Elecosoft plc

Annual Report and Accounts 2019

Building on Technology®

Introduction

Elecosoft plc is a provider of market-leading software and related support services with operations principally in the United Kingdom, Sweden, Germany and the Netherlands, and an established reseller market throughout the USA.

Elecosoft's portfolio of software supports the building lifecycle from early planning stages through to construction, asset management and facilities management, driving performance and aiding the day-to-day operations of its customers' businesses.

Elecosoft's software has been used on award-winning projects such as Sir Robert McAlpine's refurbishment of the landmark Plaza shopping centre in London's Oxford Street, Mace's 12-14 New Fetter Lane, a 15-storey office building on the western edge of the City of London, and on high-profile construction projects, such as The Shard in London, the Victoria and Albert Museum in London, Hong Kong International Airport, The Reichstag dome in Berlin and the Warsaw Metro in Poland.

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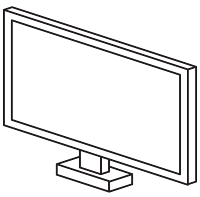


Highlights

	2019 £'000	2018 (restated) £'000	Change
Financial			
Revenue	**25,398**	22,220	+14%
Operating profit	**3,812**	2,666	+43%
Profit before tax	**3,473**	2,394	+45%
Earnings per share (pence per share)	**3.3**	2.3	+43%
Recurring maintenance support and subscription revenue	**14,435**	12,326	+17%
Adjusted operating profit*	**4,545**	3,950	+15%
Adjusted earnings per share** (pence per share)	**4.1**	3.8	+8%
Free cash flow***	**4,069**	3,144	+29%

* 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.

*** Free cash flow represents cash generated in operations less purchase of intangible assets and property, plant and equipment, net of finance costs and tax plus any proceeds from disposals of property, plant and equipment.

Operational

- Major release of Powerproject® XV.
- Elecosoft products Powerproject SaaS, IconSystem and ShireSystem listed on “G-Cloud 11” the Crown Commercial Service’s (“CCS”) digital marketplace, a service for supply of cloud applications and public sector procurement.
- Release of new Site Progress Mobile application in the UK and Germany.
- Major release of ShireSystem software version better supporting facilities management.
- ShireSystem release of its Mobile Pro application for iOS.
- IconSystem successfully secured orders in hospitality.
- New Staircon all-time-high sales on the US market.
- Release of Artificial Intelligence (“AI”) visualisation tool for interior flooring segment.
- UK Construction Computing Award win for sixth successive year.
- All CMYA Gold winners used Powerproject.

Strategic Report

Executive Chairman's Statement

Elecosoft delivered a year of continuing growth, cash generation and product innovation in the year ended 31 December 2019 and despite the uncertain trading conditions experienced during the year, we increased our revenues by 14 per cent, our profit before tax by 45 per cent and our earnings per share by 43 per cent.

During the year under review, we also eliminated our net bank debt position of £1.8m as at 31 December 2018 and our net cash position as at 31 December 2019 was £1.1m and, as a consequence, Elecosoft is better placed to meet the challenge of Coronavirus that we all face at the beginning of 2020.

Trading

Revenues

Group revenues for the year ended 31 December 2019 amounted to £25.4m (2018: £22.2m), 14 per cent higher than in the previous year, and 16 per cent higher at constant currencies. Group revenues are generated principally from sales of specialist construction and property related software programs that are used for Project Management, Site Management, Estimating, Engineering, CAD/ Design, Information Management, AI Visualisation, Property Management and Maintenance, which are major elements of the construction process.

Elecosoft concentrated initially on the development of software and related services for the Architectural, Construction and Engineering sectors. However, with the acquisition of IconSystem and ShireSystem in the UK, and ActiveOnline in Germany in the past three years, we have expanded successfully into providing software solutions for the property management, retail and manufacturing sectors, and this has enabled Elecosoft increasingly to supply combinations of our software to our customers to facilitate the delivery of complex solutions that are needed in their projects.

UK revenues accounted for £9.4m in the year under review (2018: £8.2m), 15 per cent higher than last year and equivalent to 37 per cent of total group revenues; and overseas revenues accounted for £16.0m (2018: £14.0m) 14 per cent higher than last year, which was occasioned in part by lower foreign currency rates against Sterling, particularly in Sweden, in the year under review.

Overseas revenues accounted for 63 per cent of total group revenues, which were generated as follows:

- Scandinavia: £6.5m (2018: £6.8m – impacted by adverse foreign exchange movement against Sterling);
- Germany: £4.5m (2018: £3.4m – attributable to increased revenues for Powerproject and ActiveOnline);
- US £1.0m (2018: £0.8m – attributable to sales of Staircon in North America and ActiveOnline); and
- Rest of World: £3.9m (2018: £3.0m – driven by our Netherlands business and ActiveOnline Revenues).

We continue to enjoy excellent relationships with our customers, many of whom have collaborated extensively with our own software developers in the design and development of the software programs and features they require. We, in turn, seek to support our customers in the use of our software and in making adjustments to it when requested to do so. Our recurring revenue was 57 per cent of our total revenue which is an indication of the importance to us of our strong customer relationships.

Over the years, Elecosoft has supplied our software products to universities and other educational establishments in the UK, Sweden, Germany, the US and Australia for educational purposes. I am pleased to say that the number of educational establishments, to which we have provided our software programs free of charge has reached 100 this year and I am informed that, as a consequence, more than 8,000 students will have access to Elecosoft's software programs in their studies this year. I would also like to take this opportunity to congratulate my colleagues who have been directly involved in dealing with Elecosoft's educational support program and to thank them for their commitment to such a worthwhile project.

Profits

Operating profit for the year under review was £3.8m (2018: £2.7m) an increase of 43 per cent; profit before tax and exceptional acquisition related expenses was £3.6m (2018: £3.1m) an increase of 17 per cent; profit before tax for the year under review was £3.5m (2018: £2.4m) an increase of 45 per cent and profit after tax for the year was £2.7m (2018: £1.8m) an increase of 50 per cent.

Finance

The Board is conscious of the need to concentrate on satisfying the need for adequate cash generation in these markets. It is also mindful of the requirement to comply with the terms of our banking facilities. I am therefore pleased to report that cash generated from operations in the year under review amounted to £6.7m (2018: £5.0m), an increase of 33 per cent. As at 31 December 2019, Elecosoft had net bank cash of £1.1m, which compared with its net bank debt of £1.8m at 31 December 2018. Group net assets at 31 December 2019 amounted to £17.9m (31 December 2018: £15.5m) and intangible assets amounted to £22.8m at 31 December 2019 (2018: £23.3m).

Software Development

Market-leading software development is key to the success of our business and is developed by our teams of experienced developers in the UK, Germany, Sweden and Spain. The need to monitor and improve our existing software programs on a regular basis will be obvious. However, there has always been a need to nurture software innovation and this year I am delighted to report that our German colleagues successfully developed and launched our first Artificial Intelligence tool at the 2020 Domotex Show in Hanover and this was very well received.

Other software projects on which our software development teams were working in close collaboration with our customers in the UK and Germany in 2019 were (i) Powerproject XV, (ii) our latest Site Progress Mobile applications in the UK and Germany and (iii) ShireSystems' Mobile Pro application for iOS in the UK. As a consequence of this software development activity, our software development expenditure in the year under review increased to £3.1m (2018: £2.8m), including expenditure on major software development projects totalling £1.2m (2018: £1.0m), which were capitalised in the year.

Software Highlights

Having for years supplied our software to the Public Sector in the United States, I am pleased to inform you that Elecosoft was approved by HM Government to supply its products to the Public Sector in the UK in the year under review and the opportunity for us to do so was clearly a very welcome development. We have also listed a number of our leading software programs on the Government's G-Cloud 11 framework, and we look forward very much to supplying the UK Public Sector with our cloud-based market leading software solutions, including, Project Planning, Project Management, Building Information Management and Maintenance Management software programs and related services. We are confident that the Public Sector will benefit from the efficiencies that our latest software solutions will deliver.

I am also proud to inform you that Elecosoft's Powerproject software won the award for the UK's Best Project Planning Software for the sixth year running at the 2019 Construction Software Awards ("The Hammers"); I am even more delighted to report that all six Gold Medal Winners of the Construction Manager of the Year Awards ("CMYA") were users of Powerproject.

Brexit

2019 saw a considerable amount of political uncertainty, which contributed to delays in decision making and orders placed by the UK construction and architectural industries, and across the retail, manufacturing and property sectors. However, the UK formally left the European Union at the end of January 2020 and this provided some clarity and decision making. As a Group, Elecosoft has been able to minimise the impact that uncertainty created by Brexit has played because the Elecosoft Group has natural hedges of local income and expenditure; and combining this with tight cost controls, we have ensured adequate cash being generated and held in each country in which we operate.

Elecosoft Employees

Elecosoft employees are a strong and talented group of people who work with skill, enthusiasm and humour in all the markets we serve; the average number of employees in the Elecosoft team has increased from 228 in 2018 to 251 in 2019 and as mentioned above we will be doing all we can for their wellbeing during the Coronavirus crisis.

Coronavirus

It is difficult to gauge at this stage the impact that Coronavirus will have on the economy, but the signs are that it is becoming a seriously disruptive problem for industry and the markets that we serve. Our prime concern as the situation develops is the wellbeing of all our employees and accordingly our management are assessing on a daily basis the potential impact of Coronavirus developments, which adversely impact our business and our employees in particular.

As a consequence, we have already succeeded in transferring all our operations, including development, training, support, finance and management into home working environments in each country in which we operate. Our local operating units have and will continue to adopt and implement operational policies and recommendations for dealing with the Coronavirus situation recommended by national governments. I would like to thank and congratulate every employee of Elecosoft for the way in which they have set about dealing with the disruption caused by the Coronavirus situation and for the initiative, thoroughness, understanding and speed that they have shown in transferring all of our business units in all the countries we serve into a very well connected and co-ordinated home working environment which will enable us to continue to provide our customers with virtually full service.

We consider that Coronavirus will inevitably place pressure on our cash resources and our finance colleagues will be assessing the potentially beneficial impact of Government actions to provide financial support in those countries in which we have a presence and will also be considering ways to conserve as much as possible of our existing cash resources.

Proposed Dividend

Elecosoft's strong trading performance and cash generation in 2019, and, ironically, the strong start to trading in 2020, would normally have warranted the payment of an increased final dividend.

However, having regard to the uncertainties created by the Coronavirus situation and the need to conserve our cash resources, the Board has decided to not recommend a final dividend.

Outlook

It is already clear that the Coronavirus outbreak is one of the most difficult challenges that the present generation has ever had to resolve and it can only be resolved by governments acting in concert applying medically proven solutions across the globe. However, in the meantime we must conduct our business in a manner which will make a contribution to the implementation of the wider strategy.

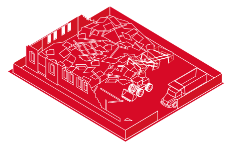
This involves collaborating with governments and following their directions, always having in mind the best interests of our employees, our customers and our shareholders. This has been our policy thus far. It has been successful and this will be our policy going forward and, despite the present difficulty caused by Coronavirus, I believe that concerted government action to deal with it will succeed.

Although Elecosoft performed well in 2019 and in the first three months of 2020, we must now do our best to confront the impact of Coronavirus worldwide, the breakout of which in the first instance impacted on our employees, and then on our customers – and this prompted us to move rapidly to home working in the interest primarily of our employees. However, I hope that the availability of our software, service and software training as a result of our home working strategy will also enable our customers to maintain the momentum of their businesses.

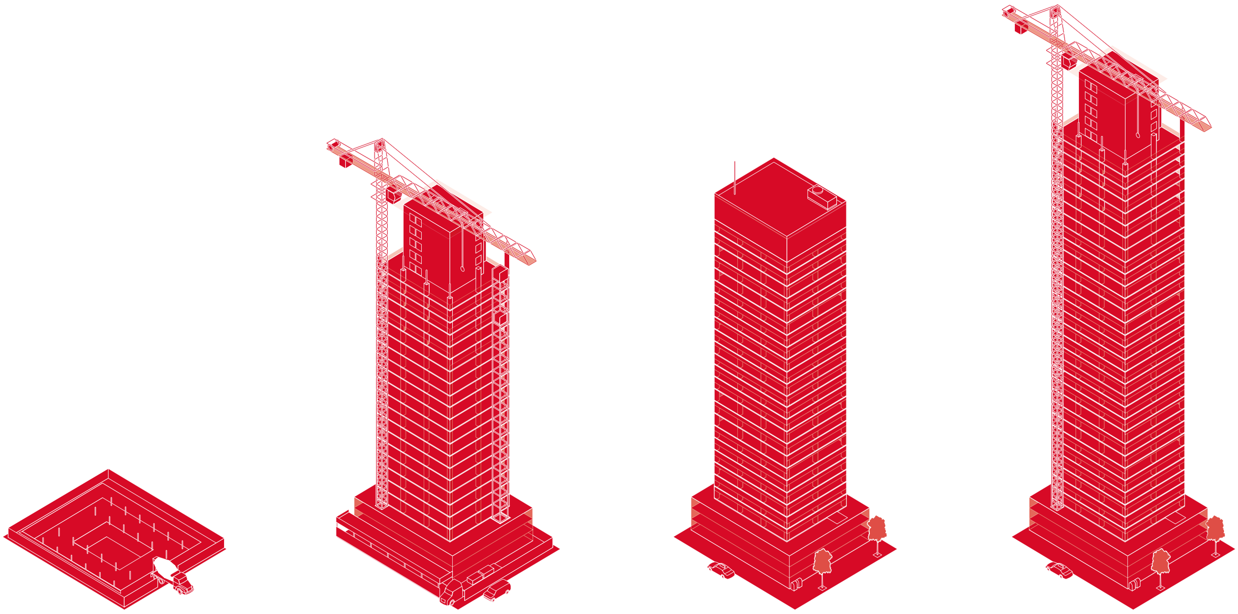
John Ketteley
Executive Chairman
7 May 2020

Our Software

Our digital construction solutions are developed by in-house development teams in the UK, Sweden, Germany and Spain and 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.



