Elecosoft®

Elecosoft plc

Annual Report & Accounts 2017

Building on Technology®

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

Elecosoft's interests are based principally in the United Kingdom, Sweden, Germany, Benelux and the US. Elecosoft delivers a strong portfolio of software for project management, estimation, visualisation, Building Information Modelling ("BIM"), information management and digital marketing disciplines. Elecosoft's software and services are used during early planning stages through to construction and facilities management, driving the performance and day-to-day operations of its customers' businesses. Elecosoft's software has been used on high-profile construction projects; to name a few, The Shard in London, Hong Kong International Airport, The Reichstag Dome in Berlin, Warsaw Metro in Poland and The Jumeirah Park in Dubai, and widely used on infrastructure projects by the Pennsylvania Department of Transportation.

Highlights

Key achievements

- Double award win at the Construction Computing Awards 2017.
- 15% of the top ENR 400 US construction contractors now using Powerproject®.
- Adoption of Bidcon® by IconSystem® customer McCarthy & Stone, the UK's largest builder of retirement homes.
- Powerproject SaaS released to UK market.
- ICON successfully integrated following acquisition in October 2016.
- Acquisition of new customers in Australia for Staircon® and Powerproject in Sweden.
- Increased level of SaaS recurring sales in our German ESIGN operation.
- Appointment of Jonathan Hunter as COO, and Simon Morgan as Group Finance Director.

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

Revenue (£'000)

19,996 +12%

2016: 17,795
At constant exchange rates: +8%

Operating profit (£'000)

2,361 +48%

2016: 1,594
At constant exchange rates: +43%

Profit before tax (£'000)

2,254 +50%

2016: 1,504
At constant exchange rates: +45%

Earnings per share (basic, pence per ordinary share)

2.5 +49%

2016: 1.7
At constant exchange rates: +44%

Adjusted operating profit (£'000)

2,773 +26%

2016: 2,207
At constant exchange rates: +22%

Recurring maintenance revenue (£'000)

9,856 49% of revenue

2016: 48% of revenue

Free cash flow (£'000)

2,645 +117%

2016: 1,220

Net cash (£'000)

1,031

2016: 1,304 net borrowings

At a Glance

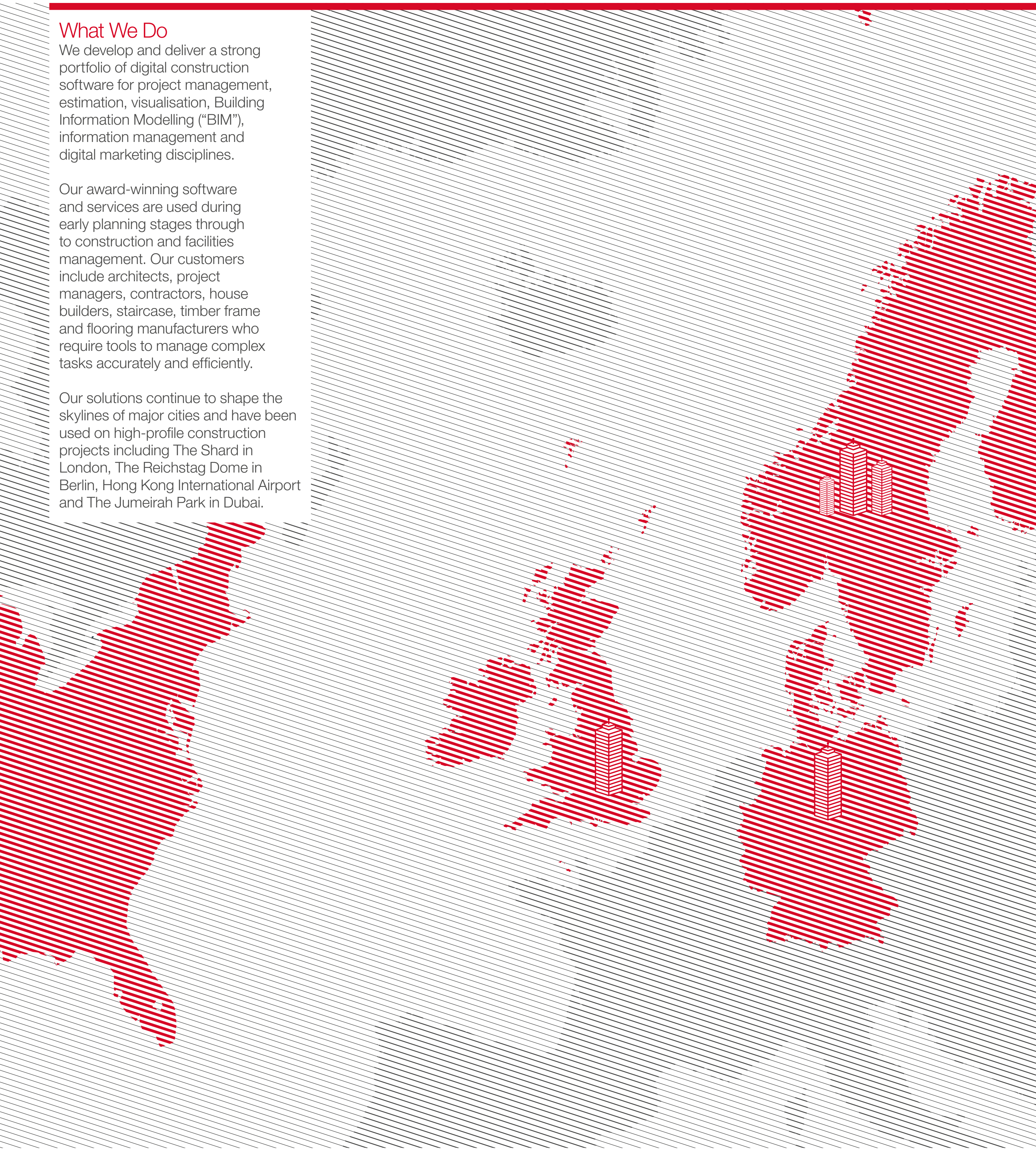
We offer a comprehensive range of digital construction software solutions.

