,270**	1,216
	22,220	19,996

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:

	2018 £'000	2017 £'000
UK	**15,104**	8,836
Scandinavia	**6,208**	5,893
Germany	**3,242**	1,156
USA	**2**	3
Rest of Europe	**68**	76
Rest of World	**—**	—
	24,624	15,964

Information about major customers

Revenues arising from sales to the Group's largest customer were below the reporting threshold of 10 per cent of Group revenue (2017: below 10 per cent reporting threshold).

3. Operating profit

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

	2018 £'000	2017 £'000
Software product development	**1,770**	1,694
Depreciation of property, plant and equipment	**263**	247
Amortisation of acquired intangible assets	**595**	412
Amortisation of other intangible assets	**529**	401
Impairment of other intangible assets	**—**	222
Receipt from administrators of former Group company	**—**	(166)
Profit on disposal of property, plant and equipment	**(16)**	(15)
Foreign exchange (gains)/losses	**(31)**	55
Fees payable to the Company's auditor for:	**—**	—
The audit of the parent company and consolidated financial statements	**43**	33
Fees payable to the Company's auditor and its associates for other services:	**—**	—
The audit of the Company's subsidiaries	**64**	49
Other services	**4**	8
Operating lease rentals:		
Plant, equipment and vehicles	**267**	56
Properties	**214**	440
Acquisition expenses	**689**	—

Notes to the Consolidated Financial Statements continued

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

	2018 Number	2017 Number
Sales and marketing	**56**	55
Client services	**74**	59
Software development	**58**	50
Management and administration	**40**	37
	228	201

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

	2018 £'000	2017 £'000
Wages and salaries	**9,584**	8,977
Social security	**1,951**	1,833
Pension costs	**679**	582
Share-based payments	**105**	56
	12,319	11,448
Less: Development staff costs capitalised	**(1,014)**	(1,052)
	11,305	10,396

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 H.

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

	2018 £'000	2017 £'000
Short-term employee benefits	**835**	797
Post-employment benefits	**56**	49
Share-based payments	**38**	46
Executive Directors	**929**	892
Fees – Non-Executive Directors	**153**	140
	1,082	1,032

The emoluments of the highest paid Director were £301,000 (2017: £291,000).

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 Group's share-based incentive or pension schemes.

5. Net finance cost
Finance income and costs from continuing operations is set out below:

	2018 £'000	2017 £'000
Finance costs:		
Bank overdraft and loan interest	**(187)**	(101)
Finance leases and hire purchase contracts	**(5)**	(6)
Total net finance cost	**(192)**	(107)

6. Taxation

(a) Tax on profit on ordinary activities

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

	2018 £'000	2017 £'000
Current tax:		
UK corporation tax on profits of the year	**276**	122
Tax adjustments in respect of previous years	**(27)**	72
	249	194
Foreign tax	**324**	231
Total current tax	**573**	425
Deferred tax:		
Origination and reversal of temporary differences	**(4)**	(55)
Tax adjustments in respect of previous years	**29**	(13)
Total deferred tax	**25**	(68)
Tax charge in the income statement	**598**	357

Income tax for the UK has been calculated at the weighted average rate of UK corporation tax of 19 per cent (2017: 19.25 per cent) on the estimated assessable profit for the period. Taxation for foreign companies is calculated at the rates prevailing in the relevant jurisdictions.

(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 19 per cent (2017: 19.25 per cent) for the period under review. The reconciliation is explained below:

	2018 £'000	2017 £'000
Profit on continuing operations before tax	**2,427**	2,254
Tax calculated at the average standard rate of UK corporation tax of 19% (2017: 19.25%) applied to profits before tax	**462**	434
Effects of:		
Expenses not deductible for tax purposes	**171**	32
Research and development tax relief	**(101)**	(36)
Deferred tax not recognised	**—**	(16)
Prior year adjustments	**34**	(23)
Utilisation of losses	**(26)**	(60)
Tax rate differences in foreign jurisdictions	**56**	26
Other differences	**2**	—
Continuing operations tax charge for the year	**598**	357

(c) Unrecognised tax losses

The Group has tax losses of £1,673,000 (2017: £1,673,000) arising in the UK. Potential deferred tax asset not recognised in respect of losses in UK subsidiaries is £291,000 (2017: £293,000). No deferred tax is recognised on the unremitted earnings of overseas subsidiaries.

7. Dividends

Dividends paid during the year comprised a final 2017 dividend of 0.40 pence per Ordinary Share (2016: 0.25 pence) and a 2018 interim dividend of 0.28 pence per Ordinary Share (2017: 0.20 pence).

Shareholders were offered an opportunity to receive the 2017 final dividend in the form of new shares in lieu of the proposed final dividend. The 2018 interim dividend was declared as a scrip dividend, with shareholders having the option to receive an alternative cash dividend of the same value.

Notes to the Consolidated Financial Statements continued

7. Dividends continued

Cash dividends of £188,000 (2017: £197,000) were paid during the year as follows:

Ordinary Shares	2018 Pence per share	2017 Pence per share	2018 £'000	2017 £'000
Declared and paid during the year				
Interim – current year	**0.28**	0.20	**88**	64
Final – previous year	**0.40**	0.25	**100**	133
	0.68	0.45	**188**	197

Scrip dividends were issued in the year as follows:

	Shares issued		Value of shares issued (£'000)	
Ordinary Shares	2018	2017	2018	2017
Declared and paid during the year				
Interim – current year	**153,240**	204,629	**126**	89
Final – previous year	**414,178**	146,721	**202**	57
	567,418	351,350	**328**	146

The Directors have recommended a final scrip dividend of 0.40 pence per Ordinary Share for 2018 (2017: 0.40 pence); with an alternative cash dividend of 0.40 pence per Ordinary Share (2017: 0.40 pence), resulting in a total dividend for the year of 0.68 pence per Ordinary Share (2017: 0.60 pence). The scrip reference price is 74.74 pence (2017: 49.6 pence), calculated from the average of the closing price for an Ordinary Share of the Company as derived from the official list of the London Stock Exchange during the period of five dealing days ending 18 March 2019.

If the 2018 final dividend is approved at the Annual General Meeting in May 2019 the dividend will be paid on 31 May 2019 to shareholders on the register at the close of business on 29 March 2019 (ex-dividend date 28 March 2019). In accordance with IFRS, the dividend is not provided for as a liability in the accounts until it becomes a legal liability of the Company and therefore will be recorded in the interim and annual accounts for 2019.

8. Basic and diluted earnings per share

	2018			2017		
	Net profit attributable to shareholders £'000	Weighted average number of shares (millions)	EPS (pence)	Net profit attributable to shareholders £'000	Weighted average number of shares (millions)	EPS (pence)
Basic earnings per share	**1,829**	**77.4**	**2.4**	1,897	76.3	2.5
Diluted earnings per share	**1,829**	**78.2**	**2.3**	1,897	76.7	2.5
Adjusted earnings per share	**3,000**	**77.4**	**3.9**	2,188	76.3	2.9

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

9. Goodwill

	2018 £'000	2017 £'000
Cost:		
As at 1 January	**11,480**	11,469
Acquisition of business (note 23)	**4,280**	—
Exchange differences	**(14)**	11
As at 31 December	**15,746**	11,480
Impairment:		
At 1 January and 31 December	**—**	—
Net book value	**15,746**	11,480

9. Goodwill continued

The acquisition amount in the year includes ShireSystem Ltd based in Southampton, purchased in July 2018 and ActiveOnline GmbH based in Germany, purchased in November 2018. 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:

	2018 £'000	2017 £'000
Elecosoft UK	**4,804**	4,804
Asta Development Germany	**240**	239
Elecosoft Sweden	**4,488**	4,501
Elecosoft Netherlands	**21**	21
Eleco Software Germany	**336**	336
Esign Software Germany	**352**	354
Elecosoft ICON	**1,225**	1,225
Elecosoft ShireSystem	**2,706**	—
ActiveOnline Germany	**1,574**	—
	15,746	11,480

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 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.