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



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

Our Strategy and Key Performance Indicators (KPIs)

Our Strategic Objectives

Progress in 2019

Innovation

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

- Major release of Powerproject XV, the latest version of Elecosoft's project management and planning software.
- Powerproject SaaS, IconSystem and ShireSystem listed on G-Cloud 11, the Crown Commercial Service's ("CCS") digital marketplace, a service for supply of cloud applications and public sector procurement.
- Release of ShireSystem software version better supporting facilities management and new release of ShireSystem mobile application for iOS users.
- Development of an integrated product set from ActiveOnline and ESIGN for their joint customer offering, providing synergistic opportunities.
- Powerproject awarded Project Management Software of the Year at the UK Construction Computing Awards for the sixth consecutive year.
- Release of Artificial Intelligence (AI) visualisation tool for the interior flooring segment.

Growth

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

- Successfully secured an order for IconSystem in the hospitality sector.
- Expanded our portfolio and customer base to address maintenance phases of the building lifecycle.
- Expanded our customer base including over 1,400 newly supported customers from the acquisition of ShireSystem and ActiveOnline.
- Continued to grow our US customer base, now supporting 82 of the ENR400 US construction contractors.
- Continued to centralise marketing collaboration to better control and manage the brand and its assets.
- Expansion of Australian Powerproject construction client to Powerproject Vision.

Stability

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

- Strong cash conversion which resulted in net bank cash of £1.1m.
- Maintained tight control of overhead costs, maintaining flat organic overhead costs.
- Introduction of an HR system in 2019, with continued roll out across remaining core locations in 2020.
- Simplified Elecosoft's exhibition presence with portfolio demonstrations at each event.
- Corporate and product brands to emphasise a single company strategy.

KPIs

Product development spend (£m)

3.1 +11%

2019	3.1
2018	2.8

Software developers headcount

66 +14%

2019	66
2018	58

Revenue (£m)

25.4 +14%

2019	25.4
2018	22.2

Reseller revenue (£m)

1.2 -2%

2019	1.2
2018	1.3

Free cash flow (£m)

4.1

2019	4.1
2018	3.1

Net cash/(debt) (£m)

1.1

2019	1.1
2018	(1.8)

Strategic Priorities

- Continued investment in research and development activities to enhance SaaS, Cloud and Mobile technologies to drive integration of our product portfolio and extend the reach of the software.
- Drive the review of underlying technologies used to build common components for use across the portfolio.
- Continue to develop our portfolio around the requirements for BIM and common data environment ("CDE") to better service requirements for our customers.
- Drive the introduction of best practice development methods to improve quality standards and increase efficiencies.
- Develop mobile visual standards to start implementing a common visual interface across applications.

- Continue to recruit additional technical partners and resellers to enter strategic sectors and reach new international customers.
- Expand efforts in moving into adjacent markets across the supply chain.
- Increase the visibility of the strategic value our solutions represent to our customers.
- Continue to strengthen our position in home markets through increased portfolio-led selling to existing customers.
- Build on the streamlining of the corporate brand and identity in our sales territories.

- Maintain customer satisfaction to ensure renewal of SaaS and maintenance subscriptions.
- Strengthen the Company's digital presence and internal and external communication.
- Continue to improve reporting and administration to drive cost efficiencies.
- Build on our portfolio messaging to improve customer awareness of our expanding solutions.

Our Business Model

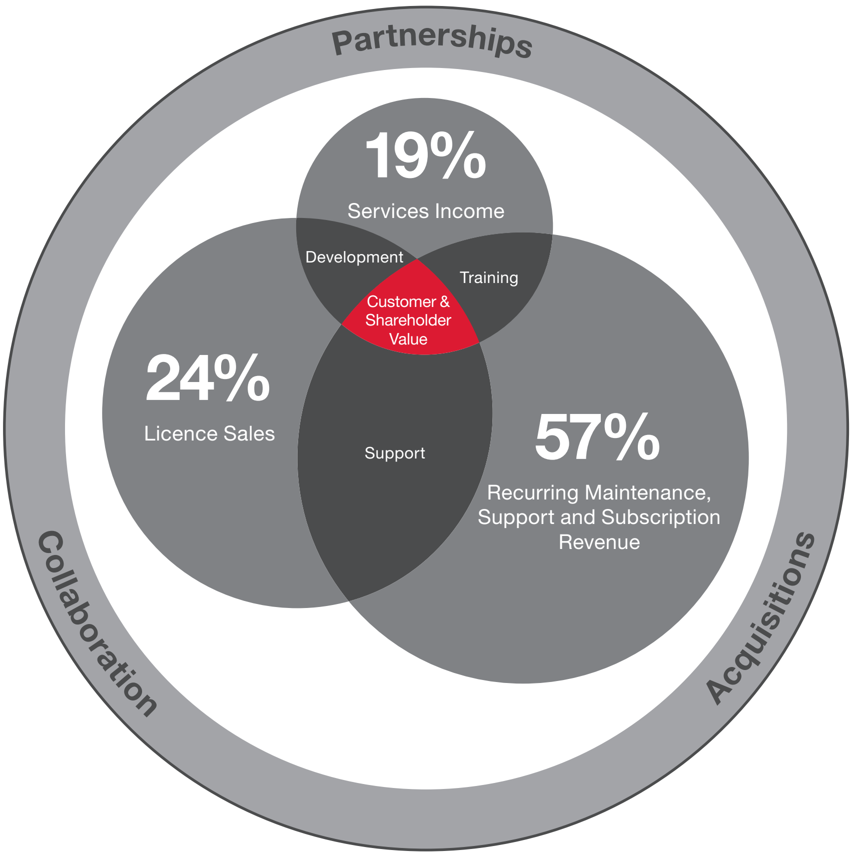
We create customer and shareholder value by investing in the research and development of our software solutions which are sold directly in our core markets of the UK, Sweden, Germany and the Netherlands and indirectly through our international reseller channel.

Our Strategy

Elecosoft continues to uphold its three strategic objectives:

- Innovation
- Growth
- Stability

How We Create Value



We reinvest 12 per cent of revenue in research and development

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 our customers across AECO, property management, retail and manufacturing industries.

Improved Market Presence
A cohesive message promoting our integrated portfolio.

Our Regions

£9.4m

UK
The UK is now Elecosoft's largest territory by revenue representing 37 per cent of the Group's total revenues with a full year inclusion of Shire Systems Limited.

£6.6m

Scandinavia
Scandinavia continues to contribute over 25 per cent of the Group's revenue, but has been impacted by foreign exchange.

£4.5m

Germany
Germany remains our third largest region by revenue and includes a full year contribution from ActiveOnline. Germany represents good opportunity in 2020 for the Group, with opportunities to grow Powerproject revenues and in particular with ESIGN and ActiveOnline and the recent launch of the Artificial Intelligence visualisation tool.

£3.9m

Rest of World
The rest of the world has seen revenues increase 30 per cent, driven by success in the Netherlands with Powerproject, and acquired revenues. In 2020 there are opportunities in Australia to grow revenues through Powerproject and Staircon.

£1.0m

USA
Increased US revenues can be attributed to the success of Staircon in North America. Powerproject adoption in the US continues with 31 per cent of the top 100 ENR400 US construction contractors now using Powerproject.

Review of 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 and manufacturing, property and retail markets. Elecosoft remains conscious of the need to manage and conserve its cash resources carefully and in present conditions caused by Coronavirus, Elecosoft has been even more vigilant in the control of operational costs. Unfortunately it is not possible to predict with any degree of certainty the impact on our business, whether positive or negative, as we enter the transitional period 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

I am pleased to report revenue growth of 14 per cent and profit before tax, after exceptional costs, increased by 45 per cent compared with 2018.

As a result, Elecosoft improved its cash position, moving from a net bank debt position of £1.8m at 31 December 2018 to a net bank cash position at the end of the year of £1.1m; made up of cash of £7.2m and an outstanding bank debt position, of £6.1m.

Revenue

Revenue for the period increased 14 per cent to £25.4m (2018: £22.2m), equivalent to 16 per cent at constant currency. The acquired business of ShireSystem and ActiveOnline contributed 5 per cent and 8 per cent respectively.

Recurring revenues from maintenance support and subscription contracts increased 17 per cent compared to 2018 and now represent 57 per cent of total revenue (2018: 55 per cent). The level of deferred income at the balance sheet date increased by 4 per cent to £5.9m (2018: £5.7m) which demonstrates a positive sign of future maintenance revenue.

Overall revenue growth was driven by direct sales, while sales through reseller channels reduced by 2 per cent to £1.2m (2018: £1.3m). Further consideration will be given to our reseller channels in 2020.

The Group delivered 3 per cent growth in Project Management, which accounts for 40 per cent of total revenues. The UK grew market share with growth in new customer revenue compared with the prior year, however the UK experienced a decline in existing customer revenue compared to prior year; which was a reflection of the uncertainties in construction pipeline which was experienced in the second half of 2019 and in the lead up to the general election. Site Management and Estimating revenues decreased 4 per cent which is due to unfavourable foreign currency in Scandinavia where the majority of Estimating and Site Management revenue is derived.

UK and German revenues increased with the inclusion of acquired business in those territories, but also the performance of Project Management in Germany through considered investment in resource, and investment in Information Management in the UK which resulted in newly acquired customers some of which was offset by a loss in small accounts due to customer cost reductions and personnel changes.

The Group's strategy to penetrate new geographic markets was reflected in strong revenue growth in the USA, which grew 31 per cent to £1.0m, from both Staircon (Engineering) revenues in North America but also large customers acquired as part of the ActiveOnline acquisition.

However, Engineering products in many other territories experienced difficult trading conditions due to delays on orders as customers experienced uncertainty in relation to capital investment of large manufacturing machines which also require Staircon software to operate.

Financial Review continued

Revenue continued

The Rest of Europe continued to grow, up 37 per cent, spearheaded by Project Management and an investment in resources in our Netherlands operation.

Market conditions resulted in underlying Group licence revenues remaining consistent with 2018 at constant currency, although there were notable gains in certain territories where considered incremental investment had been made, as well as further adoption by new customers.

The lower than expected existing customer licence revenue resulted in lower average order value deals by newly adopting customers; the result was a decline in the underlying services revenues.

It should be noted that particular third party products impacted revenue by £0.2m in Scandinavia however management took decisive actions to minimise the impact to overall profits.

Profit

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

Under uncertain conditions, management tightly managed the underlying overheads which remained flat year on year, with acquisitions contributing the overall uplift in overheads.

Reported operating profit grew 43 per cent to £3.8m (2018: £2.7m).

The period includes costs of £0.1m in relation to aborted corporate finance and acquisition related expenditure.

Reported operating profits before corporate finance and acquisition related expenditure grew by £0.6m, an 18 per cent increase year over year, and was equally distributed between organic and acquired businesses.

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 15 per cent.

	2019 £'000	2018 (restated) £'000
Operating profit	3,812	2,666
Acquisition expenses	143	689
Amortisation of acquired intangible assets	590	595
Adjusted operating profit	**4,545**	3,950

Total software product development costs amounted to £3.1m for the year (2018: £2.8m) of which £1.2m (2018: £1.0m) was capitalised demonstrating the commitment to increasingly invest in new product development and substantial product upgrades as well as the full year impact of the acquisitions of Shire Systems and ActiveOnline.

This incremental capitalisation was offset by an incremental £0.3m increase in associated amortisation of previously capitalised software development.

The amounts capitalised during the year included investments in Powerproject XV, Bidcon, ShireSystem including Mobile Pro iOS, and continued investment in Memmo and Powerproject Vision. 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 included interest expense for leasing arrangements under IFRS 16. Finance costs in respect of the Group's term debt, were £0.3m (2018: £0.2m), resulting in a profit before tax of £3.5m (2018: £2.4m); an increase of 45 per cent.

The Group tax charge in the year was £0.8m (2018: £0.6m) and represented 22.2 per cent of profit before tax (2018: 25.0 per cent).

The net profit attributable to Ordinary Shareholders increased by 50 per cent to £2.7m (2017: £1.8m).

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 12 per cent to £3.3m (2018: £3.0m).

	2019 £'000	2018 (restated) £'000
Net profit after tax	2,701	1,796
Acquisition expenses	143	689
Amortisation of acquired intangible assets	478	482
Adjusted net profit after tax	**3,322**	2,967

£6.7m (2018: £5.0m) cash was generated from operations, an increase of £1.7m, this reflects the overall trading performance of the Group, continued focus on working capital and resilience to market conditions. Overall working capital movements were favourable, contributing a net cash inflow of £0.5m (2018: £0.4m).