What We Do

We develop and deliver a strong portfolio of digital construction software for project management, estimation, visualisation, Building Information Modelling ("BIM"), information management and digital marketing disciplines.

Our award-winning software and services are used during early planning stages through to construction and facilities management. Our customers include architects, project managers, contractors, house builders, staircase, timber frame and flooring manufacturers who require tools to manage complex tasks accurately and efficiently.

Our solutions continue to shape the skylines of major cities and have been used on high-profile construction projects including The Shard in London, The Reichstag Dome in Berlin, Hong Kong International Airport and The Jumeirah Park in Dubai.



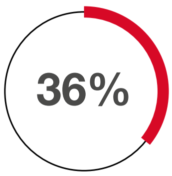
Revenues by Product

Product	%
Visualisation	10%
CAD/Design	12%
Engineering	10%
Estimating	15%
Project Management	46%
Site Management	2%
Information Management	5%

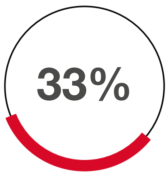
Where We Operate

Headquartered in the UK, we also have operations in Sweden and Germany, where we develop products, sell and support direct to customers. We have direct sales and support operations in Benelux and a partner sales operation in the US. All other markets are serviced through a network of channel partners.

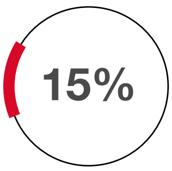
Revenues by Region



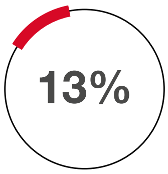
Scandinavia
Scandinavia is Elecosoft's biggest market by revenue and continues to drive sales with Bidcon and growth in Powerproject.



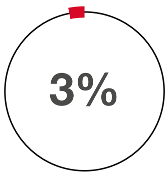
United Kingdom
Significant revenue growth driven by existing customers recurring maintenance and support revenue and services income.



Germany
Europe's biggest single economy, Elecosoft has a stable market position with opportunity to grow notably with Powerproject sales.



Rest of World
The Asia-Pacific region had strong sales growth in 2017 notably with Staircon in Australia.



USA
Elecosoft's Powerproject solution continues to grow its market share in the US.

Why Invest In Elecosoft?

Differentiated Technology

Our award-winning software is developed by a skilled in-house team using agile methods, and we continue to invest circa 15 per cent of revenues to enhance our solutions.

Read more on page 23

Sound Business Model

Our model is built upon market-leading software, developed with input from our close and long-standing customer relationships, with almost half of revenues generated from recurring maintenance contracts.

Read more on page 12

Attractive Growth Prospects

We see significant and growing opportunities to enhance the performance of businesses in construction and other sectors, by improving the timeliness, cost-efficiency and risk profiles of customers' projects.

Read more on page 16

Strong Financial Track Record

The Group remains in a strong financial position. Revenue and reported operating profit grew by 12 per cent and 48 per cent respectively.

Read more on page 20

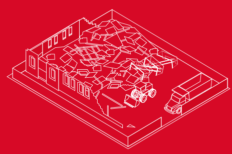
49%
recurring revenues

15%
circa
of revenue invested in software development

201
employees

Digital Construction Solutions

Our software is used by specialists throughout the building lifecycle.



Design/Planning

Our Software

Our digital construction solutions address the core elements of a construction project. Combinations of our software products enable 4D and 5D Building Information Modelling by linking project schedules with cost plans and 3D models to drive greater collaboration and efficiency benefits.

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

4D: Time
Powerproject is a leading solution in construction-specific project scheduling.

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

Data Management
Digital construction is underpinned by a Common Data Environment that delivers "one version of the truth". Elecosoft's data management systems add value in reducing risk, duplication and errors for collaborative working across multiple teams, companies and disciplines.