	2018		2017	
CGU	**Pre-tax discount rate**	**Nominal long-term growth rate**	Pre-tax discount rate	Nominal long-term growth rate
Elecosoft UK	**15.0%**	**1.3%**	15.0%	1.5%
Asta Development Germany	**15.0%**	**0.6%**	15.0%	2.3%
Elecosoft Sweden	**15.0%**	**1.6%**	15.0%	2.6%
Elecosoft Netherlands	**15.0%**	**2.0%**	15.0%	2.3%
Eleco Software Germany	**15.0%**	**0.6%**	15.0%	2.3%
Esign Software Germany	**15.0%**	**0.6%**	15.0%	2.3%
Elecosoft ICON	**15.0%**	**1.3%**	15.0%	1.5%
Elecosoft ShireSystem	**15.0%**	**1.3%**	—	—
ActiveOnline Germany	**15.0%**	**0.6%**	—	—

These budgets and strategic plans cover a five-year period. The growth rates used to extrapolate the cash flows beyond this period ranges between 0.6 per cent and 2.0 per cent depending on the geographical location of the CGU.

A sensitivity analysis has been performed based on changes in key assumptions considered to be reasonably possible by management: an increase in the discount rate of 1 per cent, a decrease in the compound annual growth rate for cash flow in the five-year forecast period of 1 per cent, and a decrease in the nominal long-term market growth rates of 1 per cent. The sensitivity analysis shows that no impairment charges would result from these scenarios.

Notes to the Consolidated Financial Statements continued

10. Other intangible assets

	Customer relationships £'000	Intellectual property £'000	Total £'000
Cost			
At 1 January 2017	4,041	3,012	7,053
Additions	—	102	102
Additions – internal development	—	1,052	1,052
Disposals	—	(9)	(9)
Exchange	1	4	5
At 31 December 2017	4,042	4,161	8,203
Acquisition of businesses (note 23)	3,175	1,001	4,176
Additions	—	50	50
Additions – internal development	—	1,014	1,014
Transfers	—	(19)	(19)
Exchange	—	1	1
At 31 December 2018	**7,217**	**6,208**	**13,425**
Accumulated amortisation and impairment			
At 1 January 2017	2,731	1,001	3,732
Amortisation charge for the year	372	441	813
Impairment	—	222	222
Transfers	—	3	3
Exchange	—	1	1
At 31 December 2017	3,103	1,668	4,771
Amortisation charge for the year	434	690	1,124
Transfers	(44)	38	(6)
Exchange	—	—	—
At 31 December 2018	**3,493**	**2,396**	**5,889**
Net book value			
At 31 December 2017	939	2,493	3,432
At 31 December 2018	**3,724**	**3,812**	**7,536**

The values attributed to customer relationships represent the fair value of acquired customer contracts and relationships held by the acquired company at the date of acquisition. Similarly, values attributed to intellectual property represent the fair value of acquired intellectual property. Acquisitions in the year include ShireSystem and ActiveOnline.

Additions in the year represent purchased intangible assets of £50,000 (2017: £102,000) and internal development costs capitalised of £1,014,000 (2017: £1,052,000). Internal development represents software development project costs that meet the accounting policy criteria for capitalisation. Further details of the software development projects that have been capitalised in the period are set out in the Financial Review on page 16.

Amortisation charges are shown separately on the Consolidated Income Statement. An impairment charge of £nil (2017: £222,000) was recorded in the year.

11. Property, plant and equipment

	Leasehold buildings £'000	Plant, equipment and vehicles £'000	Total £'000
Cost			
At 1 January 2017	187	1,705	1,892
Additions	1	342	343
Disposals	—	(516)	(516)
Transfers	(3)	44	41
Exchange	—	18	18
At 31 December 2017	185	1,593	1,778
Acquisition of businesses	387	73	460
Additions	—	241	241
Disposals	—	(214)	(214)
Transfers	—	—	—
Exchange	—	(26)	(26)
At 31 December 2018	**572**	**1,667**	**2,239**
Accumulated depreciation and impairment			
At 1 January 2017	13	1,011	1,024
Depreciation charge for the year	36	211	247
Disposals	—	(370)	(370)
Transfers	5	30	35
Exchange	—	9	9
At 31 December 2017	54	891	945
Depreciation charge for the year	39	224	263
Disposals	—	(147)	(147)
Transfers	—	—	—
Exchange	(5)	(20)	(25)
At 31 December 2018	**88**	**948**	**1,036**
Net book value			
At 31 December 2017	131	702	833
At 31 December 2018	**484**	**719**	**1,203**

Additions in the year include £118,000 (2017: £163,000) 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 £292,000 (2017: £320,000) in respect of assets held under finance leases and hire purchase agreements.

Notes to the Consolidated Financial Statements continued

12. Operating lease commitments

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

	Property 2018 £'000	Other 2018 £'000	Property 2017 £'000	Other 2017 £'000
Within one year	**552**	**35**	519	47
Between two and five years	**1,226**	**14**	1,255	33
After five years	**604**	**—**	1,008	—
	2,382	**49**	2,782	80

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.

Consideration has been given to the impact of IFRS 16 from 1 January 2019 where many of the operating leases will be capitalised as a right to use asset. A broad estimate of the corresponding liability created is in the region of £2m.

13. Capital commitments

Capital expenditure commitments of £nil (2017: £nil) have been placed with suppliers at 31 December 2018.

14. Inventories

	2018 £'000	2017 £'000
Finished goods	**8**	16
	8	16

At 31 December 2018 the Group's inventory provisions were £nil (2017: £nil).

15. Trade and other receivables

	2018 £'000	2017 £'000
Gross trade receivables	**3,935**	3,195
Provision for credit losses	**(60)**	(50)
Net trade receivables	**3,875**	3,145
Other receivables	**79**	178
Prepayments and accrued income	**537**	415
	4,491	3,738

The Group offers credit terms to customers depending on the credit status of the customer. Trade receivables are initially measured at fair value and subsequently amortised at cost. At each period end, there is an assessment of the expected credit loss in accordance with IFRS 9 with any increase or reduction in the credit loss provision charged or released to other selling and administrative expenses in the statement of comprehensive income. IFRS 9 was adopted as at 1 January 2018 and as permitted the prior year actuals comparatives were not restated. The average credit period taken on the sales of goods and services is 54 days (2017: 49 days). No interest is charged on past due trade receivables (2017: £nil).

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

	2018 £'000	2017 £'000
Sterling	**1,378**	1,249
Euro	**1,443**	638
Swedish Krona	**1,427**	1,687
US Dollar	**191**	121
Other	**52**	43
	4,491	3,738

15. Trade and other receivables continued

Movement in the provision for credit losses in respect of trade receivables during the period was as follows:

	2018 £'000	2017 £'000
At 1 January	**(50)**	(75)
Written off as uncollectable	**1**	23
Recovered during the period	**61**	2
Provided against during the period	**(73)**	1
Exchange	**1**	(1)
At 31 December	**(60)**	(50)

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:

	2018 £'000	2017 £'000
Not more than 3 months	**885**	646
More than 3 months but less than 6 months	**227**	—
More than 6 months but less than 1 year	**132**	12
More than one year	**—**	—
	1,244	658

16. Trade and other payables

	2018 £'000	2017 £'000
Trade payables	**524**	543
Other taxation and social security	**661**	499
Other liabilities	**415**	454
	1,600	1,496

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 36 days (2017: 36 days). The Directors consider that the carrying amount of trade payables approximates to their fair value.