Capital expenditure on intangible assets, principally comprising the capitalisation of software product development costs of £1.2m, was £1.2m (2018: £1.1m).

This reflects an ongoing investment in development of new products and major product upgrades. Capital expenditure on property, plant and equipment was £0.1m (2018: £0.1m)

After deducting capital expenditure and acquisition related expenses, adjusted operating cash flow, as set out below, was £5.5m (2018: £4.5m), meaning that 120 per cent of adjusted operating profit (2018: 114 per cent) was converted into cash.

This indicates the strength of the overall business model, where 57 per cent of the Group's revenue is recurring and typically invoiced annually in advance.

	2019 £'000	2018 (restated) £'000
Cash generated in operations	6,669	5,017
Purchase of intangible assets	(1,237)	(1,064)
Purchase of property, plant and equipment	(110)	(123)
Acquisition expenses	143	689
Adjusted operating cash flow	5,465	4,519

Adjusted free cash flow (before dividends and acquisition related expenses) increased by 10 per cent in the year to £4.2m (2018: £3.8m). Cash dividends paid to shareholders amounted to £0.3m (2018: £0.2m).

	2019 £'000	2018 (restated) £'000
Adjusted operating cash flow	5,465	4,519
Net interest paid	(268)	(151)
Tax paid	(1,052)	(618)
Proceeds from disposals of property, plant and equipment	67	83
Adjusted free cash flow	4,212	3,833
Acquisition expenses	(143)	(689)
Free cash flow	4,069	3,144

Funding and Liquidity

The Group ended the year with a net bank cash of £1.1m (2018: net bank debt of £1.8m)

The Group's net cash position comprises cash at hand of £7.2m (2018: £6.0m), offset in part by gross borrowings of £6.1m (2018: £7.8m).

Gross borrowings comprise a term debt of £5.9m from Barclays (net of prepaid transaction costs of £0.1m) and a loan balance against the ActiveOnline property acquired of £0.2m.

The Barclays loan is repayable in quarterly instalments over the next four years, with £1.6m annually. The term debt carries a fixed interest rate of 3.768 per cent until June 2021.

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.

IFRS 16 was adopted from 1 January 2019. The fully retrospective approach was used, which saw the 2018 figures restated to account for the right of use assets and lease liabilities on the balance sheet, as well as the reclassification of operating costs as depreciation and associated finance charges in the profit and loss account.

We have taken the opportunity presented by a resignation at recently acquired Shire Systems to relocate their finance function to Telford. We seek to maintain the highest standards of processes and controls, and will continue to examine opportunities for synergies.

When indicating the organic revenue growth we consider the revenues by individual business units, we have not considered the investments we have made at Shire Systems in staff investments which have seen their maintenance retention rates improve significantly over the last 12 to 18 months, resulting in higher recurring revenues.

However, the synergies were not fully achieved as anticipated in ActiveOnline and ESIGN due to increased pressure on wages for developers in the German market, as well as delays from key customers, but this has not resulted in any impairment with opportunities in 2020.

Earnings Per Share

Basic earnings per share increased 43 per cent to 3.3 pence (2018: 2.3 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 8 per cent to 4.1 pence (2018: 3.8 pence).

Dividends

The Board has recommended not to have a final dividend having regard to the uncertainties created by the Coronavirus situation.

Ben Moralee FCA
Group Finance Director
7 May 2020

Board of Directors

John Ketteley FCA
Executive Chairman

Skills and Experience
John Ketteley is a Fellow of the Institute of Chartered Accountants in England and Wales, having qualified as a Chartered Accountant in 1964, after completing five years Articles as an articled clerk with Barron Rowles and Bass. He is a member of the Worshipful Company of Chartered Accountants in England and Wales.

In 1964 he joined SG Warburg & Co. Ltd, then a leading London merchant bank, where he began his career as a merchant banker.

In 1972, he was appointed a Director of the Bank, having specialised in the provision of corporate finance advice to boards of client companies and trustees of major pension funds on bids, mergers and bid defences. He also advised boards on developing financial and acquisition strategies for growing their businesses or for resolving financial difficulties, as the case may be.

In 1983, he resigned from Warburgs and joined Rea Brothers plc, the merchant bank, as Managing Director. Subsequently he became a Director of Barclays Merchant Bank in 1985, from which he resigned in 1988 to begin a career as an independent director or financial advisor to boards of companies seeking corporate financial advice.

In 1983, he had also become Deputy Chairman of BTP plc, a speciality chemical manufacturer, which he had advised since 1968, when it had a market value of only £137,500. However, when in 1994 he was invited to become the Non-Executive Chairman of BTP plc, its market value had risen to £194m; subsequently, BTP was acquired by Clariant of Switzerland in the year 2000, for £1.2bn. He stresses that this increase in the value of BTP is a tribute to the outstanding performance of BTP's executive management over the years, led initially by Frank Buckley and subsequently by Steve Hannam.

Apart from his involvement with BTP plc, he was also invited to advise or join the boards of a number of listed and unlisted companies as a Non-Executive Director. These included Dufay Bitumastic plc, a speciality paint manufacturer; Boosey & Hawkes plc, a classical music publisher; Country Casuals plc, a specialist retailer, of which he became Chairman. He also became Chairman of Prolific Income plc, a specialist investment trust, when it was listed on the London Stock Exchange.

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. Accordingly, he is continually reviewing professional materials and keeping himself up to date.

Committee Membership
N

Jonathan Hunter BBus BMm
Chief Operating Officer

Skills and Experience
Appointed to the Board in June 2016, with a Bachelor's degree 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. Jonathan played a fundamental role in the transition to a software group during and post divestment of the Building Systems division. 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 23 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 14 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. During the year Mukul attended various professional seminars and software forums.

Ben Moralee FCA BSc
Group Finance Director

Skills and Experience
Appointed to the Board in September 2018, Ben is responsible for Group Finance and has extensive experience in international finance and management positions having previously been Head of Finance at Figleaves (part of N Brown Group PLC) and 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, which includes courses run by the ICAEW and the QCA. In addition, he is a member of the Information Technology and Financial Reporting Faculties, and Corporate Governance and Data Analytics Communities of the ICAEW. He holds a Bachelor's degree in Natural Sciences from Durham University.

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 Executive Chairman present, to appraise the Executive Chairman's performance and discuss succession planning. Additionally, during the year, Serena has taken part in various governance briefings by finnCap and undertaken research into remuneration strategies.

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 14 years to date as a Councillor in London local government and formerly worked for Saatchi and Saatchi (Rowland Company) and DLA Piper. He 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. 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 Executive 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 Executive Chairman, along with the Executive Directors and Company Secretary, ensures that the Board functions effectively and has established board processes designed for this purpose. Key aspects of these processes are:

- The Board met six times during the year. These meetings, together with any sub-committee meetings principally convened for procedural matters, 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 2019 is set out in the table below and committee meetings in the committee reports on pages 18 to 22.

	Main Board meetings		Additional procedural meetings	
	Number	%	Number	%
Executive				
J H B Ketteley	5	83	12	100
J Hunter	6	100	11	92
A Karlsson	6	100	12	100
M Mistry	6	100	12	100
B Moralee	6	100	12	100
Non-Executive				
S Lang	6	100	11	92
K Craig	5	83	9	75
D Dannhauser	6	100	9	75

- Each regular, scheduled board meeting has an overarching theme. These include the annual budget, Group business strategy, interim and final results.
- Executive Directors and members of the senior management team make presentations covering progress against current strategy and key objectives and ideas for future investment.
- In addition, the Board holds regular further ad hoc board or sub-committee meetings to address largely procedural issues between the scheduled board meetings. Examples of this would be the allotment of new shares following the scrip dividend and property leases.
- The Board delegates the day-to-day responsibility for managing the Group to the Executive Chairman and 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, reports from each Executive Director and individual business units' reports is provided to the Board on a monthly basis.
- Meetings were held between the Executive Chairman and the Non-Executive Directors during the year, without the other Executive Directors being present, to discuss appropriate matters as necessary.
- Non-Executive Directors and Executive Directors are encouraged annually to undertake training in furtherance of their specific roles and general duties as a Director and to keep their skills up to date and relevant to the Group. This may include attending meetings and workshops run by the London Stock Exchange and the Quoted Companies Alliance. Details on how each individual Director has approached their personal development are set out in their biographies on pages 14 and 15.

Corporate Governance

In September 2018, the Company adopted the Quoted Companies Alliance Corporate Governance Code "QCA Code". The Company understands that compliance is an organic process and will continue to review and improve its governance procedures. Details of how the Company has dealt with each principle of the code are detailed below or referred to in 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 authorities 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 10.

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 other Board members, including an evaluation of each Executive provided by the Executive Chairman. This review is discussed with each individual Director.

Having adopted the QCA Code, the Board intends to undertake a more formal review of the Board as a whole, its sub-committees and individual members.

Succession Planning

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.

With the exception of the Deputy Chairman to succeed the Executive 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.

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 key responsibilities are:

- to act as a sounding board for the Executive Chairman and to carry out the performance evaluation of the Executive Chairman;
- to be available to attend meetings with major shareholders and key advisors to receive their views regarding the Company; and
- to act as a route of access for Directors and Senior Executives 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 organisations; and
- they do not represent a significant shareholder.

Each Non-Executive Director is expected to attend and be prepared for all main Board meetings.

Company Secretary

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

- assisting the Board in the Company implementing good governance procedures;
- assisting Executives in ensuring that the Company complies with legal, statutory and regulatory requirements;
- assisting the Executive Chairman with the effective running of Board meetings; and
- acting as a confidential sounding board for Directors.

The Directors have access to independent professional advice, when they judge it necessary, in executing their duties on behalf of the Company. The main external advisors used by the Company during the year can be found on page 84.

John Ketteley
Executive Chairman
7 May 2020

Audit Committee Report

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**

Dear Shareholder

The primary roles and responsibilities of the Committee are:

- reviewing financial statements, including the appropriateness and application of accounting policies used, prior to their recommendation to the Board;
- reviewing the effectiveness of the Company's internal controls and risk management systems;
- monitoring the relationship with the external auditor, including assessing auditor independence and the effectiveness of the audit process;
- reviewing the adequacy of the Company's whistleblowing arrangements; and
- making recommendations to the full Board for its consideration and approval.

The full terms of reference for the Audit Committee may be found by visiting: 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 2018 and interim reports for 30 June 2019. Company officers invited to Audit Committee meetings during the current year were the Group Finance Director, Group Financial Controller and Company Secretary.

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 2019.

The Committee is satisfied that Grant Thornton remains independent but has agreed with the Board that the Board will undertake a formal independence and tender process in 2020. Grant Thornton has indicated its willingness to continue in office and will be asked to formally re-tender. A resolution will be proposed at the Annual General Meeting to appoint an auditor and to determine its remuneration.

The total fees paid to Grant Thornton in the year are shown on page 46 note 3.

The Company used separate advisors for taxation.

Internal Audit

The Committee has considered whether the Group's internal controls process would be significantly enhanced by an internal audit function separately resourced from the finance function and has taken the view, given the size of the Group, the internal controls in place and the impact of the Executive Directors' significant involvement in the Group's day-to-day business that an internal audit function would not be cost-effective at this time.

However, the Committee will continue to monitor this in the context of the Group's increasing size and complexity.

Risk Management

Internal controls and risk management are detailed on page 10 of the Report and Accounts.

David Dannhauser FCA
Audit Committee Chair
7 May 2020

Nominations Committee Report

Dear Shareholder

On behalf of the Board and Committee I am pleased to present the Nominations Committee Report for the year ended 31 December 2019.

Following a review of the Board structure last year and the creation of a new role of Corporate Development Director, the Executive Chairman did not see the requirement to call a Nominations Committee during the year. The composition and appraisal of the Board would have been considered during any Remuneration Committee meeting.

John Ketteley
Nominations Committee Chair
7 May 2020

Committee Composition and Meeting Attendance

Director	Number of meetings	Attendance %
John Ketteley FCA (Chair)	**N/A**	**N/A**
Serena Lang MBA	**N/A**	**N/A**
Kevin Craig BA	**N/A**	**N/A**
David Dannhauser FCA	**N/A**	**N/A**

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 by visiting: www.ir.elecosoft.com.

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

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.

Remuneration Committee Report

Committee Composition and Meeting Attendance

Director	Number of meetings	Attendance %
Serena Lang MBA (Chair)	**5**	**100**
Kevin Craig BA	**5**	**100**
David Dannhauser FCA	**5**	**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 five times 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 March and May, the Committee met to discuss the vesting criteria of the 2016 share options. In November and December, meetings were held to discuss the Long Term Incentive Plan ("LTIP") for the Executive team.

Serena Lang
Remuneration Committee Chair
7 May 2020

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;
- agree the terms of reference of any remuneration consultants; and
- to review the performance and award of any options granted under the Company's 2014 option share plan.

The full terms of reference for the Remuneration Committee may be found by visiting: www.ir.elecosoft.com.

The Committee used external advisors during the year to review the share options, and legal advice was sought from the Company's legal advisors on the vesting criteria for the 2016 share award and whether the issue of new options would be EMI compliant.

The Committee looked at remuneration trends and market rates when considering the remuneration packages for Directors during the year.