Visualisation
Interiormarket
Designers

CAD/Design
Arcon Evo®, o2c®
Architects

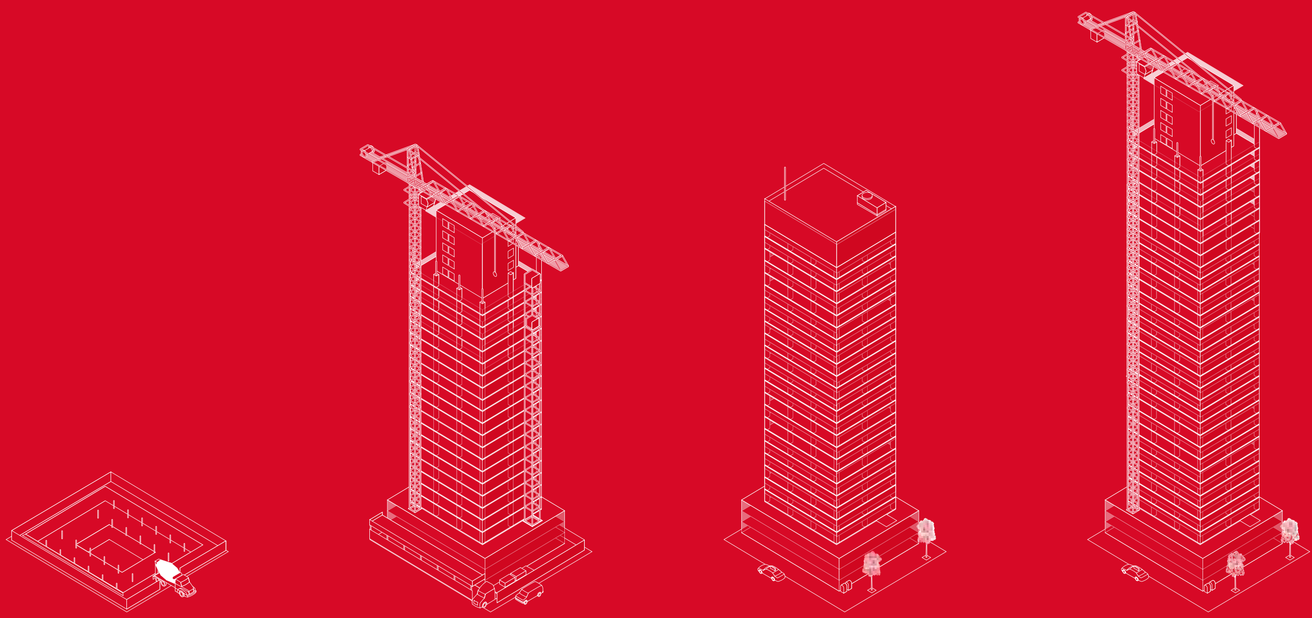
Engineering
Staircon®, Statcon®, Framing
Structural Engineers

Estimating
Bidcon®
Estimators

Project Management
Powerproject®
Planners

Site Management
Sitecon®, Matrix

Information Management
IconSystem®, Marketingmanager
Main Contractors



On-site Construction | Fit-out | Completion | Renovate/Renew

Floor/Surfaces Manufacturers

Interior Designers

Staircase Manufacturers

2nd Fix Contractors | Maintenance Contractors

Project Managers | Sub Contractors

Site Managers

Project Managers | Designers | Property Managers | Suppliers and Contractors

Strategic Report


33-80

Executive Chairman's Statement

I am pleased to report that in 2017 Elecosoft improved its performance significantly, eliminated its net borrowings, strengthened its management team and made a strong start in the first quarter of 2018.

Revenue (£'000)

19,996

12% increase

Profit before tax (£'000)

2,254

50% increase

Trading Performance

Revenue

Elecosoft's total revenue for the year amounted to £20.0m (2016: £17.8m), an increase of 12 per cent, of which recurring maintenance revenue amounted to £9.9m (2016: £8.6m). Recurring maintenance revenue as a proportion of total revenue for the year marginally increased to 49 per cent (2016: 48 per cent).

Profit

Operating profit for the year was £2.4m (2016: £1.6m), an increase of 48 per cent. Adjusted operating profit, which excludes non-operating items and amortisation of acquired intangible assets, was £2.8m (2016: £2.2m), an increase of 26 per cent.

Profit after tax for the year was £1.9m (2016: £1.2m) an increase of 53 per cent; and basic earnings per share for the year were 2.5 pence (2016: 1.7 pence), an increase of 49 per cent. Adjusted earnings per share were 2.9 pence (2016: 2.4 pence), an increase of 20 per cent.

Finance

Cash generated from operations amounted to £4.2m (2016: £2.4m) and the strong conversion of operating profits into cash during the year eliminated Group net borrowings by the half year and produced a net cash position of £1.0m as at 31 December 2017 (2016: £1.3m net borrowings).

The net increase in cash and cash equivalents in the year under review totalled £1.4m, which together with £2.8m of net current assets (excluding deferred revenue), contributed to a further strengthening of Elecosoft's financial position at the end of the year.

Group net assets at 31 December 2017 totalled £11.5m (31 December 2016: £9.7m).

Software Development

Elecosoft values its reputation for developing market leading construction software. The technical and creative contribution of Elecosoft's software development teams in the UK, Sweden and Germany continue to be critical elements in Elecosoft's success in developing an expanding portfolio of market-leading software programs.

Our development teams performed magnificently in the year to satisfy the needs of our customers by responding to specific requests to adjust or enhance our existing software programs. They also liaise closely with our customers through user steering groups to define key elements to be incorporated in new software programs under development.

We very much value this close relationship with our customers and I would like to take this opportunity on behalf of our software development teams to thank our customers for their valuable, constructive and practical feedback and involvement in our software development process. We really do appreciate their input.

The Board adopted a policy some years ago of allocating a significant portion of Group cash flow annually to finance the development and enhancement of our software development programmes and the expansion of our software development teams. I am pleased to say that this strategy has been effective and will continue.

Software development expenditure in the year under review increased to £2.7m (2016: £2.6m) and expenditure on major software development projects in the UK, Sweden and Germany which were capitalised in the year totalled £1.1m (2016: £0.6m).

Our Group software development programme increasingly involves the development of SaaS web applications for existing software programs, such as our project management and site management offerings. I am pleased to say that the completed SaaS web applications have so far been very well received.