17. Borrowings

	2018 £'000	2017 £'000
Current liabilities:		
Bank loans	**1,648**	790
Bank overdrafts	**—**	1,012
Obligations under finance leases and hire purchase contracts	**98**	120
	1,746	1,922
Non-current liabilities:		
Bank loans	**6,202**	1,580
Obligations under finance leases and hire purchase contracts	**197**	204
	6,399	1,784
Total loans and borrowings	**8,145**	3,706
Cash and cash equivalents	**(6,036)**	(4,737)
Net borrowings/(cash)	**2,109**	(1,031)

Notes to the Consolidated Financial Statements continued

17. Borrowings continued

The previous term loan with quarterly loan repayments of £197,500 commencing January 2017 was cancelled with a balance of £1,975,000 and refinanced with a new loan of £8,000,000 resulting in net proceeds of £6,025,000. The transaction was treated as an extinguishment of the loan note.

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

- an outstanding term loan of £7.6m, with 19 quarterly loan repayments of £400,000 commencing from January 2019, carrying a fixed interest rate of 3.768 per cent; and
- a £1.0m overdraft facility, carrying an interest rate of 2.75 per cent over base rate.

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

Included in bank loans is an outstanding loan of £250,000 (2017: £nil) in a German subsidiary company.

The bank loans and overdrafts are repayable as follows:

	2018 £'000	2017 £'000
In one year or less	1,648	1,802
Between one and two years	1,648	790
Between two and five years	4,554	790
	7,850	3,382

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

	2018 £'000	2017 £'000
Plant, equipment and vehicles:		
In one year or less	98	120
Between one and two years	67	70
Between two and five years	130	134
	295	324

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	120	4	124
Between one and two years	70	3	73
Between two and five years	134	2	136
At 31 December 2017	324	9	333
In one year or less	98	3	101
Between one and two years	67	3	70
Between two and five years	130	1	131
At 31 December 2018	**295**	**7**	**302**

18. Provisions

	2018 £'000	2017 £'000
At 1 January 2018	**250**	269
Credit to the income statement	**(38)**	—
Utilised in the year	**(26)**	(20)
Exchange	**(1)**	1
At 31 December 2018	**185**	250
Current liabilities	**144**	209
Non-current liabilities	**41**	41
	185	250

Provisions principally relate to reorganisation costs following the disposal of the former ElecoBuild businesses, the expected ongoing cost of the professional indemnity run off insurance premiums relating to the former ElecoBuild businesses and the restructuring of head office and part of the overseas software operations.

19. Accruals and Deferred Income

	2018 £'000	2017 £'000
Accruals	**2,053**	1,803
Deferred income	**5,660**	4,789
	7,713	6,592

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

20. Deferred Tax

	Deferred tax assets				Deferred tax liabilities			
	Tax losses carried forward £'000	Excess of amortisation over tax allowances £'000	Other temporary differences £'000	Total £'000	Intangible assets £'000	Accelerated capital allowances £'000	Other temporary differences £'000	Total £'000
At 1 January 2017	—	—	—	—	(535)	60	(95)	(570)
Reclassification	—	127	—	127	(99)	(61)	33	(127)
Credit/(charge) to the income statement	101	(11)	2	92	127	1	(152)	(24)
Exchange differences	—	—	—	—	—	—	—	—
At 31 December 2017	101	116	2	219	(507)	—	(214)	(721)
Reclassification	—	—	—	—	(276)	—	289	13
Acquisition of business	—	—	—	—	(905)	—	—	(905)
Credit/(charge) to the income statement	(46)	(33)	(1)	(80)	60	(3)	(2)	55
Exchange differences	—	—	—	—	—	—	5	5
At 31 December 2018	**55**	**83**	**1**	**139**	**(1,628)**	**(3)**	**78**	**(1,553)**

The acquisition of businesses in 2018 represents the deferred tax on the valuation of the acquired customer relationships and software.

Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are presented as non-current in the consolidated balance sheet. Potential deferred tax assets in respect of losses in UK subsidiaries of £291,000 (2017: £293,000) have not been recognised due to the unpredictability of future profit streams against which these losses may be offset. These losses may be carried forward indefinitely.

Notes to the Consolidated Financial Statements continued

21. Called up share capital

	No. of shares	2018 Nominal value £'000	No. of shares	2017 Nominal Value £'000
Authorised:				
Ordinary Shares of 1 pence each	**85,000,000**	**850**	85,000,000	850
Allotted, called up and fully paid:				
At start of year	**77,440,700**	**774**	77,089,350	771
Issue of Ordinary Shares	**4,378,707**	**44**	351,350	3
At end of year	**81,819,407**	**818**	77,440,700	774

The increase in called up and fully paid share capital in the year relates to share placing to raise £2,250,000 for the Group to acquire ActiveOnline GmbH in November 2018, resulting in the issuance of 3,811,289 consideration shares at nominal value of £38,000. In addition the Group issued 597,004 shares with a fair value of £439,000 directly to the former shareholders of ActiveOnline as part consideration for acquisition of 100% of the business. The remaining increase in called up and fully paid share capital in the year was in respect of scrip dividends.

22. Share-based payments

The Company operates one share scheme and options outstanding at 31 December 2018 over Ordinary Shares granted under the scheme were as follows:

Date awarded	Number of Ordinary Shares	Vesting dates Earliest	Vesting dates Latest	Weighted average remaining contractual life (years)
13 February 2015	300,000	1 February 2018	12 February 2025	6.1
27 October 2016	400,000	1 June 2019	26 October 2026	7.8
9 August 2017	1,015,000	1 May 2020	8 August 2027	8.6
24 January 2018	100,000	1 May 2020	24 January 2018	9.1
	1,815,000			8.1

Share option awards were made under the Company's Long Term Incentive Plan ("LTIP") during the year amounting to 250,000 (2017: 1,265,000) shares at an exercise price of 45.0 pence per share (2017: 48.0 pence).

During the year, a total of 150,000 share options were granted to Executive Directors and are exercisable after 2.3 years, subject to certain performance criteria being achieved. The 150,000 share options granted during the year were also forfeited during the year. The criteria includes the EPS for the twelve months ended 31 December 2019 is at least 2.97 pence. In the event that the employee leaves within the initial 2.3 year period they 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 24 January 2028, ten years after the date of grant.

The options awarded in 2017 are exercisable after 2.7 years, subject to certain performance criteria being achieved. The criteria includes the EPS for the twelve months ended 31 December 2019 is at least 2.97 pence. In the event that the employee leaves within the initial 2.7 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 8 August 2027, ten years after the date of grant.

The options awarded in 2016 are exercisable after 2.6 years, subject to certain performance criteria being achieved. The criteria include (i) revenue for the twelve months ended 31 December 2018 is at least £21.4m and (ii) EPS for the twelve months ended 31 December 2018 is at least 2.76 pence. In the event that the employee leaves within the initial 2.6 year period he may (depending upon the timing and circumstances of his departure) be entitled to retain some of his options, but only if certain yearly earnings per share targets have at that time been met. The options are exercisable until 26 October 2026, ten years after the date of grant.

The options awarded in 2015 are available to exercise at 20.75 pence per share. In the event that the employee leaves within the three-year period he may (depending upon the timing and circumstances of his departure) be entitled to retain some of his options but only if certain yearly earnings per share targets have at that time been met. The options are exercisable until 12 February 2025, ten years after the date of grant.

22. Share-based payments continued

Details of the number of options over Ordinary Shares outstanding during the year are as follows:

	2018		2017	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at the beginning of the year	**1,715,000**	**38.7**	1,050,000	26.4
Granted during the year	**250,000**	**45.0**	1,265,000	48.0
Exercised during the year	**—**	**—**	—	—
Forfeited during the year	**(150,000)**	**45.0**	(600,000)	36.7
Outstanding at the end of the year	**1,815,000**	**39.1**	1,715,000	38.7
Exercisable at the end of the year	**—**		—	

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 2018 was £106,000 (2017: £56,000).