Directors' Remuneration

	Basic salary plus bonus £'000	Fees £'000	Benefits £'000	LTIP £'000	Pension £'000	**Year to 31 December 2019 £'000**	Year to 31 December 2018 £'000
Executive							
J H B Ketteley	285	5	5	(17)	-	**278**	301
J Hunter	175	5	5	(8)	13	**190**	188
A Karlsson	133	9	6	7	21	**176**	160
M Mistry	132	5	5	—	8	**150**	89
B Moralee	128	5	5	—	9	**147**	46
S Morgan	—	—	—	—	—	**—**	145
Non-Executive							
S Lang	—	68	—	—	—	**68**	78
K Craig	—	37	—	—	—	**37**	37
D Dannhauser	—	41	—	—	—	**41**	38

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 2019 are:

- J H B Ketteley £35,000 (2018: £25,000)
- J Hunter £35,000 (2018: £13,742)
- A Karlsson £17,414 (2018: £14,133)
- M Mistry £12,000 (2018: £8,692)
- B Moralee £13,000 (2018: £5,000)
- S Lang £nil (2018: £10,000);

iii) pension benefits based solely on basic salary; and

iv) performance related share awards and non-pensionable bonuses under the Company's LTIP (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 16 senior employees participate in the LTIP in addition to three Directors.

No options were issued during 2019 (2018: 250,000). Details of the LTIP 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
2015	16/02/2025	300,000	Available to exercise option for new shares at 20.75 pence per share
		1,415,000	

Remuneration Committee Report continued

Directors' Share Options

	Directors options in issue	2019 Issued	2019 Exercisable £	2019 £	2018 Issued	2018 Exercisable £	2018 £
J H B Ketteley	100,000	—	0.45	—	—	0.45	—
J Hunter	100,000	—	0.45	—	—	0.45	—
A Karlsson	150,000	—	0.45	—	—	0.45	—
S Morgan*	—	—	0.45	—	150,000	0.45	67,500
	350,000	—		—	150,000		67,500

* 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: three months).

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 Annual General Meeting, 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. However, transactions between Directors and the Group are detailed below:

Director	2019	2018	Company	Position	Service
J H B Ketteley	5,000	5,000	J H B Ketteley & Co	Director and Shareholder	Office Services
J H B Ketteley	75,000	72,916	J H B Ketteley & Co	Director and Shareholder	Property Letting 66 Clifton Street
K Craig	9,900	—	Political Lobbying & Media Relations Limited	Director and Shareholder	Website Consultancy

Gender Pay Gap

Elecosoft plc and its UK subsidiaries currently has 98 employees (2018: 101) in the UK.

The Company is not obliged to undertake a formal review of a potential gender pay gap. However, it does a review of gender and remuneration levels across the UK. The Board notes that the Company's highest paid (pro rata) employee is female and that 31 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 2019.

The Company is a member of the Quoted Companies Alliance ("QCA"). The QCA publishes its own Corporate Governance Code ("Code") that recognises that good corporate governance helps deliver business success and growth, during the year the Board continues work on ensuring that it complies 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 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 14
Corporate governance	Chairman's Statement of Corporate Governance	Page 16
Directors' remuneration and interest	Remuneration Committee Report	Page 20
Independent auditor	Audit Committee Report	Page 18
Financial risk management	Review of Principal Risks	Page 10
Going concern	Notes to the Consolidated Financial Statements	Page 39
Group's treasury policies	Notes to the Consolidated Financial Statements	Pages 61 to 65
Research and development activities	Notes to the Consolidated Financial Statements	Page 40
Risk management	Review of Principal Risks	Page 10
Share capital	Notes to the Consolidated Financial Statements	Page 58
Strategic review	Our Business Model	Page 8

Results for the Year Ended 31 December 2019

The Group profit on ordinary activities before taxation was £3,473,000 (restated 2018: £2,394,000). The detailed financial statements of the Group are set out on pages 31 to 67.

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 Executive Chairman's Statement on pages 2 and 3 and in Our Strategy and Key Performance Indicators (KPIs) on pages 6 and 7.

Directors' Report continued

Dividends
Elecosoft's strong trading performance and cash generation in 2019 would normally have warranted the payment of an increased final dividend. However, having regard to the uncertainties created by the Coronavirus situation and the need to conserve our cash resources, the Board has decided to not recommend a final dividend.

Share Price
The middle market price of the Company's Ordinary Shares on 31 December 2019 was 78.50 pence and the range during the period under review was 66.00 pence to 85.50 pence.

Directors
The current composition of the Board of Directors is shown on pages 14 and 15. Directors who held office during the year were:

- J H B Ketteley.
- J Hunter.
- A Karlsson.
- M Mistry.
- B Moralee.
- S Lang.
- K Craig.
- D Dannhauser.

J H B Ketteley, J Hunter and S Lang will resign at the forthcoming Annual General Meeting and, being eligible, will offer themselves for re-election.

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 2019 were as follows:

	2019	2018
J H B Ketteley	**9,315,064**	9,132,048
J Hunter	**16,514**	16,514
A Karlsson	**15,379**	15,240
K Craig (Non-Executive)	**22,120**	22,060
D Dannhauser (Non-Executive)	**453,461**	449,339

Substantial Interests
As at the year end, the Company has been notified of the following interests in the issued share capital:

Shareholder	No. of shares	%
H A Allen	11,882,583	14.45
J H B Ketteley	9,315,064	11.16
J D Lee	5,422,064	6.60
JO Hambro Capital Management	4,900,000	5.96
Rights & Issues Investment Trust PLC	4,520,781	5.50
Lowland Investment Company PLC	3,153,443	3.84
P R & Mrs M J Ketteley	3,136,440	3.82
G V & S M Oury	2,678,000	3.26
Schroder Investment Capital	2,507,325	3.05

Political Donations
The Company did not make any political donations in 2019 (2018: £nil).

Research and Development
Product innovation and development is a continuous process. The Company 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 40.

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

The Company has invested in an HR system and has introduced an employee survey in the UK and Sweden.

Employment of Disabled Persons
The Company provides 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 their employment with the Company.

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 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
7 May 2020

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 2019 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 (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, 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 2019 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group and parent company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with these particular events.

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 and 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.

In our evaluation of the directors' conclusions, we considered the risks associated with the group and parent company's business model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the group and parent company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group and parent company will continue in operation.

Overview of our audit approach

- Overall materiality: £230,000, which represents 1% of the group's preliminary revenue;
- 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
- Full scope audit procedures were carried out at the Parent Company and the UK and Swedish non-dormant subsidiaries. Specified audit procedures have been carried out in respect of subsidiaries in Germany and analytical review procedures in respect of the US and Dutch subsidiaries.

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

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, license sales and other services. There is an audit risk that revenue recognised is not supported by a relevant sale taking place.
 	
IFRS 15 "Revenue from contracts with customers" may not be consistently applied given that various significant judgments were employed by management as required by the standard.
 	
We therefore identified revenue recognition 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:
	• review of revenue recognition process for each revenue stream, including performing walkthroughs and checking the journal entry process;
	• checking the appropriateness of the group's business model and its compliance to IFRS 15 including assessing timing of performance obligations, allocation of transaction prices, evaluating bundled services, if any;
	• performance of substantive testing on material revenue streams which were licence sales, recurring support and subscription revenues, services income including:
	  • Examining contracts/purchase orders to check terms and transaction prices;
	  • Checking of sales invoices and cash remittance advice and/or cash collection to ensure that the revenues have occurred;
	  • For licence sales, verifying delivery by ensuring key codes have been provided to customers.
	  • Examining a sample of pre year end and post year end sales invoices and related purchase orders to ensure revenues have been recorded in the correct period.
	• tested and ensured that all income relating to services to be provided in the next accounting period has been appropriately deferred and that all revenues during the period arising from previous deferrals are properly released.
	
	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.
	
	Key observations
	Based on our audit work performed we did not identify any material misstatement in recognition of revenue.

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. Software development is a key part of the business and there have been a number of new and improved products in the year at various stages of development. Costs capitalised are significant and as the capitalisation requirements of IAS 38 are partly judgemental there is a risk of misstatement. The group capitalised £1.2m of development costs (2018: £1.0m) relating to intangible fixed assets during the year. We therefore identified capitalisation of development costs 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: • assessment of the group's product development activities to ensure that capitalisation is in accordance with the relevant criteria under IAS 38; • discussions with management responsible for product development to understand the nature and validity of assets being developed; • assessed and challenged assumptions including revenue growth rates and WACC rates used in budgets confirming commercial viability; and • detailed testing of a sample of additions in the year including agreeing amounts to supporting documentation including timesheets for labour hours on development department costs to ensure the amounts capitalised were appropriate. The group's accounting policy on capitalisation of development costs is shown in note H and related disclosures are included in note 10. **Key observations** 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
Risk 3 The carrying value of goodwill and other intangibles may not be recoverable The group has goodwill of £15.6m (2018: £15.7m) and other intangible assets of £7.2m (2018: £7.5m) For goodwill and other intangible 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 intangible 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 carrying value of goodwill and other intangibles 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 on cash generating units (CGUs) which compared the CGU's carrying values to management's estimates of the recoverable amount (which is the higher of fair value less costs of disposal and value-in-use) and confirming the impairment test is in accordance with IAS 36; • assessed and challenged the key assumptions within the impairment review including growth rates and discount rates and year-on-year changes on these rates; • checking the accuracy of historic estimates and performing sensitivity analyses on forecast revenues at different discount rates; and • checked amortised intangible assets for any indicators of impairment The group's accounting policy and consideration of impairment is disclosed in note J of the significant accounting policies note to the financial statements. Related disclosures are included in note 9 and 10. **Key observations** Our testing did not identify any material misstatement in the carrying value of goodwill and other intangible assets.

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.

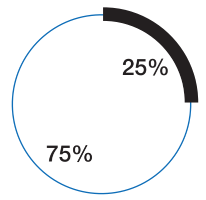
Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	£230,000 which is 1% 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 2018 (£200,000) due to the increase in revenue.	£207,000 which is 1% of total assets but capped 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. Materially for the current year is higher than the level that we determined for the year ended 31 December 2018 (£180,000) to reflect the change in the total assets of the parent.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% 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	£11,500 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£10,350 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Our application of materiality continued

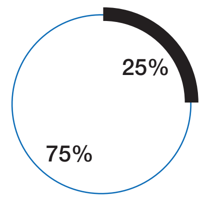
The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – group



- ■ Tolerance for potential uncorrected misstatements
- ■ Performance materiality

Overall materiality – parent



- ■ Tolerance for potential uncorrected misstatements
- ■ Performance materiality

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;
- performance of walkthroughs over revenues within all trading subsidiaries;
- 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. Specified audit procedures were performed for the audit of the German subsidiaries and analytical review 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 consolidated financial statements.

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.

Independent Auditor's Report continued

to the members of Elecosoft plc

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 25, 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
7 May 2020

Consolidated Income Statement

for the year ended 31 December 2019

	Notes	2019 £'000	2018 (restated) £'000
Continuing operations			
Revenue	1,2	**25,398**	22,220
Cost of sales		**(2,647)**	(2,684)
Gross profit		**22,751**	19,536
Amortisation and impairment of intangible assets	2,3,10	**(1,445)**	(1,124)
Acquisition and corporate finance related expenses	3	**(143)**	(689)
Other selling and administrative expenses		**(17,351)**	(15,057)
Selling and administrative expenses	3	**(18,939)**	(16,870)
Operating profit	2,3	**3,812**	2,666
Finance income	5	**—**	—
Finance cost	5	**(339)**	(272)
Profit before tax		**3,473**	2,394
Tax	6	**(772)**	(598)
Profit for the financial period		**2,701**	1,796
Attributable to:			
Equity holders of the parent		**2,701**	1,796
Earnings per share – (pence per share)			
Basic	8	**3.3p**	2.3p
Diluted	8	**3.3p**	2.3p

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

	2019 £'000	2018 (restated) £'000
Profit for the period	**2,701**	1,796
Other comprehensive income:		
Items that will be reclassified subsequently to profit and loss:		
Translation differences on foreign operations	**(51)**	(82)
Other comprehensive income net of tax	**(51)**	(82)
Total comprehensive income for the period	**2,650**	1,714
Attributable to:		
Equity holders of the parent	**2,650**	1,714

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

	Share capital £'000	Share premium £'000	Merger reserve £'000	Translation reserve £'000	Other reserve £'000	Retained earnings (restated) £'000	Total £'000
At 1 January 2018	774	—	575	(66)	(283)	10,486	11,486
Adjustments for prior periods (IFRS 16)	—	—	—	—	—	(162)	(162)
At 1 January 2018 (restated)	774	—	575	(66)	(283)	10,324	11,324
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	—	—	—	—	—	1,796	1,796
Other comprehensive income:							
Exchange differences on translation of net investments in foreign operations	—	—	—	(82)	—	—	(82)
Other	—	(1)	—	—	—	1	—
Total comprehensive income for the period	—	(1)	—	(82)	—	1,797	1,714
At 31 December 2018 (restated)	818	2,049	1,004	(148)	(177)	11,933	15,479
Dividends	—	—	—	—	—	(275)	(275)
Share-based payments	—	—	—	—	70	—	70
Issue of share capital	4	(4)	—	—	—	—	—
Transactions with owners	4	(4)	—	—	70	(275)	(205)
Profit for the period	—	—	—	—	—	2,701	2,701
Exchange differences on translation of net investments in foreign operations	—	—	—	(51)	—	—	(51)
Other	—	2	(2)	1	(1)	—	—
Total comprehensive income for the period	—	2	(2)	(50)	(1)	2,701	2,650
At 31 December 2019	**822**	**2,047**	**1,002**	**(198)**	**(108)**	**14,359**	**17,924**