66

Our Group software development programme increasingly involves the development of SaaS web applications.

Trading and Marketing Highlights

Our sales and marketing teams made outstanding contributions to our growth in the year, evidenced by higher sales in all our markets. The year also saw increased success in securing new license sales together with higher revenue from our support and training propositions.

Our marketing teams have made determined and successful efforts to promote the Elecosoft® brand worldwide and I am confident that it will play an increasing part in our progress as we move to accelerate the impact of our latest cross-selling initiatives.

Our software programs are increasingly being used in combination with each other, as our customers become more aware of the significant improvement in performance that such combinations can now deliver.

Elecosoft's Software Portfolio

We refer to Elecosoft as an international specialist construction software group and I set out below a brief summary of our current software portfolio. It consists of software programs that on one hand have been designed and developed by our own software development teams and on the other hand have become part of our portfolio by acquisition. Our experience is that this is a pragmatic and effective way of building our business and enhancing the quality and scope of our construction software portfolio for the benefit of our customers and our shareholders.

Project Management

We continued to develop our flagship Powerproject® software by launching a SaaS proposition in the first half of the financial year. We also saw increased adoption of our BIM and Site Progress Mobile programmes. For the fourth year running we celebrated Powerproject winning the award for Best Project Planning Software at the Construction Software Awards ("the Hammers").
We have sold Powerproject to over 90 per cent of the top 100 construction contractors in the UK, and 35 out of the top 50 in Sweden, and I am pleased to say that Powerproject now ranks third in sales of project scheduling software to the US construction industry. Powerproject is now available in ten languages, with another five currently being translated.

Estimation

Bidcon®, our estimation software, which was enhanced with two releases in the year, continues to be the leading construction estimation software program in Sweden. I am pleased to say that in the UK Bidcon's BIM 3D quantity take-off feature became an attractive proposition for McCarthy & Stone, which installed Bidcon in the UK in the year.

Site Management

Our Swedish colleagues continued to enhance our Sitecon solution during the year. In parallel intensive work was put into the creation of the next generation SaaS-solution meeting international demands on a collaboration software, to be launched in 2018. Our Site Progress Mobile solution also gained increased market share during the year now serving over 1,500 active users.

Executive Chairman's Statement continued

Visualisation
Interiormarket and Marketingmanager are leading visualisation marketing programs sold to flooring and tiling companies and DIY stores in Germany, and increasingly also worldwide.

3D CAD
Arcon maintained its market share in its core market of Germany and increased its sales of complementary third party applications.

Data Management
IconSystem®'s blue chip retail customer base is testament to the value delivered to them by its Specs and Standards and Property Information Management software.

IconSystem's data management capability is also being increasingly recognised by customers outside of the retail sector and McCarthy & Stone has adopted IconSystem to improve the coordination of its design, planning and construction processes.

Engineering
Our portfolio of timber engineering applications delivered growth in 2017. Demand increased in Australia for Staircon® with the receipt of the largest Staircon order to date. As demand for modular construction increases, our applications, including Statcon® and Framing, continue to serve the industry requirements in design and off-site manufacturing.

The Elecosoft Brand
The strength of Elecosoft's software portfolio was significantly enhanced in 2016 by the launch of the Elecosoft brand for the promotion of all our products. The response to the introduction of Elecosoft was very positive, as evidenced by the significant increase in our software sales to record levels in 2016 and 2017.

The unified brand not only signals a shift towards a more collaborative culture within the business, but also provides a sound platform for an increased focus on cross-selling initiatives.

Elecosoft Colleagues
The number of Elecosoft employees increased to a record 201 in 2017 (2016: 190). On behalf of the Board and shareholders, I wish to thank all our highly skilled and motivated people who are now located as far afield as Sweden, the Netherlands, Germany, the United States, Belgium and the UK, and to extend a warm welcome to our colleagues who joined us during the year. We have an outstanding, talented and balanced group of employees in all the markets that we serve.

Board and Management
I also take this opportunity formally to welcome the following appointments to the Board during the year under review:

Jonathan Hunter was appointed Chief Operating Officer on 22 December 2017. In his previous role as Group Marketing and Business Development Director, Jonathan was responsible for establishing Elecosoft as a leading international software brand; and for negotiating the acquisition of IconSystem.

Anders Karlsson was appointed as an Executive Director on 27 March 2017. Anders initially joined Consultec Byggprogram AB as Managing Director in 2005 and then rejoined the Group in 2014 as Managing Director of Consultec. In March 2017 he was appointed Chief Executive Officer of the Company's wholly owned Swedish subsidiary, Consultec Elecosoft AB.

Simon Morgan, FCA, was appointed Group Finance Director on 15 November 2017. Simon joined Elecosoft following the departure in August of David Pearson. Simon has held numerous senior financial and other directorships in digital publishing, SaaS and business services companies.

I also wish to thank Jason Ruddle, David Pearson and Jonathan Edwards who left Elecosoft in 2017 for their contribution to the success of Elecosoft during their time with us, and wish them well in their new endeavours.

There have also been some changes among the Non-Executive members of the Elecosoft Board.

Kevin Craig, joined the Elecosoft plc Board as a Non-Executive Director in March 2017. He is founder and CEO of the highly successful Political Lobbying and Media Relations Ltd ("PLMR") communications agency.

Serena Lang, having joined the Board of Elecosoft as a Non-Executive Director in December 2014, was appointed Non-Executive Deputy Chairman in May 2017. 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 on to 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.