A Black-Scholes model is used to value the share options and the key assumptions used for the outstanding awards are shown below:

	2018	2017
Share price at grant date	**45.00p**	44.00p
Exercise price per share	**48.00p**	48.00p
Per cent expected to vest (at date of grant)	**98%**	98%
Expected life (years)	**5.0**	5.0
Dividend yield	**0.96%**	0.90%
Share price volatility	**36%**	39%
Fair value per option	**20.14p**	12.90p

Notes to the Consolidated Financial Statements continued

23. Acquisitions

On 5 July 2018 the Group acquired the share capital of Shire System Limited ("ShireSystem") enhancing its range of building information software for a total consideration of £6,348,000. The consideration comprised the payment of £6,348,000 in cash from the Group's existing resources (including a working capital adjustment of £654,000).

The Directors have performed a provisional analysis of the fair value of the ShireSystem net assets acquired and the provisional fair value of the consideration paid is set out below, to be reviewed within twelve months.

	Book value £'000	Fair value adjustments £'000	Provisional fair value £'000
Customer relationships	—	2,141	2,141
Software	—	650	650
Property, plant and equipment	11	—	11
Trade and other receivables	458	—	458
Cash and cash equivalents	1,743	—	1,743
	2,212	2,791	5,003
Trade and other payables	(115)	—	(115)
Current tax liabilities	(128)	—	(128)
Accruals and deferred income	(468)	—	(468)
Deferred tax	(2)	(648)	(650)
	(713)	(648)	(1,361)
Net assets	1,499	2,143	3,642
Goodwill			2,706
Total consideration			6,348
Satisfied by:			
Cash			6,348
Shares			—
			6,348

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

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

In the period since acquisition, ShireSystem contributed £533,000 to the Group's operating profit. It utilised £8,000 for purchase of property plant and equipment and £nil for financing activities.

If the acquisition had been completed at the beginning of the reporting period, turnover from continuing operations would have been £1,161,000 higher, and profit from continuing operations £563,000 higher.

23. Acquisitions continued

On 6 November 2018 the Group acquired the share capital of ActiveOnline GmbH, a software company based in Germany for a total consideration of £3,047,000. The consideration comprised the payment of £2,608,000 in cash from the Group's existing resources on completion and £439,000 consideration shares.

The Directors have performed a provisional analysis of the fair value of the ActiveOnline GmbH net assets acquired and the provisional fair value of the consideration paid is set out below, to be reviewed within twelve months.

	Book value £'000	Fair value adjustments £'000	Provisional fair value £'000
Customer relationships	—	1,034	1,034
Software	112	239	351
Property, plant and equipment	449	—	449
Other investments	2	—	2
Trade and other receivables	331	—	331
Cash and cash equivalents	44	—	44
	938	1,273	2,211
Trade and other payables	(68)	—	(68)
Current tax liabilities	—	—	—
Accruals and deferred income	(157)	—	(157)
Deferred tax	—	(255)	(255)
Long-term liabilities	(258)	—	(258)
	(483)	(255)	(738)
Net assets	455	1,018	1,473
Goodwill			1,574
Total consideration			3,047
Satisfied by:			
Cash			2,608
Shares			439
			3,047

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

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

In the period since acquisition, ActiveOnline contributed £34,000 to the Group's operating profit. It utilised £2,000 for purchase of property plant and equipment and £2,000 for financing activities.

If the acquisition had been completed at the beginning of the reporting period, turnover from continuing operations would have been £1,849,000 higher, and profit from continuing operations £19,000 higher.

Notes to the Consolidated Financial Statements continued

24. Financial instruments

(a) Financial assets and liabilities

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

	2018 £'000	2017 £'000
Loans and receivables:		
Cash and cash equivalents	**6,036**	4,737
Trade and other receivables	**3,875**	3,323
Loans and receivables	**9,911**	8,060
Financial liabilities:		
Trade and other payables	**939**	997
Bank loans and overdrafts	**7,850**	3,382
Accruals	**2,053**	1,803
Non-current liabilities	**—**	—
Financial liabilities held at amortised cost	**10,842**	6,182

The carrying value of the Group's 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 Group's financial assets and liabilities are set out below:

	Financial liabilities		Financial assets		Net financial
	Floating rate £'000	Total £'000	Floating rate £'000	Total £'000	(assets)/ liabilities £'000
Sterling	**8,420**	**8,420**	**4,736**	**4,736**	**3,684**
Euro	**779**	**779**	**2,573**	**2,573**	**(1,794)**
Swedish Krona	**1,623**	**1,623**	**2,200**	**2,200**	**(577)**
US Dollar	**14**	**14**	**365**	**365**	**(351)**
South African Rand	**6**	**6**	**52**	**52**	**(46)**
Other	**—**	**—**	**64**	**64**	**(64)**
At 31 December 2018	**10,842**	**10,842**	**9,990**	**9,990**	**852**
Sterling	4,214	4,214	1,795	1,795	2,419
Euro	260	260	2,286	2,286	(2,026)
Swedish Krona	1,683	1,683	3,606	3,606	(1,923)
US Dollar	25	25	241	241	(216)
South African Rand	—	—	57	57	(57)
Other	—	—	75	75	(75)
At 31 December 2017	6,182	6,182	8,060	8,060	(1,878)

There are no fixed rate financial assets.

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 fixed at 3.768 per cent and the overdraft is 2.75 per cent over the Bank of England base rate.

24. Financial instruments continued

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

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

Functional currency of Group operation	Sterling £'000	Euro £'000	Swedish Krona £'000	US Dollar £'000	Other £'000	Total £'000
Sterling	**—**	**147**	**(17)**	**324**	**13**	**467**
Euro	**—**	**—**	**—**	**—**	**—**	**—**
Swedish Krona	**1**	**420**	**—**	**28**	**50**	**499**
At 31 December 2018	**1**	**567**	**(17)**	**352**	**63**	**966**
Sterling	—	22	—	228	23	273
Euro	—	—	—	—	—	—
Swedish Krona	2	453	—	10	51	516
At 31 December 2017	2	475	—	238	74	789

(d) Financial risk: objectives, policies and strategies

The Group's 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 Group's 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 £192,000 (2017: £107,000). No speculative transactions are undertaken.

At present there is no policy to hedge the Group's currency exposures arising from the translation of the Group's overseas net assets or the effect of exchange rate movements on the Group's 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 24(c) above), arising from fluctuations in exchange rates. The Group's mitigation of its currency risk is set out on page 14 of the Strategic Report. The table below shows the impact on the value of the Group's reported net financial assets at 31 December 2018 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 Group's reported equity would be £218,000 lower (2017: £197,000) if Sterling strengthened by 10 per cent and £240,000 higher (2017: £217,000) if Sterling weakened by 10 per cent.

	Net financial (assets)/liabilities			**Profit/(loss)**		**Equity**	
Effect of change in Sterling +/-10%	**2018 £'000**	**Rate +10% £'000**	**Rate -10% £'000**	**Rate +10% £'000**	**Rate -10% £'000**	**Rate +10% £'000**	**Rate -10% £'000**
Denominated in Sterling	**3,684**	**—**	**—**	**—**	**—**	**—**	**—**
Not denominated in Sterling	**(2,832)**	**257**	**(283)**	**(79)**	**87**	**(218)**	**240**
Total net financial liabilities	**852**	**257**	**(283)**	**(79)**	**87**	**(218)**	**240**

	Net financial (assets)/liabilities			Profit/(loss)		Equity	
Effect of change in Sterling +/-10%	2017 £'000	Rate +10% £'000	Rate -10% £'000	Rate +10% £'000	Rate -10% £'000	Rate +10% £'000	Rate -10% £'000
Denominated in Sterling	2,419	—	—	—	—	—	—
Not denominated in Sterling	(4,297)	392	(431)	(96)	106	(197)	217
Total net financial liabilities	(1,878)	392	(431)	(96)	106	(197)	217

Notes to the Consolidated Financial Statements continued

24. Financial instruments continued

(e) Market risk: sensitivities continued

(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 24(b) above). Based upon the interest rate profile of the Group's 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 Group's profit and equity.