Consolidated Balance Sheet

At 31 December 2019

	Notes	2019 £'000	2018 (restated) £'000	1 January 2018 (restated) £'000
Non-current assets				
Goodwill	9	**15,598**	15,746	11,480
Other intangible assets	10	**7,242**	7,536	3,432
Property, plant and equipment	11	**734**	912	513
Right-of-Use assets	22	**2,048**	2,440	2,657
Deferred tax assets	19	**118**	139	219
Total non-current assets		**25,740**	26,773	18,301
Current assets				
Inventories	13	**46**	8	16
Trade and other receivables	14	**4,339**	4,491	3,738
Current tax assets		**105**	54	37
Cash and cash equivalents		**7,236**	6,036	4,737
Total current assets		**11,726**	10,589	8,528
Total assets		**37,466**	37,362	26,829
Current liabilities				
Bank overdraft	16	**—**	—	(1,012)
Borrowings	16	**(1,645)**	(1,648)	(790)
Lease liabilities	16,22	**(558)**	(659)	(565)
Trade and other payables	15	**(1,704)**	(1,600)	(1,496)
Provisions	17	**(142)**	(144)	(209)
Current tax liabilities		**(117)**	(343)	(241)
Accruals and deferred income	18	**(7,747)**	(7,713)	(6,593)
Total current liabilities		**(11,913)**	(12,107)	(10,906)
Non-current liabilities				
Borrowings	16	**(4,490)**	(6,202)	(1,580)
Lease liabilities	16,22	**(1,691)**	(1,980)	(2,257)
Deferred tax liabilities	19	**(1,407)**	(1,553)	(721)
Non-current provisions	17	**(41)**	(41)	(41)
Total non-current liabilities		**(7,629)**	(9,776)	(4,599)
Total liabilities		**(19,542)**	(21,883)	(15,505)
Net assets		**17,924**	15,479	11,324
Equity				
Share capital	20	**822**	818	774
Share premium account		**2,047**	2,049	—
Merger reserve		**1,002**	1,004	575
Translation reserve		**(198)**	(148)	(66)
Other reserve		**(108)**	(177)	(283)
Retained earnings		**14,359**	11,933	10,324
Equity attributable to shareholders of the parent		**17,924**	15,479	11,324

The financial statements of Elecosoft plc, registered number 00354915, on pages 31 to 67 were approved by the Board of Directors on 7 May 2020 and signed on its behalf by:

John Ketteley
Executive Chairman

Consolidated Statement of Cash Flows

for the year ended 31 December 2019

	Notes	2019 £'000	2018 (restated) £'000
Cash flows from operating activities			
Profit before tax		**3,473**	2,394
Net finance costs		**339**	272
Depreciation charge		**902**	778
Amortisation charge		**1,445**	1,124
Profit on sale of property, plant and equipment		**(8)**	(16)
Share-based payments charge		**70**	106
Decrease in provisions		**(2)**	(63)
Cash generated in operations before working capital movements		**6,219**	4,595
Decrease/(increase) in trade and other receivables		**152**	(753)
Decrease/(increase) in inventories and work in progress		**(39)**	15
Increase in trade and other payables and accruals and deferred income		**337**	1,160
Cash generated in operations		**6,669**	5,017
Interest paid		**(268)**	(151)
Net income tax paid		**(1,052)**	(618)
Net cash inflow from operating activities		**5,349**	4,248
Investing activities			
Purchase of intangible assets		**(1,237)**	(1,064)
Purchase of property, plant and equipment		**(110)**	(123)
Acquisition of subsidiary undertakings net of cash acquired		**—**	(7,169)
Proceeds from sale of property, plant, equipment and intangible assets		**67**	83
Net cash outflow from investing activities		**(1,280)**	(8,273)
Financing activities			
Proceeds from new bank loan		**—**	6,025
Repayment of bank loans	16	**(1,646)**	(807)
Repayment of leasing liabilities	22	**(755)**	(701)
Equity dividends paid		**(275)**	(188)
Issue of share capital		**—**	2,083
Net cash (outflow)/inflow from financing activities		**(2,676)**	6,412
Net increase in cash and cash equivalents		**1,393**	2,387
Cash and cash equivalents at beginning of period		**6,036**	3,725
Effects of changes in foreign exchange rates		**(193)**	(76)
Cash and cash equivalents at end of period		**7,236**	6,036
Cash and cash equivalents comprise:			
Cash and short-term deposits		**7,236**	6,036
Bank overdrafts		**—**	—
		7,236	6,036

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 2019 comprise the Company and its subsidiaries (together referred to as the "Group"). The consolidated and parent company financial statements were authorised for issuance on 7 May 2020.

The address of the registered office is given on page 84. The nature of the Group's operations and its principal activities are set out in the Executive Chairman's Statement on pages 2 and 3, Strategic Report on pages 2 to 13, Directors' Report on pages 23 to 25 and Notes to the Consolidated Financial Statements on pages 44 to 67.

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

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

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

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

The Group recognises revenue in accordance with IFRS 15 "Revenue from Contracts with Customers".

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.

B. Basis of preparation continued

Revenue recognition continued

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

Performance Obligation	Obligation under IFRS 15:
Licence revenues (perpetual)	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	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	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)	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	Consulting revenues 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	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	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	The performance obligation is satisfied on delivery of images to the customers, and revenue is recognised at that point in time.

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 18).

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.

Significant Accounting Policies continued

B. Basis of preparation continued

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.

Leases

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

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

Further information on the impact of the new policy is disclosed in note 22.

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

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

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

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

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

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

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

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

In the statement of financial position the right-of-use assets and lease liabilities have been included separately in the statement.

Brexit

2019 saw a considerable amount of political uncertainty, which contributed to delays in decision making and orders placed by the UK construction and architectural industries, and across the retail, manufacturing and property sectors. However, the UK formally left the European Union at the end of January 2020 and this provided some clarity and decision making. As a Group, Elecosoft has been able to minimise the impact that uncertainty created by Brexit has played because the Elecosoft Group has natural hedges of local income and expenditure; and combining this with tight cost controls, we have ensured adequate cash being generated and held in each country in which we operate.

Coronavirus

Elecosoft is monitoring the potential impact of the virus in the markets that we serve on a continuing basis. We have a robust business continuity plan in place which is prioritising our employees but also enables us to continue to serve our customers. Our teams across all territories have been enabled to work from home, and we have been converting face to face meetings, consultancy and training courses where possible to digital meetings, with promising responses to our digital offerings. With 57 per cent of total revenues as recurring revenues and a healthy cash position Elecosoft is well positioned to weather short and medium-term market uncertainties.

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 (2018: 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 £187,000 at 31 December 2019 (2018: £1,518,000) these amounts are after deferred income of £5,862,000 (2018: £5,660,000) relating to annual maintenance contracts which are non-refundable. Historically, there is a low level of cancellations each year and the Board closely monitors clients that are potentially at risk of cancellation as well as the pipeline of new business.

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

D. Basis of consolidation

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

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

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

Business combinations

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

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

E. 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.

Significant Accounting Policies continued

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.

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.

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

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

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

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

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

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

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

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.

Significant Accounting Policies continued

N. Provisions and contingent liabilities continued

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

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. Therefore under the new guidance, loans and receivable, are initially recognised at fair value and will subsequently be measured at amortised cost.

Financial assets

The Group applies IFRS 9 for the recognition and measurement of financial assets including an expected credit loss model for impairment of assets.

The Group applies the impairment requirements and recognises a loss allowance for expected credit losses on it's financial assets. At each reporting date, it will 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.

Q. Financial instruments continued

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 equivalents
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.

T. New standards and interpretations not applied

There are no new amendments to standards in issue that were effective for the financial year beginning 1 January 2020.

Notes to the Consolidated Financial Statements

1. Revenue

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

	2019 £'000	2018 £'000
Licence sales	6,046	5,540
Recurring maintenance, support and subscription revenue	14,435	12,326
Services income	4,917	4,354
Total revenue	**25,398**	22,220

Revenue recorded in the year includes £5.7m (2018: £4.8m) 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 three months or one year in advance, which leads to the recognition of deferred income in advance of satisfaction of the performance obligation over time.

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.

	2019 Software £'000	2018 (restated) Software £'000
Revenue	**25,398**	22,220
Adjusted EBITDA	**6,302**	5,257
Amortisation and impairment of purchased intangible assets	(855)	(529)
Depreciation	(902)	(778)
Adjusted operating profit	**4,545**	3,950
Amortisation of acquired intangible assets	(590)	(595)
Acquisition and corporate finance related expenses	(143)	(689)
Operating profit	**3,812**	2,666
Net finance cost	(339)	(272)
Segment profit before tax	3,473	2,394
Tax	(772)	(598)
Segment profit after tax	**2,701**	1,796
Operating profit	3,812	2,666
Amortisation of intangible assets	1,445	1,124
Depreciation charge	902	778
Acquisition expenses	143	689
Adjusted EBITDA	**6,302**	5,257

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 2019 are explained in the Financial Review on page 11 and the accounting policy requirements for capitalisation are set out on in the Significant Accounting Policies in section I.

2. Segment information continued

	2019 Software £'000	2018 (restated) Software £'000
Group assets and liabilities		
Segment assets	**37,466**	37,362
Unallocated assets	**—**	—
Total Group assets	**37,466**	37,362
Segment liabilities	**19,542**	21,883
Unallocated liabilities	**—**	—
Total Group liabilities	**19,542**	21,883

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:

	2019 £'000	2018 £'000
UK	**9,436**	8,227
Scandinavia	**6,548**	6,772
Germany	**4,487**	3,442
USA	**1,021**	777
Rest of Europe	**3,407**	2,482
Rest of World	**499**	520
	25,398	22,220

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

Revenue by product group is as follows:

	2019 £'000	2018 £'000
Software for:		
Project management	**10,090**	9,774
Site management	**395**	411
Estimating	**2,737**	2,843
Engineering	**2,232**	2,350
CAD/Design	**1,969**	2,070
Information management	**1,400**	1,180
Visualisation	**4,150**	2,395
Maintenance management	**2,425**	1,197
	25,398	22,220

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

Notes to the Consolidated Financial Statements continued

2. Segment information continued

Revenue by sales channel is as follows:

	2019 £'000	2018 £'000
Direct	**24,149**	20,950
Reseller	**1,249**	1,270
	25,398	22,220

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:

	2019 £'000	2018 (restated) £'000
UK	**15,005**	15,472
Scandinavia	**7,565**	7,748
Germany	**3,117**	3,483
USA	**1**	2
Rest of Europe	**52**	68
Rest of World	**—**	—
	25,740	26,773

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 (2018: 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:

	2019 £'000	2018 (restated) £'000
Software product development	**1,862**	1,770
Depreciation of property, plant and equipment	**241**	191
Depreciation of right-of-use assets	**661**	587
Amortisation of acquired intangible assets	**590**	595
Amortisation of other intangible assets	**855**	529
Profit on disposal of property, plant and equipment	**(8)**	(16)
Foreign exchange (gains)/losses	**110**	(31)
Fees payable to the Company's auditor for:		
The audit of the parent company and consolidated financial statements	**108**	43
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries	**81**	64
Other services	**7**	4
Operating lease rentals:		
Plant, equipment and vehicles	**290**	267
Properties	**238**	214
Acquisition expenses	**143**	689

4. Employee information

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

	2019 Number	2018 Number
Sales & marketing	**58**	56
Client services	**82**	74
Software development	**66**	58
Management and administration	**45**	40
	251	228

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

	2019 £'000	2018 £'000
Wages and salaries	**10,983**	9,584
Social security	**2,295**	1,951
Pension costs	**589**	679
Share-based payments	**71**	105
	13,938	12,319
Less: Development staff costs capitalised	**(1,234)**	(1,014)
	12,704	11,305

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:

	2019 £'000	2018 £'000
Short-term employee benefits	**908**	835
Post-employment benefits	**51**	56
Share-based payments	**(18)**	38
Executive Directors	**941**	929
Fees – Non-Executive Directors	**146**	153
	1,087	1,082

The emoluments of the highest paid Director were £278,000 (2018: £301,000).

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:

	2019 £'000	2018 (restated) £'000
Finance costs:		
Bank overdraft and loan interest	**(259)**	(187)
Interest expense for leasing arrangements	**(80)**	(85)
Total net finance cost	**(339)**	(272)

Notes to the Consolidated Financial Statements continued

6. Taxation

(a) Tax on profit on ordinary activities

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

	2019 £'000	2018 (restated) £'000
Current tax:		
UK corporation tax on profits of the year	447	276
Tax adjustments in respect of previous years	37	(27)
	484	249
Foreign tax	291	324
Total current tax	775	573
Deferred tax:		
Origination and reversal of temporary differences	(11)	(4)
Tax adjustments in respect of previous years	8	29
Total deferred tax	(3)	25
Tax charge in the income statement	772	598

Income tax for the UK has been calculated at the weighted average rate of UK corporation tax of 19 per cent (2018: 19 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 (2018: 19 per cent) for the period under review. The reconciliation is explained below:

	2019 £'000	2018 (restated) £'000
Profit on continuing operations before tax	3,473	2,394
Tax calculated at the average standard rate of UK corporation tax of 19% (2018: 19%) applied to profits before tax	660	455
Effects of:		
Expenses not deductible for tax purposes	52	171
Research & development tax relief	(26)	(101)
Prior year adjustments	53	41
Utilisation of losses	4	(26)
Tax rate differences in foreign jurisdictions	32	56
Other differences	(3)	2
Continuing operations tax charge for the year	772	598

(c) Unrecognised tax losses

The Group has tax losses of £1,623,000 (2018: £1,673,000) arising in the UK. The potential deferred tax asset not recognised in respect of losses in UK subsidiaries is £282,000 (2018: £291,000). No deferred tax is recognised on the unremitted earnings of UK and overseas subsidiaries as there are no future profits available in the respective subsidiaries to offset the losses against.