Following the retirement of Jonathan Edwards at the end of his term in office at the close of the financial year, David Dannhauser, FCA, was appointed as a Non-Executive Director and Chairman of the Audit Committee in February 2018. David has been CFO of several listed companies, including Elecosoft from 1994 to 2010, during which time he was closely involved in the establishment and development of the Group's software activities.

Proposed Dividend

In light of Elecosoft's strong trading performance and cash generation, the Board has decided to recommend a final scrip dividend of 0.40 pence per share, with an alternative cash dividend of 0.40 pence per share, to give a total dividend for the year of 0.60 pence per share. This represents an increase of 50 per cent relative to the previous year (2016 total dividend: 0.40 pence per share).

The scrip reference price is 49.6 pence, calculated from the average of the closing price for an ordinary share of the company as derived from the daily official list of the London Stock Exchange during the period of five dealing days ending 23 March 2018.

Payment of the final dividend will be subject to approval by shareholders at the Annual General Meeting and will be paid on 31 May 2018 to shareholders on the register at the close of business on 6 April 2018; the ex-dividend date will be 5 April 2018.

Outlook

We see significant and growing opportunities for our software to enhance the performance of businesses in construction and other sectors, by improving the timeliness, cost-efficiency and risk profiles of customers' projects. Thanks to the dedication and skills of our talented colleagues, Elecosoft is increasingly seen as a market-leading provider of construction software and training, across all phases of a construction project and beyond, in the on-going lifecycle of buildings with an excellent reputation for developing and delivering market leading software to our customers.

Although there is ongoing uncertainty in the market, notably in relation to Brexit, only 32 per cent of our turnover and 32 per cent of our operating profits were earned in the UK in the year. With the majority of our profits earned in, and employees based in Sweden, Germany, the Netherlands, Belgium and the United States, we remain resilient to the effects of Brexit, and the fundamental drivers of our business remain positive.

I am pleased to report that the Group has performed very well in the first months of the current financial year. We remain open to utilising our strong balance sheet for further bolt-on acquisitions, as the successful execution and integration of ICON provides a blueprint for future transactions.

I am confident that our unified branding, continued investment in software development and increased integration of our product portfolio will open up further exciting prospects to cross-sell our products.

My colleagues and I therefore look forward with confidence to the year ahead.

John Ketteley
Executive Chairman
26 March 2018

Our Business Model

We create and share value with stakeholders through a model built on differentiated technology and a high proportion of recurring revenues.