	2018	Effect of increase in interest rates of 1%			Effect of decrease in interest rates of 1%		
	As reported £'000	Rate +1% £'000	Profit/(loss) £'000	Equity £'000	Rate -1% £'000	Profit/(loss) £'000	Equity £'000
Net finance cost	**(192)**	**(51)**	**(51)**	**(51)**	**51**	**51**	**51**

	2017	Effect of increase in interest rates of 1%			Effect of decrease in interest rates of 1%		
	As reported £'000	Rate +1% £'000	Profit/(loss) £'000	Equity £'000	Rate -1% £'000	Profit/(loss) £'000	Equity £'000
Net finance cost	(107)	(33)	(33)	(33)	33	33	33

(f) Liquidity risk

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

	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 5 years £'000
Trade and other payables	**1,600**	**1,600**	**—**	**—**	**—**	**—**
Bank loans and overdraft	**10,118**	**2,081**	**477**	**943**	**1,841**	**4,776**
Obligations under finance leases	**302**	**25**	**25**	**51**	**70**	**131**
At 31 December 2018	**12,020**	**3,706**	**502**	**994**	**1,911**	**4,907**
Trade and other payables	1,405	1,405	—	—	—	—
Bank loans and overdraft	4,906	2,640	214	423	827	802
Obligations under finance leases	332	31	31	62	73	135
At 31 December 2017	6,643	4,076	245	485	900	937

The amounts for bank loans and overdraft and the obligations under finance leases are inclusive of interest payable in the period. The Group's facilities with Barclays Bank plc are explained on page 17 of the Financial Review.

At 31 December, the Group had available to it the following committed borrowing facilities expiring in the periods shown. As at 31 December 2018 the facilities were fully drawn.

	2018 £'000	2017 £'000
Expiring in one year or less	**1,648**	1,790
Expiring between one and two years	**1,648**	790
Expiring between two and five years	**4,554**	790
	7,850	3,370

24. 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:

	2018 £'000	2017 £'000
UK	**598**	850
Germany	**549**	135
Scandinavia	**1,257**	1,523
USA	**179**	120
Rest of Europe	**610**	466
Rest of World	**147**	39
	3,340	3,133

(h) Capital risk

The Group's 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 Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

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

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

At 31 December 2018, the continuing operations EBITDA for the year was £4,695,000 (2017: £3,643,000) and net borrowings was £2,109,000 (2017: £1,031,000 net cash).

(i) Reconciliation of liabilities arising from financing activities

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Long-term borrowings £'000	Short-term borrowings £'000	Lease liabilities £'000	Total £'000
At 1 January 2018	**1,580**	**1,802**	**324**	**3,706**
Cash flows				
– Repayment	**(795)**	**(1,012)**	**(139)**	**(1,946)**
– Proceeds	**5,215**	**810**	**110**	**6,135**
Non-cash				
– Acquisition	**202**	**48**	**—**	**250**
– Fair value	**—**	**—**	**—**	**—**
– Reclassification	**—**	**—**	**—**	**—**
At 31 December 2018	**6,202**	**1,648**	**295**	**8,145**

Notes to the Consolidated Financial Statements continued

24. Financial instruments continued

(i) Reconciliation of liabilities arising from financing activities continued

	Long-term borrowings £'000	Short-term borrowings £'000	Lease liabilities £'000	Total £'000
At 1 January 2017	2,370	1,129	381	3,880
Cash flows				
– Repayment	(790)	(790)	(226)	(1,806)
– Proceeds	—	1,463	169	1,632
Non-cash				
– Acquisition	—	—	—	—
– Fair value	—	—	—	—
– Reclassification	—	—	—	—
At 31 December 2017	1,580	1,802	324	3,706

25. Contingent liabilities

It is the Group's 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 2018 and have concluded that no material loss is likely to accrue from any such unprovided claims.

26. Related party transactions

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

The Directors of the Company had no material transactions with the Company during the year, other than a result of service agreements. An amount of £72,916 (2017: £36,250) 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 (2017: £5,000) for a contribution to the office costs at Burnham-on-Crouch.

27. Additional performance measures

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Operating profit	**2,619**	2,361
Acquisition related expenses	**689**	—
Amortisation of acquired intangible assets	**595**	412
Adjusted operating profit	**3,903**	2,773
Profit before tax	**2,427**	2,254
Acquisition related expenses	**689**	—
Amortisation of acquired intangible assets	**595**	412
Adjusted profit before tax	**3,711**	2,666
Tax charge	**(598)**	(357)
Amortisation of acquired intangible assets	**(113)**	(121)
Adjusted tax charge	**(711)**	(478)
Profit after tax	**1,829**	1,897
Acquisition related expenses	**689**	—
Amortisation of acquired intangible assets	**482**	291
Adjusted profit after tax	**3,000**	2,188
Cash generated in operations	**4,455**	4,167
Purchase of intangible assets	**(1,064)**	(1,154)
Purchase of property, plant and equipment	**(123)**	(180)
Acquisition related expenses	**689**	—
Adjusted operating cash flow	**3,957**	2,833

28. Post-balance sheet events

There were no post-balance sheet events to report.

29. Exchange rates

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

	Income statement		Balance sheet	
	2018	2017	**2018**	2017
Swedish Krona to Sterling	**11.59**	11.03	**11.32**	11.08
Euro to Sterling	**1.13**	1.14	**1.11**	1.13
US Dollar to Sterling	**1.33**	1.30	**1.28**	1.35

Company Statement of Changes in Equity
for the year ended 31 December 2018

	Share capital £'000	Share premium £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2017	**771**	**—**	**578**	**(125)**	**3,551**	**4,775**
Dividends	—	—	—	—	(197)	(197)
Share-based payments	—	—	—	56	—	56
Issue of share capital	3	—	(3)	—	—	—
Transactions with owners	3	—	(3)	56	(197)	(141)
Profit for the period	—	—	—	—	781	781
Exchange differences on translation of net investments in foreign operations	—	—	—	(14)	—	(14)
Total comprehensive income for the period	—	—	—	(14)	781	767
At 31 December 2017	**774**	**—**	**575**	**(83)**	**4,135**	**5,401**
Dividends	—	—	—	—	(188)	(188)
Share-based payments	—	—	—	62	—	62
Issue of share capital	44	2,050	429	—	—	2,523
Transactions with owners	44	2,050	429	62	(188)	2,397
Profit for the period	—	—	—	—	1,640	1,640
Exchange differences on translation of net investments in foreign operations	—	—	—	(21)	—	(21)
Other	—	(1)	—	—	—	(1)
Total comprehensive income for the period	—	(1)	—	(21)	1,640	1,618
At 31 December 2018	**818**	**2,049**	**1,004**	**(42)**	**5,587**	**9,416**

Company Balance Sheet
As at 31 December 2018

	Notes	2018 £'000	2017 (restated) £'000
Fixed assets			
Intangible assets	3	**86**	89
Tangible assets	4	**58**	60
Investments	5	**6,546**	3,499
Debtor due after more than one year	6	**19,571**	13,577
		26,261	17,225
Current assets			
Debtors	7	**3,230**	2,550
Cash at bank and in hand		**1,695**	141
		4,925	2,691
Creditors: amounts falling due within one year	8	**(15,587)**	(12,726)
Provisions for liabilities	10	**(183)**	(209)
Net current assets/(liabilities)		**(10,845)**	(10,244)
Total assets less current liabilities		**15,416**	6,981
Creditors: amounts falling due after more than one year	9	**(6,000)**	(1,580)
Net assets		**9,416**	5,401
Capital and reserves			
Called up share capital	11	**818**	774
Share premium account		**2,049**	—
Merger reserve		**1,004**	575
Other reserve	13	**(42)**	(83)
Profit and loss account		**5,587**	4,135
Shareholders' equity		**9,416**	5,401

The parent company's profit for the year and total comprehensive income attributable to the equity shareholders was £1,640,000 (2017: £781,000).