7. Dividends

Dividends paid during the year comprised a final 2018 dividend of 0.40 pence per Ordinary Share (2018: 0.40 pence) and a 2019 interim dividend of 0.30 pence per Ordinary Share (2018: 0.28 pence).

Shareholders were offered an opportunity to receive the 2018 final dividend in the form of new shares in lieu of the proposed final dividend. The 2019 interim dividend was declared as a scrip dividend, with shareholders having the option to receive an alternative cash dividend of the same value.

Cash dividends of £275,000 (2018: £188,000) were paid during the year as follows:

Ordinary Shares	**2019 Pence per share**	2018 Pence per share	**2019 £'000**	2018 £'000
Declared and paid during the year				
Interim – current year	**0.30**	0.28	**134**	88
Final – previous year	**0.40**	0.40	**141**	100
	0.70	0.68	**275**	188

Scrip dividends were issued in the year as follows.

	Shares issued		Value of shares issued (£'000)	
Ordinary Shares	**2019**	2018	**2019**	2018
Declared and paid during the year				
Interim – current year	**171,658**	153,240	**133**	126
Final – previous year	**248,585**	414,178	**186**	202
	420,243	567,418	**319**	328

The Directors have not recommended a final dividend (2018: 0.40 pence) having regard to the uncertainties created by the Coronavirus situation.

8. Basic and diluted earnings per share

	2019			2018 (restated)		
	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	**2,701**	**81.1**	**3.3**	1,796	77.4	2.3
Diluted earnings per share	**2,701**	**81.8**	**3.3**	1,796	78.2	2.3
Adjusted basic earnings per share	**3,322**	**81.1**	**4.1**	2,967	77.4	3.8

Shares held by the Employee Share Ownership Trust are excluded from the weighted average number of shares in the period. Adjusted profit attributable to shareholders is reconciled to reported profit attributable to shareholders in note 26.

Notes to the Consolidated Financial Statements continued

9. Goodwill

	2019 £'000	2018 £'000
Cost:		
As at 1 January	**15,746**	11,480
Acquisition of businesses	**—**	4,280
Transfers	**(35)**	—
Exchange differences	**(113)**	(14)
As at 31 December	**15,598**	15,746
Impairment:		
At 1 January and 31 December	**—**	—
Net book value	**15,598**	15,746

There were no acquisitions in 2019.

The acquisition amount in 2018 includes Shire Systems Ltd based in Southampton, purchased in July 2018 and Active Online 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:

	2019 £'000	2018 £'000
Elecosoft UK	**4,804**	4,804
Asta Development Germany	**229**	240
Elecosoft Sweden	**4,430**	4,488
Elecosoft Netherlands	**20**	21
Eleco Software Germany	**336**	336
ESIGN Software Germany	**370**	352
Elecosoft ICON	**1,225**	1,225
Elecosoft ShireSystem	**2,674**	2,706
Active Online Germany	**1,510**	1,574
	15,598	15,746

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

9. Goodwill continued

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

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

	2019		2018	
CGU	Pre-tax discount rate	Nominal long-term growth rate	Pre-tax discount rate	Nominal long-term growth rate
Elecosoft UK	12.0%	1.1%	15.0%	1.3%
Asta Development Germany	12.0%	0.5%	15.0%	0.6%
Elecosoft Sweden	12.0%	1.6%	15.0%	1.6%
Elecosoft Netherlands	12.0%	1.9%	15.0%	2.0%
Eleco Software Germany	12.0%	0.5%	15.0%	0.6%
ESIGN Software Germany	12.0%	0.5%	15.0%	0.6%
Elecosoft ICON	12.0%	1.1%	15.0%	1.3%
Elecosoft ShireSystem	12.0%	1.1%	15.0%	1.3%
Active Online Germany	12.0%	0.5%	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 0.5 per cent and 1.9 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 2018	4,042	4,161	8,203
Acquisition of businesses	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
Additions	—	3	3
Additions – internal development	—	1,234	1,234
Disposals	—	(7)	(7)
Transfers	(68)	(49)	(117)
Exchange	(2)	(14)	(16)
At 31 December 2019	**7,147**	**7,375**	**14,522**
Accumulated amortisation and impairment:			
At 1 January 2018	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
Amortisation charge for the year	324	1,121	1,445
Transfers	—	(49)	(49)
Exchange	1	(6)	(5)
At 31 December 2019	**3,818**	**3,462**	**7,280**
Net book value:			
At 31 December 2018	3,724	3,812	7,536
At 31 December 2019	**3,329**	**3,913**	**7,242**

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. There were no acquisitions in 2019. Acquisitions in 2018 include Shire Systems and ActiveOnline.

Additions in the year represent purchased intangible assets of £3,000 (2018: £50,000) and internal development costs capitalised of £1,234,000 (2018: £1,014,000). 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 11.

Amortisation charges are shown separately on the Consolidated Income Statement.

11. Property, plant and equipment

	Leasehold buildings £'000	Plant, equipment and vehicles £'000	Total £'000
Cost:			
At 1 January 2018 (restated)	185	1,123	1,308
Acquisition of businesses	387	73	460
Additions	—	123	123
Disposals	—	(85)	(85)
Transfers	—	—	—
Exchange	—	(16)	(16)
At 31 December 2018 (restated)	572	1,218	1,790
Additions	—	110	110
Disposals	—	(230)	(230)
Transfers	—	—	—
Exchange	(12)	(41)	(53)
At 31 December 2019	**560**	**1,057**	**1,617**
Accumulated depreciation and impairment:			
At 1 January 2018 (restated)	54	741	795
Depreciation charge for the year	39	152	191
Disposals	—	(85)	(85)
Transfers	—	—	—
Exchange	(5)	(18)	(23)
At 31 December 2018 (restated)	88	790	878
Depreciation charge for the year	52	189	241
Disposals	—	(217)	(217)
Transfers	—	—	—
Exchange	9	(28)	(19)
At 31 December 2019	**149**	**734**	**883**
Net book value:			
At 31 December 2018 (restated)	484	428	912
At 31 December 2019	**411**	**323**	**734**

12. Capital commitments

Capital expenditure commitments of £nil (2018: £nil) have been placed with suppliers at 31 December 2019.

Notes to the Consolidated Financial Statements continued

13. Inventories

	2019 £'000	2018 £'000
Finished goods	**46**	8
	46	8

At 31 December 2019 the Group's inventory provisions were £nil (2018: £nil).

14. Trade and other receivables

	2019 £'000	2018 £'000
Gross trade receivables	**3,924**	3,935
Provision for credit losses	**(73)**	(60)
Net trade receivables	**3,851**	3,875
Other receivables	**82**	79
Prepayments and accrued income	**406**	537
	4,339	4,491

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. The average credit period taken on the sales of goods and services is 47 days (2018: 54 days). No interest is charged on past due trade receivables (2018: £nil).

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

	2019 £'000	2018 £'000
Sterling	**1,712**	1,378
Euro	**1,088**	1,443
Swedish Krona	**1,236**	1,427
US Dollar	**251**	191
Other	**52**	52
	4,339	4,491

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

	2019 £'000	2018 £'000
At 1 January	**(60)**	(50)
Written off as uncollectable	**6**	1
Recovered during the period	**32**	61
Provided against during the period	**(54)**	(73)
Exchange	**3**	1
At 31 December	**(73)**	(60)

14. Trade and other receivables continued

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:

	2019 £'000	2018 £'000
Not more than 3 months	**1,097**	885
More than 3 months but less than 6 months	**55**	227
More than 6 months but less than 1 year	**36**	132
More than one year	**—**	—
	1,188	1,244

15. Trade and other payables

	2019 £'000	2018 £'000
Trade payables	**528**	524
Other taxation and social security	**711**	661
Other liabilities	**465**	415
	1,704	1,600

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 36 days (2018: 36 days) The Directors consider that the carrying amount of trade payables approximates to their fair value.

16. Borrowings

	2019 £'000	2018 (restated) £'000
Current liabilities:		
Bank loans	**1,645**	1,648
Bank overdrafts	**—**	—
Lease liabilities	**558**	659
	2,203	2,307
Non-current liabilities:		
Bank loans	**4,490**	6,202
Lease liabilities	**1,691**	1,980
	6,181	8,182
Total loans and borrowings	**8,384**	10,489
Cash and cash equivalents	**(7,236)**	(6,036)
Net borrowings	**1,148**	4,453

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

- an outstanding term loan of £6.0m, with 15 quarterly loan repayments of £400,000 commencing from January 2020, 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 (undrawn at 2019 and 2018).

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 £191,000 (2018: £250,000) in a German subsidiary company and is net of prepaid transaction costs of £56,000 (2018: £nil).

Notes to the Consolidated Financial Statements continued

16. Borrowings continued

The bank loans and overdrafts are repayable as follows:

	2019 £'000	2018 £'000
In one year or less	**1,645**	1,648
Between one and two years	**1,645**	1,648
Between two and five years	**2,845**	4,554
	6,135	7,850

The Group has leases for the properties it occupies, motor vehicles and other plant and equipment. With the exception of short-term leases, each lease is reflected on the balance sheet as a right of use asset and a lease liability. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment for presentation purposes (see note 22).

Each lease imposes a restriction that the right-of-use asset can only be used by the Group. Some leases have a break clause; however, the majority are either non-cancellable or may only be cancelled by incurring a substantial termination fee.

17. Provisions

	2019 £'000	2018 £'000
At 1 January 2019	**185**	250
Charge/(credit) to the income statement	**22**	(38)
Utilised in the year	**(24)**	(26)
Exchange	**–**	(1)
At 31 December 2019	**183**	185
Current liabilities	**142**	144
Non-current liabilities	**41**	41
	183	185

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.

18. Accruals and deferred income

	2019 £'000	2018 £'000
Accruals	**1,885**	2,053
Deferred income	**5,862**	5,660
	7,747	7,713

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

19. 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 2018	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)
Reclassification	—	—	—	—	(244)	—	347	103
Credit/(charge) to the income statement	(17)	(4)	—	(21)	70	(1)	(45)	24
Exchange differences	—	—	—	—	—	—	19	19
At 31 December 2019	**38**	**79**	**1**	**118**	**(1,802)**	**(4)**	**399**	**(1,407)**

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 £282,000 (2018: £291,000) 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.

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

Notes to the Consolidated Financial Statements continued

20. Called up share capital

	No. of shares	2019 Nominal value £'000	No. of shares	2018 Nominal Value £'000
Authorised:				
Ordinary Shares of 1p each	**85,000,000**	**850**	85,000,000	850
Allotted, called up and fully paid:				
At start of year	**81,819,407**	**818**	77,440,700	774
Issue of Ordinary Shares	**420,243**	**4**	4,378,707	44
At end of year	**82,239,650**	**822**	81,819,407	818

The increase in called up and fully paid share capital in the year was in respect of scrip dividends.

21. Share-based payments

The Company operates one share scheme and options outstanding at 31 December 2019 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	5.1
27 October 2016	—	1 June 2019	26 October 2026	6.8
9 August 2017	1,015,000	1 May 2020	8 August 2027	7.6
24 January 2018	100,000	1 May 2020	24 January 2028	8.1
	1,415,000			7.1

There were no share option awards made under the Company's Long Term Incentive Plan ("LTIP") during the year (2018: 250,000 shares at an exercise price of 45.0 pence per share).

The options awarded in 2018 are exercisable after 2.3 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 2.3-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 had lapsed during the year due to the performance criteria not being met. The options were exercisable after 2.6 years, subject to certain performance criteria being achieved. The criteria included (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 were 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.

21. Share-based payments continued

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

	2019		2018	
	Number	Weighted average exercise price Pence	Number	Weighted average exercise price Pence
Outstanding at the beginning of the year	**1,815,000**	**39.1**	1,715,000	38.7
Granted during the year	**–**	**–**	250,000	45.0
Exercised during the year	**–**	**–**	–	–
Forfeited during the year	**(400,000)**	**28.7**	(150,000)	45.0
Outstanding at the end of the year	**1,415,000**	**42.0**	1,815,000	39.1
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 2019 was £70,000 (2018: £106,000).

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

	2019	2018
Share price at grant date	**–**	45.00p
Exercise price per share	**–**	48.00p
Per cent expected to vest (at date of grant)	**–**	98%
Expected life (years)	**–**	5.0
Dividend yield	**–**	0.96%
Share price volatility	**–**	36%
Fair value per option	**–**	20.14p

22. Explanation of transition to IFRS 16 "Leases"

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

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

The financial impact of the adoption of IFRS 16 has resulted in a reduction in the Group's annual operating expenses of £763,000 (2018: £707,000) and additional depreciation costs of £661,000 (2018: £587,000) and finance costs payable of £80,000 (2018: £85,000). Details of lease liabilities and right of use assets are provided below.