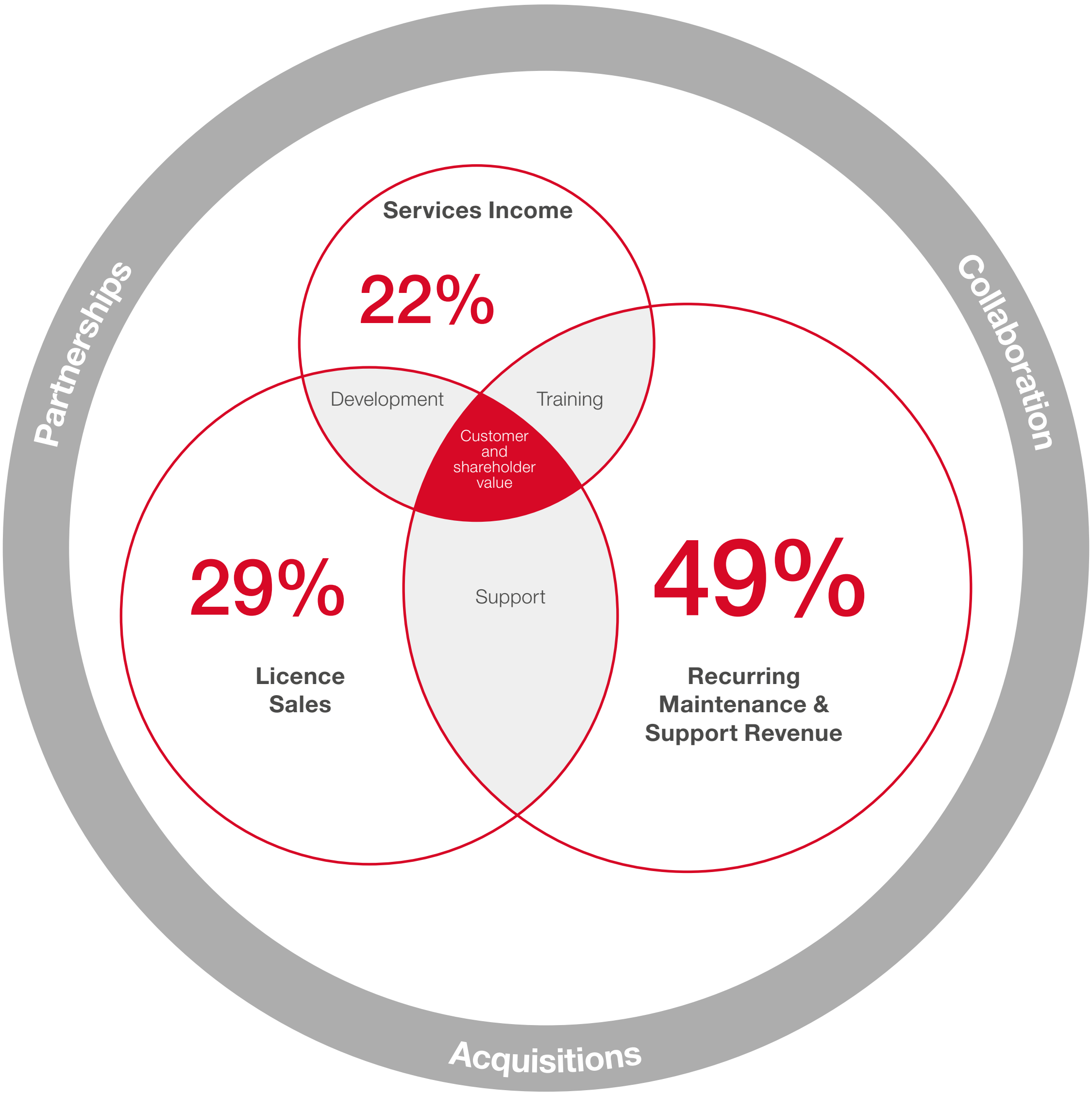
Our Strategy

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

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

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

How We Create Value



How We Add Value

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

Geographical footprint

7

countries

How We Protect Value

- **People**
  Elecosoft employed an average of 201 people, of which 50 are software developers and 59 are client focused.
- **Strong Customer Relationships**
  Working closely with customers and partners generating recurring business and meeting their strategic requirements.
- **Market-leading Technology**
  Elecosoft has market-leading products by continuing to invest 14 per cent of revenue (2016: 15 per cent) in innovative software solutions.

Skilled people

201

colleagues

Our Market Context

"Construction is likely to be one of the most dynamic industrial sectors in the next fifteen years and is utterly crucial to the evolution of prosperous societies around the world[1]."

Overview

The construction industry, one of the largest global sectors, is highly complex, with multiple interdependencies between subcontractors and suppliers. As technology, cloud-based data and powerful mobile devices have become more widespread, building contractors and other industry participants have increasingly recognised the benefits that information and analytics can bring to processes in terms of time, cost-efficiency and risk. Building Information Modelling ("BIM") and other digital construction technologies are increasingly and critically being adopted by construction firms around the world, with growing affordability and accessibility stimulating uptake among medium-sized firms as well as larger contractors.

With the global construction market set to grow to $8 trillion by 2030, the UK will be continental Europe's stand-out growth market, overtaking Germany to become the world's sixth largest construction market[1].

In the UK in 2017 "62 per cent of practices used BIM on some of their projects, up from 54% in 2016: an 8 per cent year-on-year increase[2]", and a report by Markets and Markets forecasts the global building information modelling ("BIM") market to grow from $3.16bn in 2016 to $7.64bn by 2022[3].

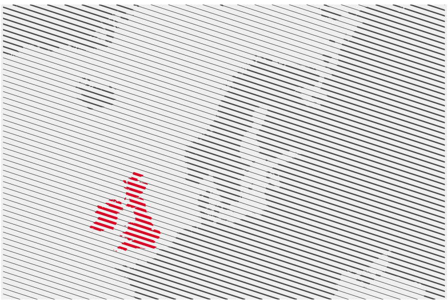
Investment in technology and the associated training is also a means to mitigate the chronic shortage of skilled labour being experienced in many developed markets. Adoption is also being driven by governments in several developed markets requiring BIM to be used on public sector projects, with the UK's 2016 BIM Level 2 mandate for centrally procured construction projects a case in point. Beyond the dimensions of visualisation, scheduling and cost management data, investment in technology continues and the UK is at the forefront of digital construction with the NBS National BIM Report 2017 showing that:

- 62 per cent of practices use BIM on some projects – up 8 per cent year on year.
- Almost 50 per cent of respondents use BIM on 75 per cent of projects or more.
- 75+ per cent of organisations who have adopted BIM are at or beyond the level required by the BIM mandate management systems providing a single version of the truth reduce risk and inefficiency still further.

Digital construction tools are only part of the innovations emerging in the construction sector, with augmented and virtual reality, drones, 3D printing, autonomous equipment and advanced building materials examples of other developments that are set to transform historical processes.

1 Source: https://www.ice.org.ukICEDevelopmentWebPortal/ media/Documents/News/ICE%20News/Global- Construction-press-release.pdf
2 Source: https://www.thenbs.com/knowledge/nbs-national-bim-report-2017
3 Building Information Modelling ("BIM") Market – Global Forecast to 2022, Markets and Markets
4 Sources: European Construction Sector Observatory, Atradius
5 https://www.ice.org.uk/ICEDevelopmentWebPortal/media/Documents/News/ICE%20News/Global-Construction-press-release.pdf

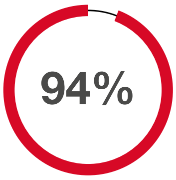
UK



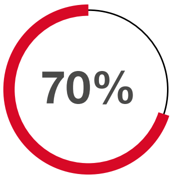
Key drivers[4]

- Housebuilding set to grow following government stimulus package.
- Large infrastructure projects such as Crossrail, HS2 and Thameslink will help sustain volumes.
- Investment in regeneration of major cities such as Birmingham and Manchester.
- Impact of Brexit on investor confidence, input costs and availability of skilled labour.
- Four of top ten construction firms issued profit warnings in 2017.
- Collapse of Carillion, the number two UK construction firm, in January 2018 and its impact throughout the supply chain.