The financial statements of Elecosoft plc, registered number 00354915, on pages 80 to 89 were approved by the Board of Directors on 5 April 2019 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. A summary of the more important accounting policies, which have been applied consistently, is set out below:

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

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

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

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

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

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

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

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

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

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

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

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

Share-based payments
The Company issues share options to employees from time to time. Under, FRS 102 the equity-settled, share-based payment awards are valued at fair value at inception and this cost is recognised over the option vesting period of three years. The Board has used an appropriate model to estimate the fair value of the options. Various assumptions affect the value of the options and the Board has considered these assumptions in order to derive an appropriate charge for the cost of the options. The key assumptions used to derive the charge include the probability of performance achievement and the expected future dividend yield of the shares.

Provisions
A provision is recognised in the Company 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 Company Balance Sheet. The difference unwinds to the profit and loss as interest receivable over the period of the loan.

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

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

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at the date will result in an obligation to pay more tax or a right to pay less or to receive more tax, with the following exceptions:

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiary undertakings only to the extent that, at the balance sheet date, dividends have been accrued as receivable; and
- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

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

Notes to the Company Financial Statements

1. Profit for the year

As permitted by section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements. The parent company's profit for the financial year was £1,640,000 (2017: £781,000).

2. Employee information

Staff costs during the period, including Directors, amounted to:

	2018 £'000	2017 £'000
Wages and salaries	**1,152**	944
Social security	**137**	111
Pension costs	**46**	23
Share-based payments	**62**	56
	1,397	1,134

Pension costs relate to contributions to defined contribution pension schemes. The remuneration of the Directors, who are the key management personnel of the Company, is set out below:

	2018 £'000	2017 £'000
Short-term employee benefits	**710**	525
Post-employment benefits	**31**	21
Share based payments	**28**	26
Executive Directors	**769**	572
Fees – Non-Executive Directors	**153**	140
	922	712

The emoluments of the highest paid Director were £301,000 (2017: £291,000).

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 Company's share based incentive or pension schemes.

3. Intangible fixed assets

	Intellectual property £'000
Cost	
At 1 January 2017	1,232
Additions	44
Disposals	—
At 31 December 2017	1,276
Additions	25
Disposals	—
At 31 December 2018	**1,301**
Accumulated amortisation and impairment	
At 1 January 2017	1,166
Amortisation charge for the year	21
Disposals	—
At 31 December 2017	1,187
Amortisation charge for the year	28
Disposals	—
At 31 December 2018	**1,215**
Net book value at 31 December 2017	89
Net book value at 31 December 2018	**86**

4. Tangible fixed assets

	Plant, equipment and vehicles £'000	Total £'000
Cost		
At 1 January 2017	110	110
Additions	60	60
Disposal	(25)	(25)
At 31 December 2017	145	145
Additions	19	19
Disposal	—	—
At 31 December 2018	**164**	**164**
Accumulated depreciation		
At 1 January 2017	101	101
Depreciation charge for the year	9	9
Disposal	(25)	(25)
At 31 December 2017	85	85
Depreciation charge for the year	21	21
Disposal	—	—
At 31 December 2018	**106**	**106**
Net book value at 31 December 2017	60	60
Net book value at 31 December 2018	**58**	**58**

Notes to the Company Financial Statements continued

5. Investments in subsidiaries

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

	Shares at cost £'000	Investments £'000	Total £'000
Cost:			
At 1 January 2017 (originally stated)	21,076	728	21,804
Transfers	2,400	—	2,400
At 1 January 2017 (restated)	23,476	728	24,204
At 31 December 2017 (restated)	23,476	728	24,204
Additions	3,047	—	3.047
At 31 December 2018	**26,523**	**728**	**27,251**
Accumulated provision:			
At 1 January 2017	20,705	—	20,705
At 31 December 2017	20,705	—	20,705
At 31 December 2018	**20,705**	**—**	**20,705**
Net book value at 31 December 2017 (restated)	2,771	728	3,499
Net book value at 31 December 2018	**5,818**	**728**	**6,546**

Additions relate to the acquisition of ActiveOnline GmbH in November 2018, a software company based in Germany. Further details of the acquisition are shown on page 73.

Transfers relate to the investment in shares of Integrated Computing and Office Networking Ltd (ICON). The investment was previously incorrectly recorded in an intermediate holding company, with an intercompany receivable in the parent's financial statements. This has been corrected by way of prior year adjustment to show the investment in the parent's financial statements.

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

The carrying value and recoverability of investments in discontinued ElecoBuild operations were fully provided against at 31 December 2018.

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 91.

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

The Ordinary Shares in the above companies are held through an intermediate holding company except for Integrated Computing & Office Networking Ltd, Esign Software GmbH and ActiveOnline GmbH.

6. Debtors due after more than one year

	2018 £'000	2017 (restated) £'000
Amounts due from subsidiary undertakings	**19,571**	13,577
	19,571	13,577

7. Debtors

	2018 £'000	2017 £'000
Trade debtors	**14**	14
Other debtors	**17**	21
Prepayments and accrued income	**222**	133
Deferred tax	**7**	18
Amounts due from subsidiary undertakings	**2,970**	2,364
	3,230	2,550

8. Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Bank loans	**1,600**	790
Bank overdrafts	**—**	1,012
Trade creditors	**79**	89
Other creditors	**138**	53
Accruals and deferred income	**171**	159
Other taxation and social security	**(2)**	23
Current tax	**95**	77
Amounts due to subsidiary undertakings	**13,506**	10,523
	15,587	12,726

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

The Group's facilities with Barclays Bank plc are explained on page 17 of the Financial Review.

	2018 £'000	2017 £'000
Bank loans	**6,000**	1,580
	6,000	1,580

Bank loans and overdrafts are repayable as follows:

	2018 £'000	2017 £'000
In one year or less	**1,600**	1,802
Between one and two years	**1,600**	790
Between two and five years	**4,400**	790
	7,600	3,382

10. Provisions for liabilities

	2018 £'000	2017 £'000
At 1 January 2018	**209**	219
Charge to the profit and loss account	**—**	—
Utilised in the year	**(26)**	(10)
At 31 December 2018	**183**	209

Notes to the Company Financial Statements continued

10. Provisions for liabilities continued

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

11. Called up share capital

	No. of shares	2018 Nominal value £'000	No. of shares	2017 Nominal value £'000
Authorised:				
Ordinary Shares of 1 pence each (2017: 1 pence each)	**85,000,000**	**850**	85,000,000	850
Allotted, called up and fully paid:				
At 1 January 2018	**77,440,700**	**774**	77,089,350	771
Issue of Ordinary Shares	**4,378,707**	**44**	351,350	3
At 31 December 2018	**81,819,407**	**818**	77,440,700	774

The increase in called up and fully paid share capital in the year relates to share placing to raise £2,250,000 for the Group to acquire ActiveOnline GmbH in November 2018, resulting in the issuance of 3,811,289 consideration shares at nominal value of £38,000. In addition the Group issued 597,004 shares with a fair value of £439,000 directly to the former shareholders of ActiveOnline as part consideration for acquisition of 100% of the business. The remaining increase in called up and fully paid share capital in the year was in respect of scrip dividends.