On adoption of IFRS 16, the Group recognised a lease liability at the date of initial application, for leases previously classified as an operating lease under IAS17, at the present value of the remaining lease payments, discounted using the Group's estimated incremental borrowing rate.

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

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

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

Notes to the Consolidated Financial Statements continued

22. Explanation of transition to IFRS 16 “Leases” continued

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

	£’000	£’000
Total operating lease commitments disclosed at 31 December 2017		2,862
Other minor adjustments relating to commitment disclosures	34	
		34
Operating lease liabilities before discounting		2,896
Discounting using incremental borrowing rate		(74)
Total lease liabilities recognised under IFRS 16 at 1 January 2018		2,822

The recognised right-of-use assets relate to the following types of assets:

Right-of use-assets

	2019 £’000	2018 £’000
Properties	**1,511**	1,907
Motor vehicles	**513**	469
Other plant and equipment	**24**	64
	2,048	2,440

Below are the carrying amounts of right-of-use assets recognised and the movements during the period:

Right-of-use-assets

	Property £’000	Motor vehicles £’000	Other plant and equipment £’000	Total
At 1 January 2018 (restated)	2,305	352	—	2,657
Additions	109	179	70	358
Exchange	(43)	(7)	—	(50)
Depreciation charge for the year	(464)	(55)	(6)	(525)
At 31 December 2018 (restated)	1,907	469	64	2,440
Additions	176	162	—	338
Exchange	(129)	(35)	(2)	(166)
Depreciation charge for the year	(443)	(83)	(38)	(564)
At 31 December 2019	**1,511**	**513**	**24**	**2,048**

22. Explanation of transition to IFRS 16 "Leases" continued

The corresponding amounts of lease liabilities recognised under IFRS 16 and movements during the period are set out below:

Lease liabilities

	Property £'000	Motor vehicles £'000	Other plant and equipment £'000	Total
At 1 January 2018 (restated)	2,465	357	—	2,822
Additions	109	309	71	489
Interest charge	75	10	—	85
Interest income on lease liabilities	—	(6)	—	(6)
Lease payments	(506)	(188)	(7)	(701)
Exchange	(45)	(6)	1	(50)
At 31 December 2018 (restated)	2,098	476	65	2,639
Additions	176	299	—	475
Interest charge	63	15	2	80
Interest income on lease liabilities	—	(8)	—	(8)
Lease payments	(489)	(226)	(40)	(755)
Exchange	(144)	(36)	(2)	(182)
At 31 December 2019	**1,704**	**520**	**25**	**2,249**

23. 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:

	2019 £'000	2018 £'000
Loans and receivables:		
Cash and cash equivalents	**7,236**	6,036
Trade and other receivables	**3,933**	3,954
Loans and receivables	**11,169**	9,990
Financial liabilities:		
Trade and other payables	**993**	939
Bank loans and overdrafts	**6,135**	7,850
Accruals	**1,885**	2,053
Non-current liabilities	**—**	—
Financial liabilities held at amortised cost	**9,013**	10,842

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

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23. Financial instruments continued

(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	liabilities/ (assets) £'000
Sterling	7,005	7,005	5,238	5,238	1,767
Euro	669	669	2,709	2,709	(2,040)
Swedish Krona	1,323	1,323	2,476	2,476	(1,153)
US Dollar	9	9	637	637	(628)
South African Rand	7	7	51	51	(44)
Other	—	—	58	58	(58)
At 31 December 2019	**9,013**	**9,013**	**11,169**	**11,169**	**(2,156)**
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

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.

(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	—	119	(3)	486	3	605
Euro	—	—	—	—	—	—
Swedish Krona	—	307	—	124	55	486
At 31 December 2019	**—**	**426**	**(3)**	**610**	**58**	**1,091**
Sterling	—	147	(17)	324	13	467
Euro	—	—	—	—	—	—
Swedish Krona	1	420	—	28	50	499
At 31 December 2018	1	567	(17)	352	63	966

23. Financial instruments continued

(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 £339,000 (2018 (restated): £272,000). 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 23(c) above), arising from fluctuations in exchange rates. The Group's mitigation of its currency risk is set out on page 10 of the Strategic Report. The table below shows the impact on the value of the Group's reported net financial assets at 31 December of exchange rates either strengthening or weakening by 10 per cent against Sterling and the impact this would have on the reported profit or loss and equity. The Group's reported equity would be £256,000 lower (2018: £218,000) if Sterling strengthen by 10 per cent and £282,000 higher (2018: £240,000) if Sterling weakened by 10 per cent.

	Net financial (assets)/liabilities:			**Profit/(loss)**		**Equity**	
Effect of change in Sterling +/-10%	**2019 £'000**	**Rate +10% £'000**	**Rate -10% £'000**	**Rate +10% £'000**	**Rate -10% £'000**	**Rate +10% £'000**	**Rate -10% £'000**
Denominated in Sterling	**1,767**	**—**	**—**	**—**	**—**	**—**	**—**
Not denominated in Sterling	**(3,885)**	**353**	**(389)**	**(82)**	**90**	**(256)**	**282**
Total net financial liabilities	**(2,118)**	**353**	**(389)**	**(82)**	**90**	**(256)**	**282**

	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

(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 23(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.

	2019	**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	**(339)**	**(90)**	**(90)**	**(90)**	**90**	**90**	**90**

	2018	Effect of increase in interest rates of 1%			Effect of decrease in interest rates of 1%		
	(restated) As reported £'000	Rate +1% £'000	Profit/(loss) £'000	Equity £'000	Rate -1% £'000	Profit/(loss) £'000	Equity £'000
Net finance cost	(272)	(72)	(72)	(72)	72	72	72

Notes to the Consolidated Financial Statements continued

23. Financial instruments continued

(f) Liquidity risk

The Group monitors its liquidity to maintain a sufficient level of undrawn committed debt facilities together with central management of the 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	1,704	1,704	—	—	—	—
Bank loans and overdraft	6,549	454	450	889	1,778	2,978
Lease liabilities	2,249	24	25	509	97	1,594
At 31 December 2019	**10,502**	**2,182**	**475**	**1,398**	**1,875**	**4,572**
Trade and other payables	1,600	1,600	—	—	—	—
Bank loans and overdraft	8,518	481	477	943	1,841	4,776
Lease liabilities	2,639	25	25	612	70	1,907
At 31 December 2018 (restated)	12,757	2,106	502	1,555	1,911	6,683

The amounts for bank loans, overdraft and lease liabilities are inclusive of interest payable in the period. The Group's facilities with Barclays Bank plc are explained on page 13 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 2019 the loan facilities were fully drawn and overdraft facilities were not fully drawn.

	2019 £'000	2018 £'000
Expiring in one year or less	**1,645**	1,648
Expiring between one and two years	**1,645**	1,648
Expiring between two and five years	**2,845**	4,554
	6,135	7,850

(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:

	2019 £'000	2018 £'000
UK	**1,445**	598
Germany	**336**	549
Scandinavia	**1,122**	1,257
USA	**267**	179
Rest of Europe	**541**	610
Rest of World	**160**	147
	3,871	3,340

23. Financial instruments continued

(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 in respect of three elements: EBITA to gross financing costs, gross 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 2019, the continuing operations EBITDA for the year was £6,302,000 (2018 (restated): £5,257,000) and the net bank cash position was £1,101,000 (2018: net bank debt position £1,814,000).

(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 2019 (restated)	**6,202**	**1,648**	**2,639**	**10,489**
Cash flows:				
– Repayment	**(1,646)**	**—**	**(755)**	**(2,401)**
– Proceeds	**—**	**—**	**177**	**177**
Non-cash:				
– Acquisition	**—**	**—**	**—**	**—**
– Fair value	**—**	**—**	**—**	**—**
– Reclassification	**(66)**	**(3)**	**188**	**119**
At 31 December 2019	**4,490**	**1,645**	**2,249**	**8,384**

	Long-term borrowings £'000	Short-term borrowings £'000	Lease liabilities £'000	Total £'000
At 1 January 2018 (restated)	1,580	1,802	2,822	6,204
Cash flows:				
– Repayment	(795)	(1,012)	(701)	(2,508)
– Proceeds	5,215	810	110	6,135
Non-cash:				
– Acquisition	202	48	—	250
– Fair value	—	—	—	—
– Reclassification	—	—	408	408
At 31 December 2018 (restated)	6,202	1,648	2,639	10,489

24. 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 2019 and have concluded that no material loss is likely to accrue from any such unprovided claims.

Notes to the Consolidated Financial Statements continued

25. 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 £75,000 (2018: £72,916) 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 (2018: £5,000) for a contribution to the office costs at Burnham-on-Crouch. J H B Ketteley is a Director of JHB Ketteley & Co Limited. An amount of £9,900 (2018: £nil) was paid to Political Lobbying & Media Relations Ltd (PLMR) in respect of website consultancy costs. K Craig is a Director of PLMR.

26. Additional performance measures

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 (restated) £'000
Operating profit	**3,812**	2,666
Acquisition related expenses	**143**	689
Amortisation of acquired intangible assets	**590**	595
Adjusted operating profit	**4,545**	3,950
Profit before tax	**3,473**	2,394
Acquisition related expenses	**143**	689
Amortisation of acquired intangible assets	**590**	595
Adjusted profit before tax	**4,206**	3,678
Tax charge	**(772)**	(598)
Amortisation of acquired intangible assets	**(112)**	(113)
Adjusted tax charge	**(884)**	(711)
Profit after tax	**2,701**	1,796
Acquisition related expenses	**143**	689
Amortisation of acquired intangible assets	**478**	482
Adjusted profit after tax	**3,322**	2,967
Cash generated in operations	**6,669**	5,017
Purchase of intangible assets	**(1,237)**	(1,064)
Purchase of property, plant and equipment	**(110)**	(123)
Acquisition related expenses	**143**	689
Adjusted operating cash flow	**5,465**	4,519

27. Post-balance sheet events

The assessment of the Coronavirus situation will need continued attention and will evolve over time. In our view, Coronavirus is considered to be a non-adjusting post statement of financial position event and no adjustment is made in the financial statements as a result. The rapid development and fluidity of the Coronavirus makes it difficult to predict the ultimate impact at this stage. We have outlined in the Strategic Report and Significant Accounting Policies the actions management have taken to maintain the momentum of the Group's activities. Management will continue to assess the impact of Coronavirus on the Group and Company, however, it is not possible to reasonably quantify the impact at this stage.

28. Exchange rates

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

	Income statement		Balance sheet	
	2019	2018	**2019**	2018
Swedish Krona to Sterling	**12.06**	11.59	**12.39**	11.32
Euro to Sterling	**1.14**	1.13	**1.18**	1.11
US Dollar to Sterling	**1.28**	1.33	**1.33**	1.28

Company Statement of Changes in Equity

for the year ended 31 December 2019

	Share capital £'000	Share premium £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2018	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**
Dividends	—	—	—	—	(275)	(275)
Share-based payments	—	—	—	11	—	11
Issue of share capital	4	(4)	—	—	—	—
Transactions with owners	4	(4)	—	11	(275)	(264)
Profit for the period	—	—	—	—	930	930
Exchange differences on translation of net investments in foreign operations	—	—	—	75	—	75
Other	—	2	(2)	—	—	—
Total comprehensive income for the period	—	2	(2)	75	930	1,005
At 31 December 2019	**822**	**2,047**	**1,002**	**44**	**6,242**	**10,157**

Company Balance Sheet

At 31 December 2019

	Notes	2019 £'000	2018 £'000
Fixed assets			
Intangible assets	3	**56**	86
Tangible assets	4	**41**	58
Investments	5	**8,111**	6,546
Debtor due after more than one year	6	**19,511**	19,571
		27,719	26,261
Current assets			
Debtors	7	**1,674**	3,230
Cash at bank and in hand		**2,057**	1,695
		3,731	4,925
Creditors: amounts falling due within one year	8	**(16,768)**	(15,587)
Provisions for liabilities	10	**(181)**	(183)
Net current assets/(liabilities)		**(13,218)**	(10,845)
Total assets less current liabilities		**14,501**	15,416
Creditors: amounts falling due after more than one year	9	**(4,344)**	(6,000)
Net assets		**10,157**	9,416
Capital and reserves			
Called up share capital	11	**822**	818
Share premium account		**2,047**	2,049
Merger reserve		**1,002**	1,004
Other reserve	13	**44**	(42)
Profit and loss account		**6,242**	5,587
Shareholders' equity		**10,157**	9,416

The parent company's profit for the year and total comprehensive income attributable to the equity shareholders was £930,000 (2018: £1,640,000).

The financial statements of Elecosoft plc, registered number 00354915, on pages 68 to 77 were approved by the Board of Directors on 7 May 2020 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.

Inter-company loan interest rates

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

Recoverability of intercompany investments and loans

Intercompany investments and loans to subsidiary companies are stated at their carrying value under fixed assets in the 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, IFRS the equity-settled, share-based payment awards are valued at fair value at inception and this cost is recognised over the option vesting period of three years. The Board has used an appropriate model to estimate the fair value of the options. Various assumptions affect the value of the options and the Board has considered these assumptions in order to derive an appropriate charge for the cost of the options. The key assumptions used to derive the charge include the probability of performance achievement and the expected future dividend yield of the shares.