Elecosoft's market position

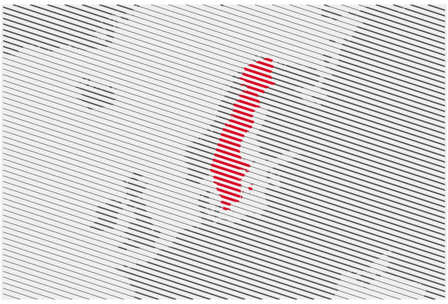


UK
- 94 of top 100 main construction contractors



UK
- Seven of top ten retailers

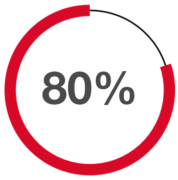
Sweden



Key drivers[4]

- Demand for housing stimulated by low interest rates, population growth and immigration.
- Government initiatives to encourage housebuilding.
- EUR 65.8bn government infrastructure bill for 2018-2029.

Elecosoft's market position



Sweden

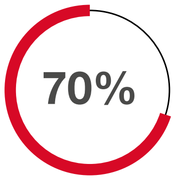
- 40 of the top 50 construction companies

Germany

Key drivers[4]

- Strong demand for housing, fuelled by high employment, low interest rates and high levels of immigration, and federal measures aimed at tackling housing shortages and rising house prices.
- Increased investment in infrastructure
- Shortage of skilled labour, with 30% of workforce due to retire over the next decade.
- Sector strength in technical innovations, particularly in relation to energy efficiency.
- Federal support for the use of BIM, which will be required for transport infrastructure projects by 2020. Similar plans are scheduled for other public works.

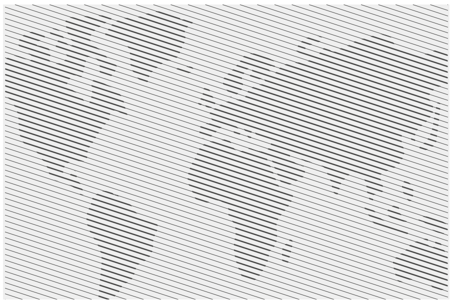
Elecosoft's market position



Germany and the EU

- 70 per cent of flooring manufacturers

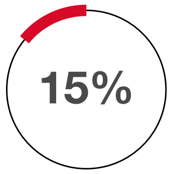
Rest of World



Key drivers[4]

- Construction activities in Asia-Pacific have boosted once again the value of global construction. The Chinese and Indian industries have mainly contributed to this growth, as well as other developing economies. Accordingly, the slowdown of the global industry was consequent to that of the Chinese industry.
- The growth of the US industry continued at strong rates, but its slight deceleration in 2016 added to the global trend however the US construction market is set to grow faster than China over the next 15 years.

Elecosoft's market position



US

- 15 per cent of ENR Top 400 construction companies

Our Ambition, Strategy and KPIs

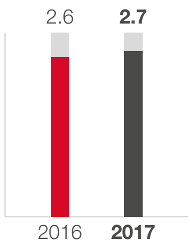
Our strategic objectives remain to continue to innovate and to grow, with the solid foundation of a stable and efficient organisation.

Our Strategic Objectives and KPIs	Progress
Innovation Developing a portfolio of increasingly integrated software solutions, available across multiple platforms and devices, that continue to lead in their segments.	• Expanded our SaaS offering with releases of Powerproject® SaaS, Site Progress mobile and continued development of the IconSystem®. • Recognised with award wins for Powerproject® and IconSystem® at the prestigious Construction Computing Awards.
Growth Expanding Elecosoft's sales and marketing capabilities, channel capacity and operational territories.	• Unified our software brands under the Elecosoft name, to increase market awareness and facilitate the cross-selling of our product range in existing and new markets. • Increased penetration among new and existing customers, with continued success of cross-selling in Sweden and the UK. • Exhibited a full product portfolio at BAU, the largest construction fair in Europe. • Entered into a collaboration agreement with Innovative Management Solutions for the sale and support of our software to IMS' client base in Texas and the surrounding states. • Gained traction in the Pacific Region with growing Staircon® sales and Powerproject®. • Secured largest laminate flooring supplier in China as a customer of Interiormarket.
Stability Continuing to strengthen Elecosoft's financial position, whilst consolidating and simplifying its operations.	• Eliminated bank borrowings in the first six months of 2017, ended the year in a net cash position. • Maintained tight control of overhead costs. • Increased client facing team to build customer relationships, retention and deliver client value. • Increased technical team, responding to market needs.

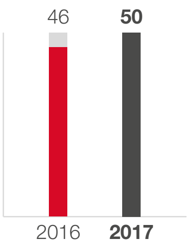
Our Ambition

We aim to become the leading provider of choice for AECO software solutions.

KPI



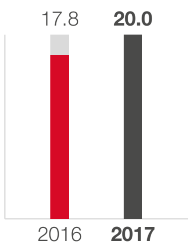
Product development spend (£m)



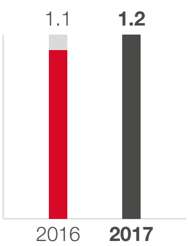
Software developers headcount

Priorities

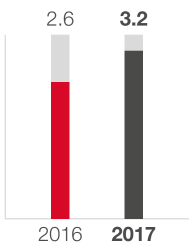
- Continue to invest in research and development, to enhance and expand our SaaS offerings and drive integration of product portfolio.
- Deliver best practice and standardisation among development teams and continue to develop with industry standards in mind.
- Seek to develop, acquire or partner to fill portfolio gaps and deliver growth.