12. Share-based payments

The Company operates one share scheme and options outstanding at 31 December 2018 over Ordinary Shares granted under the scheme were as follows:

		Vesting dates		
Date awarded	Number of Ordinary Shares	Earliest	Latest	Weighted average remaining contractual life (years)
13 February 2015	300,000	1 February 2018	12 February 2025	6.1
27 October 2016	400,000	1 June 2019	26 October 2026	7.8
9 August 2017	1,015,000	1 May 2020	8 August 2027	8.6
24 January 2018	100,000	1 May 2020	24 January 2018	9.1
	1,815,000			8.1

Share option awards were made under the Company's Long Term Incentive Plan ("LTIP") during the year amounting to 250,000 (2017: 1,265,000) shares at an exercise price of 45.0 pence per share (2017: 48.0 pence).

During the year, a total of 150,000 share options were granted to Executive Directors and are exercisable after 2.3 years, subject to certain performance criteria being achieved. The 150,000 share options granted during the year were also forfeited during the year. The criteria includes the EPS for the twelve months ended 31 December 2019 is at least 2.97 pence. In the event that the employee leaves within the initial 2.3 year period they 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 24 January 2028, ten years after the date of grant.

The options awarded in 2017 are exercisable after 2.7 years, subject to certain performance criteria being achieved. The criteria includes the EPS for the twelve months ended 31 December 2019 is at least 2.97 pence. In the event that the employee leaves within the initial 2.7 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 8 August 2027, ten years after the date of grant.

The options awarded in 2016 are exercisable after 2.6 years, subject to certain performance criteria being achieved. The criteria include (i) revenue for the twelve months ended 31 December 2018 is at least £21.4m and (ii) EPS for the twelve months ended 31 December 2018 is at least 2.76 pence. In the event that the employee leaves within the initial 2.6 year period he may (depending upon the timing and circumstances of his departure) be entitled to retain some of his options, but only if certain yearly earnings per share targets have at that time been met. The options are exercisable until 26 October 2026, ten years after the date of grant.

The options awarded in 2015 are available to exercise at 20.75 pence per share. In the event that the employee leaves within the three-year period he may (depending upon the timing and circumstances of his departure) be entitled to retain some of his options but only if certain yearly earnings per share targets have at that time been met. The options are exercisable until 12 February 2025, ten years after the date of grant.

12. Share-based payments continued

Details of the number of options over Ordinary Shares outstanding during the year are as follows:

	2018		2017	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at the beginning of the year	**1,715,000**	**38.7**	1,050,000	26.4
Granted during the year	**250,000**	**45.0**	1,265,000	48.0
Exercised during the year	**—**	**—**	—	—
Forfeited during the year	**(150,000)**	**45.0**	(600,000)	36.7
Outstanding at the end of the year	**1,815,000**	**39.1**	1,715,000	38.7
Exercisable at the end of the year	**—**		—	

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 2018 was £106,000 (2017: £56,000).

A Black-Scholes model is used to value the share options and the key assumptions used for the outstanding awards are shown below:

	2018	2017
Share price at grant date	**45.00p**	44.00p
Exercise price per share	**48.00p**	48.00p
% expected to vest (at date of grant)	**98%**	98%
Expected life (years)	**5.0**	5.0
Dividend yield	**0.96%**	0.90%
Share price volatility	**36%**	39%
Fair value per option	**20.14p**	12.90p

13. Reserves

The other reserve carried forward includes the shares in the Company held by the Employee Share Ownership Trust and the share-based payments reserve. The share premium reserve represents the value of the consideration shares that were issued to fund the acquisitions of both Integrated Computing and Office Networking Limited in October 2016 and ActiveOnline GmbH in November 2018.

The Employee Share Ownership Trust held 899,553 shares at 31 December 2018 with a market value of £616,000 (2017: £377,000) and has waived its entitlement to dividends on Ordinary Shares held by it until such time as they are vested in employees.

14. Operating lease commitments

	Property 2018 £'000	**Other 2018 £'000**	Property 2017 £'000	Other 2017 £'000
Leases expiring:				
Within one year	**75**	**—**	73	—
Between two and five years	**—**	**—**	—	—
	75	**—**	73	—

15. Related party transactions

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

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 £72,916 (2017: £36,250) 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 (2017: £5,000) for a contribution to the office costs at Burnham-on-Crouch.

Five-Year Summary

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000	Year ended 31 December 2014* (restated)
Revenue					
Software	**22,220**	19,996	17,795	15,260	15,172
Discontinued operations	**—**	—	—	1,400	1,312
Adjusted EBITDA	**4,695**	3,643	2,753	1,795	1,603
Amortisation and impairment of purchased intangible assets	**(529)**	(623)	(339)	(115)	(12)
Depreciation	**(263)**	(247)	(207)	(174)	(187)
Adjusted operating profit	**3,903**	2,773	2,207	1,506	1,404
Amortisation of acquired intangible assets	**(595)**	(412)	(292)	(380)	(360)
Exceptionals	**(689)**	—	(321)	—	(138)
Operating profit	**2,619**	2,361	1,594	1,126	906
Finance expense	**(192)**	(107)	(90)	(120)	(220)
Profit/(loss) before taxation	**2,427**	2,254	1,504	1,006	686
Taxation	**(598)**	(357)	(261)	(204)	(173)
Profit after taxation	**1,829**	1,897	1,243	802	513
Basic earnings per share (continuing operations)	**2.4p**	2.5p	1.7p	1.1p	0.8p
Shareholders equity/(deficit)	**15,674**	11,486	9,716	7,893	6,722
Dividend per share	**0.68p**	0.60p	0.40p	0.00p	0.00p

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

Company	Country of operations	Class of share capital held	Proportion held within Group	Nature of business
Asta Group Limited	UK	Ordinary	100%	Holding company
A. Neely, Limited	UK	Ordinary	100%	Dormant
B H Forwarding Limited	UK	Ordinary	100%	Dormant
Belcon Structures Limited	UK	Ordinary	100%	Dormant
Bell and 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 Limited	UK	Ordinary	100%	Dormant
Eleco Directors Limited	UK	Ordinary	100%	Dormant
Eleco Distribution Services Limited	UK	Ordinary	100%	Dormant
Eleco Engineering Limited	UK	Ordinary	100%	Dormant
Eleco (DCS) Limited	UK	Ordinary	100%	Dormant
Eleco (GN Software Services) Limited	UK	Ordinary	100%	Dormant
Eleco (GNS UK) Limited	UK	Ordinary	100%	Dormant
Eleco (MS) Limited	UK	Ordinary	100%	Non-trading company
Eleco (PP) Limited	UK	Ordinary	100%	Dormant
Eleco Limited	UK	Ordinary	100%	Holding company
Eleco Media Limited	UK	Ordinary	100%	Dormant
Eleco Rail Limited	UK	Ordinary	100%	Dormant
Eleco Technology Limited	UK	Ordinary	100%	Dormant
Elecoprecast Limited	UK	Ordinary	100%	Holding company
Elecosoft Pvt Limited	India		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	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 Group AB	Sweden	Ordinary	100%	Holding company
Elecosoft (Pty) Limited	South Africa	Ordinary	100%	Dormant

Notice of Annual General Meeting

NOTICE is hereby given that the 79th Annual General Meeting of Elecosoft Public Limited Company (the "Company") will be held at Brewers' Hall, Aldermanbury Square, London EC2V 7HR on 9 May 2019 at 12.00 noon for the purpose of considering and, if thought fit, passing the following resolutions. Resolutions numbered 1 to 7 and 9 will be proposed as Ordinary Resolutions and resolutions numbered 8 and 10 will be proposed as Special Resolutions.

Ordinary business

1. To receive the financial statements for the year ended 31 December 2018, together with the reports of the Directors and Auditors on the accounts.

2. To declare a final dividend for the year ended 31 December 2018 of 0.40 pence per ordinary share as recommended by the Directors of the Company.