Provisions

A provision is recognised in the 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 £930,000 (2018: £1,640,000).

2. Employee information

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

	2019 £'000	2018 £'000
Wages and salaries	**1,251**	1,152
Social security	**150**	137
Pension costs	**35**	46
Share-based payments	**11**	62
	1,447	1,397

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:

	2019 £'000	2018 £'000
Short-term employee benefits	**760**	710
Post-employment benefits	**30**	31
Share-based payments	**(25)**	28
Executive Directors	**765**	769
Fees – Non-Executive Directors	**146**	153
	911	922

The emoluments of the highest paid Director were £278,000 (2018: £301,000).

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 2018	1,276
Additions	25
Disposals	—
At 31 December 2018	1,301
Additions	—
Disposals	—
At 31 December 2019	**1,301**
Accumulated amortisation and impairment:	
At 1 January 2018	1,187
Amortisation charge for the year	28
Disposals	—
At 31 December 2018	1,215
Amortisation charge for the year	30
Disposals	—
At 31 December 2019	**1,245**
Net book value at 31 December 2018	86
Net book value at 31 December 2019	**56**

4. Tangible fixed assets

	Plant, equipment and vehicles £'000	Total £'000
Cost:		
At 1 January 2018	145	145
Additions	19	19
Disposal	—	—
At 31 December 2018	164	164
Additions	5	5
Disposal	—	—
At 31 December 2019	**169**	**169**
Accumulated depreciation:		
At 1 January 2018	85	85
Depreciation charge for the year	21	21
Disposal	—	—
At 31 December 2018	106	106
Depreciation charge for the year	22	22
Disposal	—	—
At 31 December 2019	**128**	**128**
Net book value at 31 December 2018	58	58
Net book value at 31 December 2019	**41**	**41**

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 2018 (restated)	23,476	728	24,204
Additions	3,047	—	3,047
At 31 December 2018	26,523	728	27,251
Reclassification	—	1,565	1,565
At 31 December 2019	**26,523**	**2,293**	**28,816**
Accumulated provision:			
At 1 January 2018	20,705	—	20,705
At 31 December 2018	20,705	—	20,705
At 31 December 2019	**20,705**	**—**	**20,705**
Net book value at 31 December 2018	5,818	728	6,546
Net book value at 31 December 2019	**5,818**	**2,293**	**8,111**

Additions in 2018 relate to the acquisition of Active Online GmbH in November 2018, a software company based in Germany.

Investments include £728,000 in respect of 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 value.

During the year, the intercompany loan in respect of one of the overseas subsidiaries was reclassified from debtors because this is now considered to represent a long-term investment.

Notes to the Company Financial Statements continued

5. Investments in subsidiaries continued

The carrying value and recoverability of investments in discontinued ElecoBuild operations were fully provided against at 31 December 2019.

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 79.

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
Active Online 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 Active Online GmbH.

6. Debtor due after more than one year

	2019 £'000	2018 £'000
Amounts due from subsidiary undertakings	**19,511**	19,571
	19,511	19,571

7. Debtors

	2019 £'000	2018 £'000
Trade debtors	**14**	14
Other debtors	**18**	17
Prepayments and accrued income	**73**	222
Deferred tax	**7**	7
Amounts due from subsidiary undertakings	**1,562**	2,970
	1,674	3,230

8. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Bank loans	**1,600**	1,600
Bank overdrafts	**—**	—
Trade creditors	**141**	79
Other creditors	**127**	138
Accruals and deferred income	**287**	171
Other taxation and social security	**10**	(2)
Current tax	**112**	95
Amounts due to subsidiary undertakings	**14,491**	13,506
	16,768	15,587

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

The Group's facilities with Barclays Bank plc are explained on page 13 of the Financial Review.

	2019 £'000	2018 £'000
Bank loans	**4,344**	6,000
	4,344	6,000

Bank loans and overdrafts are repayable as follows:

	2019 £'000	2018 £'000
In one year or less	**1,600**	1,600
Between one and two years	**1,600**	1,600
Between two and five years	**2,744**	4,400
	5,944	7,600

Bank loans are stated net of prepaid transaction costs of £56,000 (2018: £nil).

10. Provisions for liabilities

	2019 £'000	2018 £'000
At 1 January 2019	**183**	209
Charge to the profit and loss account	**22**	—
Utilised in the year	**(24)**	(26)
At 31 December 2019	**181**	183

Further information on the details of the provisions is set out in note 17 of the consolidated accounts.

11. Called up share capital

	2019 No. of shares	2019 Nominal value £'000	2018 No. of shares	2018 Nominal Value £'000
Authorised:				
Ordinary Shares of 1 pence each (2018: 1 pence each)	**85,000,000**	**850**	85,000,000	850
Allotted, called up and fully paid:				
At 1 January 2019	**81,819,407**	**818**	77,440,700	774
Issue of Ordinary Shares	**420,243**	**4**	4,378,707	44
At 31 December 2019	**82,239,650**	**822**	81,819,407	818

The 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 2019 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	5.1
27 October 2016	—	1 June 2019	26 October 2026	6.8
9 August 2017	1,015,000	1 May 2020	8 August 2027	7.6
24 January 2018	100,000	1 May 2020	24 January 2028	8.1
	1,415,000			7.1

Notes to the Company Financial Statements continued

12. Share-based payments continued

There were no share option awards made under the Company's Long Term Incentive Plan ("LTIP") during the year (2018: 250,000 shares at an exercise price of 45.0 pence per share).

The options awarded in 2018 are exercisable after 2.3 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 2.3-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 had lapsed during the year due to the performance criteria not being met. The options were exercisable after 2.6 years, subject to certain performance criteria being achieved. The criteria included (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 were 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.

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

	2019		2018	
	Number	**Weighted average exercise price Pence**	Number	Weighted average exercise price Pence
Outstanding at the beginning of the year	**1,815,000**	**39.1**	1,715,000	38.7
Granted during the year	**—**	**—**	250,000	45.0
Exercised during the year	**—**	**—**	—	—
Forfeited during the year	**(400,000)**	**28.7**	(150,000)	45.0
Outstanding at the end of the year	**1,415,000**	**42.0**	1,815,000	39.1
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 2019 was £70,000 (2018: £106,000).

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

	2019	2018
Share price at grant date	**—**	45.00p
Exercise price per share	**—**	48.00p
Per cent expected to vest (at date of grant)	**—**	98%
Expected life (years)	**—**	5.0
Dividend yield	**—**	0.96%
Share price volatility	**—**	36%
Fair value per option	**—**	20.14p

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 Active Online GmbH in November 2018.

The Employee Share Ownership Trust held 907,849 shares at 31 December 2019 with a market value of £713,000 (2018: £616,000) 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 2019 £'000	**Other 2019 £'000**	Property 2018 £'000	Other 2018 £'000
Leases expiring:				
Within one year	**75**	**—**	75	—
Between two and five years	**—**	**—**	—	—
	75	**—**	75	—

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 21.

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 £75,000 (2018: £72,916) 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 (2018: £5,000) for a contribution to the office costs at Burnham-on-Crouch. J H B Ketteley is a Director of JHB Ketteley & Co Limited. An amount of £9,900 (2018: £nil) was paid to Political Lobbying & Media Relations Ltd (PLMR) in respect of website consultancy costs. K Craig is a Director of PLMR.

16. Post-balance sheet events

The assessment of the Coronavirus situation will need continued attention and will evolve over time. In our view, Coronavirus is considered to be a non-adjusting post statement of financial position event and no adjustment is made in the financial statements as a result. The rapid development and fluidity of the Coronavirus makes it difficult to predict the ultimate impact at this stage. We have outlined in the Strategic Report and Significant Accounting Policies the actions management have taken to maintain the momentum of the Group's activities. Management will continue to assess the impact of Coronavirus on the Group and Company, however, it is not possible to reasonably quantify the impact at this stage.

Five-Year Summary

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 (restated) £'000	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Revenue					
Software	**25,398**	22,220	19,996	17,795	15,260
Discontinued operations	**—**	—	—	—	1,400
Adjusted EBITDA	**6,302**	5,257	3,643	2,753	1,795
Amortisation and impairment of purchased intangible assets	**(855)**	(529)	(623)	(339)	(115)
Depreciation	**(902)**	(778)	(247)	(207)	(174)
Adjusted operating profit	**4,545**	3,950	2,773	2,207	1,506
Amortisation of acquired intangible assets	**(590)**	(595)	(412)	(292)	(380)
Exceptionals	**(143)**	(689)	—	(321)	—
Operating profit	**3,812**	2,666	2,361	1,594	1,126
Finance expense	**(339)**	(272)	(107)	(90)	(120)
Profit before taxation	**3,473**	2,394	2,254	1,504	1,006
Taxation	**(772)**	(598)	(357)	(261)	(204)
Profit after taxation	**2,701**	1,796	1,897	1,243	802
Basic earnings per share (continuing operations)	**3.3p**	2.4p	2.5p	1.7p	1.1p
Shareholders equity	**17,924**	15,479	11,486	9,716	7,893
Dividend per share	**0.30p**	0.68p	0.60p	0.40p	0.00p

Dormant Subsidiary Undertakings

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
Bell and Webster 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
Eleco Building Products Limited	UK	Ordinary	100%	Dormant
Eleco Directors Limited	UK	Ordinary	100%	Dormant
Eleco (DCS) Limited	UK	Ordinary	100%	Dormant
Eleco (MS) Limited	UK	Ordinary	100%	Dormant
Eleco (PP) Limited	UK	Ordinary	100%	Dormant
Eleco Limited	UK	Ordinary	100%	Holding company
Elecoprecast Limited	UK	Ordinary	100%	Holding company
Elecosoft Pvt Limited	India		100%	Dormant
Falconer Road Property Limited	UK	Ordinary	100%	Dormant
Online Warehouse Limited	UK	Ordinary	100%	Dormant
RB Fabrications (Norwich) Limited	UK	Ordinary	100%	Dormant
Webster Homes (Southern) Limited	UK	Ordinary	100%	Dormant
Webster Properties (Developments) 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

The Board is monitoring closely the evolving Covid-19 situation and the related guidelines from governmental authorities, including with regard to the potential impact on attendance at the AGM. In the light of the recent government prohibition of gatherings of more than two persons we are proposing that two shareholders (one of which shall be the Chairman of the meeting) should be the sole persons attending the meeting and that no admission of any other person will be permitted. We shall notify shareholders of any resulting change to these plans on our website www.ir.elecosoft.com Given the current prohibition on attendance at the AGM, we would strongly urge shareholders to submit proxy votes as described below. Delivery of a proxy vote will not preclude shareholders from attending and voting in person at the AGM should the government withdraw the prohibition so that we are able to allow admission by the time of the meeting.

NOTICE is hereby given that the 80th Annual General Meeting of Elecosoft Public Limited Company (the "Company") will be held at 49 High Street Burnham on Crouch, Essex CM0 8AG on 4 June 2020 at 12.00 noon for the purpose of considering and, if thought fit, passing the following resolutions. Resolutions numbered 1 to 5 and 7 will be proposed as Ordinary Resolutions and resolutions numbered 6, 8, 9 and 10 will be proposed as Special Resolutions.

Ordinary business

1. To receive the financial statements for the year ended 31 December 2019, together with the reports of the Directors and Auditors on the accounts.

2. To re-elect John Ketteley, who retires by rotation, as a Director of the Company.

3. To re-elect Jonathan Hunter, who retires by rotation, as a Director of the Company.

4. To re-elect Serena Lang, who retires by rotation, as a Director of the Company.

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

Special business

6. 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 8,223,965 (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.

Special business continued

7. 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 £274,132.00, 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 £274,132.00, 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.

8. Disapplication of pre-emption rights

   Subject to and conditional on the passing of resolution 7 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 7 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 7(a) above, up to an aggregate nominal amount of £41,119.83, 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 7" were omitted in relation to such sale.

9. Adoption of new articles of association

   That with effect from the conclusion of the meeting the draft articles of association be adopted as the articles of association of the Company in substitution for, and to the exclusion of, the Company's existing articles of association.

10. Change of Company name

   That the registered name of the Company be changed to Eleco Public Limited Company

By order of the Board

Andrew Courts FCCA
Company Secretary
11 May 2020

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 the shareholder helpline or by calling +44 (0) 121 585 1131. Calls are charged at the standard geographic rate and may vary by provider. We are open between 09:00–17:00, 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 Neville Registrars Limited, Neville House, Steelpark Road, Halesowen B62 8HD
   - received by Neville Registrars Limited no later than 12:00 noon on 2 June 2020.

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.sharegateway.co.uk using the Shareholder's personal proxy registration code as shown on the Form of Proxy. For an electronic proxy appointment to be valid, your appointment must be received by no later than 12:00 noon on 2 June 2020.

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.

Notes: continued

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 49 High Street Burnham on Crouch, Essex CM0 8AG on 4 June 2020 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.

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, Neville Registrars Limited (CREST Participant ID: 7RA11), 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 2 June 2020 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 2 June 2020 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

Auditor
Grant Thornton UK LLP
101 Cambridge Science Park
Milton Road
Cambridge CB4 0FY

Bankers
Barclays Bank PLC
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