3. To re-elect Ben Moralee, by reason of appointment in his first year in office, as a Director of the Company.

4. To re-elect Mukul Mistry, by reason of appointment in his first year in office, as a Director of the Company.

5. To re-elect Kevin Craig, who retires by rotation, as a Director of the Company.

6. To re-elect Anders Karlsson, who retires by rotation, as a Director of the Company.

7. To re-appoint Grant Thornton UK LLP as auditors of the Company ("Auditors") and to authorise the Directors to determine their remuneration.

Special business

8. Purchase of the Company's own shares

   To authorise the Company unconditionally and generally for the purposes of section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of section 693(4) of the Act) of its Ordinary Shares provided that:

   (a) the maximum number of Ordinary Shares authorised to be purchased is 8,181,940 (such ordinary shares representing approximately 10 per cent of the Company's issued ordinary capital as at the date of this notice of annual general meeting);

   (b) the minimum price which may be paid for any such Ordinary Share is 1 penny;

   (c) the maximum price which may be paid for an Ordinary Share shall be an amount equal to 105 per cent of the average middle market quotations for an Ordinary Share as derived from the London Stock Exchange plc's daily official list for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased; and

   (d) this authority shall, unless previously renewed, revoked or varied, expire on the earlier of the date falling 18 months after the date of the passing of this resolution or the conclusion of the next annual general meeting, but the Company may enter into a contract for the purchase of Ordinary Shares before the expiry of this authority which would or might be completed (wholly or partly) after its expiry.

9. Directors' authority to allot shares

To authorise the Directors generally and unconditionally, in substitution for all subsisting authorities to the extent unused, in accordance with section 551 of the Act to exercise all the powers of the Company to allot:

   (a) shares in the Company and/or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £272,731.36, being one-third of the issued share capital of the Company as at the date of this notice of annual general meeting; and in addition

   (b) equity securities of the Company (within the meaning of section 560 of the Act) in connection with an offer of such securities by way of a Rights Issue (as defined below) up to an aggregate nominal amount of £272,731.36, being one-third of the issued share capital of the Company as at the date of this notice of annual general meeting,

   provided that this authority shall expire on the conclusion of the next annual general meeting of the Company but so that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after such expiry and the Directors may allot shares or grant rights to subscribe for or convert securities into shares pursuant to such an offer or agreement as if this authority had not expired.

   "Rights Issue" means an offer of equity securities to holders of ordinary shares in the capital of the Company on the register on a record date fixed by the Directors in proportion as nearly as may be to the respective numbers of ordinary shares held by them, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any treasury shares, fractional entitlements or legal or practical issues arising under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory or any other matter.

Special business continued

10. Disapplication of pre-emption rights

Subject to and conditional on the passing of resolution 9 above, to empower the Directors, pursuant to section 570 of the Act, to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred by resolution 9 and as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

(a) in connection with an offer of such securities by way of a Rights Issue (as defined above); and

(b) otherwise than pursuant to paragraph 10(a) above, up to an aggregate nominal amount of £40,909.70, being 5 per cent of the issued share capital of the Company as at the date of this notice of annual general meeting and shall expire at the conclusion of the next annual general meeting of the Company, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if this power had not expired.

This power applies in relation to a sale of treasury shares as if all references in this resolution to an allotment included any such sale and in the first paragraph of this resolution the words "pursuant to the authority conferred by resolution 9" were omitted in relation to such sale.

By order of the Board

Andrew Courts FCCA
Company Secretary
5 April 2019

Registered Office:
Elecosoft Public Limited Company
66 Clifton Street
London EC2A 4HB

Notice of Annual General Meeting continued

Notes:

1. As a member of the Company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote on your behalf at a general meeting of the Company.

2. A proxy does not need to be a member of the Company but must attend the meeting to represent you. To appoint as your proxy a person other than the Chairman of the meeting, insert their full name in the box on your proxy form. If you sign and return your proxy form with no name inserted in the box, the Chairman of the meeting will be deemed to be your proxy. Where you appoint as your proxy someone other than the Chairman, you are responsible for ensuring that they attend the meeting and are aware of your voting intentions. If you wish your proxy to make any comments on your behalf, you will need to appoint someone other than the Chairman and give them the relevant instructions directly.

3. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. In the event of a conflict between a blank proxy form and a proxy form which states the number of shares to which it applies, the specific proxy form shall be counted first, regardless of whether it was sent or received before or after the blank proxy form, and any remaining shares in respect of which you are the registered holder will be apportioned to the blank proxy form. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy you must complete a separate Form of Proxy for each proxy or, if appointing multiple proxies electronically, follow the instructions given on the relevant electronic facility. Members can copy their original Form of Proxy, or additional Forms of Proxy can be obtained from Link Asset Services, 34 Beckenham Road, Beckenham, Kent BR3 4TU or by calling UK – 0871 664 0300 or from overseas by calling +44 (0) 371 664 0300. Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. We are open between 09:00–17:30, Monday to Friday excluding public holidays in England and Wales.

4. The return of a completed proxy form, other such instrument or any CREST proxy instruction (as described in paragraph 14 below) does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

5. To direct your proxy how to vote on the resolutions mark the appropriate box on your proxy form with an 'X'. To abstain from voting on a resolution, select the relevant "Vote withheld" box. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.

6. To be valid any proxy form or other instrument appointing a proxy must be:

   - completed and signed; sent or delivered to Link Asset Services, 34 Beckenham Road, Beckenham Kent BR3 4TU; and

   - received by Link Asset Services no later than 12:00 noon on 7 May 2019.

7. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

8. In the case of a member which is a company, your proxy form must be executed under its common seal or signed on its behalf by a duly authorised officer of the company or an attorney for the company.

9. Any power of attorney or any other authority under which your proxy form is signed (or a duly certified copy of such power or authority) must be included with your proxy form.

10. As an alternative to completing your hard-copy proxy form, you can appoint a proxy electronically at www.signalshares.com. For an electronic proxy appointment to be valid, your appointment must be received by no later than 12:00 noon on 7 May 2019.

11. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

12. You may not use any electronic address provided in your proxy form to communicate with the Company for any purposes other than those expressly stated.

13. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service for the Annual General Meeting to be held at Brewers Hall, Aldermanbury Square, London EC2V 7HR on 9 May 2019 at 12:00 noon and any adjournment(s) thereof may do so by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider should refer to their CREST sponsors or voting service provider(s), who will be able to take the appropriate action on their behalf.

Notes: continued

14 In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the Company's agent, Link Registrars Limited (CREST Participant ID: RA10), no later than 48 hours before the time appointed for the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

15. CREST members and, where applicable, their CREST sponsor or voting service provider should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsor or voting service provider are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

16. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.

17. Only those members entered on the register of members of the Company as at close of business on 7 May 2019 or, in the event that this meeting is adjourned, in the register of members as at close of business on the day two days before the date of any adjourned meeting, shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares registered in their names at that time. Changes to the entries on the register of members after close of business on 7 May 2019 or, in the event that this meeting is adjourned, in the register of members after the close of business on the day two days before the date of the adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting.

18. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

19. Any member attending the meeting has the right to ask questions. The Company has to answer any questions raised by members at the meeting which relate to the business being dealt with at the meeting unless:

- to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
- the answer has already been given on a website in the form of an answer to a question; or
- it is undesirable in the interests of the Company or the good order of the meeting to answer the question.

20. Copies of the directors' service contracts and letters of appointment are available for inspection at the registered office of the Company during normal business hours on any business day and will be available for inspection at the place where the meeting is being held from 15 minutes prior to and during the meeting.

21. A copy of this notice, and other information required by section 311A of the Companies Act 2006, can be found at www.ir.elecosoft.com

Directory and Advisors

Company Advisors

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