Revenue (£m)



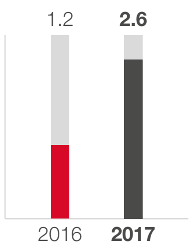
Reseller sales channel (£m)



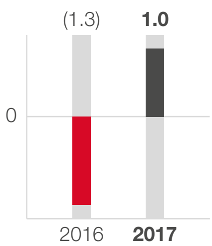
New market revenue (£m)[1]

1 Revenue from USA, Rest of Europe and Rest of World

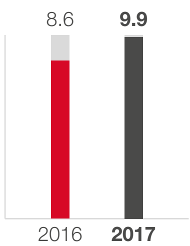
- Expand portfolio to address additional phases of the building lifecycle.
- Concentrate efforts in existing territories to maximise investment returns, including increasing commitment to resellers in the US.
- Strengthen position in home markets through increased portfolio-led selling to existing customers and raising awareness through industry exhibitions.
- Continue to identify suitable technical resellers and partners to reach new international customers.
- Identify acquisition candidates that fit with our strategy and provide a competitive advantage in new markets.



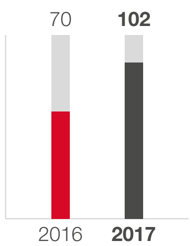
Free cash flow (£m)



Net cash/(debt) (£m)



Recurring revenue (£m)



Cash flow conversion %

- Review and enhance processes and procedures across all functions, including the improvement of HR tools and related policies.
- Continue to improve reporting and introduce efficiencies in administration.
- Increase centralisation of functional management.
- Continue to simplify Elecosoft's corporate and product brands to emphasise a single Company strategy.

Read about the Risks and Uncertainties that may influence our ability to execute our strategy on page 24.

Operating Review

In this "question and answer"-based Operating Review, Jonathan Hunter, our Chief Operating Officer, outlines what he believes sets Elecosoft apart from the competition and describes some of the opportunities for the Group.

Q Why do customers choose to use Elecosoft solutions?

At Elecosoft, we have well-established software applications which are highly regarded by a large number of high profile building companies, applications which they have been using for a number of years. The relationships my colleagues have built with our customers are in appreciation of the challenges that they face. Our objective is to add value in our customers' businesses and to the industry, through the use of well-developed technology and exceptional services. As a result, Elecosoft's applications have been built on many years of research, customer engagement, consultancy, planning, refinement and code writing.

As our software solutions are being continually refined to provide the best technical tools available, we have clear evidence that is the reason customers choose us in the first place and then stay using our solutions for years to come.

Q Where is BIM used in the construction value chain and beyond?

BIM is being used at the early design stages of the building lifecycle; we have seen the adoption of the processes by many of the main construction contractors and increasingly we are seeing more medium-sized building companies and house builders adopting the technology as it becomes more affordable and delivers tangible benefits.

We understand that a key part of any project is managing costs; the greater accuracy we can achieve at the start of a project, the higher the chance of keeping within budget. That is why our software is used by Estimators and Quantity Surveyors to help them build rugged and accurate cost plans that can exploit the power of 5D project planning.

Elsewhere in the building lifecycle, property owners use our IconSystem® software in conjunction with their architects and designers. Once a building is operational, we partner with facilities management and maintenance providers, connecting via secure APIs, to allow data to be read from our systems for ongoing management of maintenance of a building.

We hold a significant market position with the main contractors and subcontractors. Although our software is used prior to construction, I see opportunity to continue to gain closer relationships during the design and specification stages and manage the data collected throughout the construction process to the end client for the maintenance throughout the operational life of the building.

Analysis on Building Life-Cycle costs has identified that as little as 10 per cent of a building's cost is related to construction, with circa 90 per cent being related to maintenance.

By passing BIM data from the build programme, through to the operations and maintenance phase of the building lifecycle, the property manager would know where all the services, fixtures and fittings are, together with installation dates, certificates, service intervals and so on; all from the original construction details. Traditionally, an archive of documents is delivered to the building operator along with the keys.

Increasingly, and in the near future, the use of BIM construction data will be used to support the predictive and automated maintenance schedules during the building life.

> “
> The Group’s ambition remains to be the market-leading technology provider in the industries we serve.

Q What have been the primary developments in the market?

Digitising the building industry means managing and delivering large volumes of data. The trend toward consolidating the number of software systems and storing of data into a Common Data Environment (“CDE”) has been an increasing movement. Correspondingly, our customers are seeking access to accurate and live reporting to allow decisions to be made on accurate information.

As the industry continues to modernise, hosted and web applications are playing an increasingly important role in seamlessly transferring and communicating this data.

Elecosoft is right at the forefront in the UK, which is itself at the forefront of BIM. BIM is a truly international initiative and construction companies must modernise using intelligent building information to prevent replicating effort and to support the collaboration with the disparate parties involved in a building project.

BIM take-up is increasing beyond the large construction projects, as technology offers more affordable BIM solutions. Our technical teams at Elecosoft have achieved amazing results by integrating BIM designs into our appropriate applications. Previously there was a requirement for bespoke data sharing between systems and technical Data Managers to control data. What our technical teams have achieved is strict data integrity by providing BIM in a single application; as a result making BIM more affordable. Subsequently, as I already mentioned, we are seeing the adoption of BIM methodologies and technologies filter down to medium-sized companies.

Q What have been the highlights of the last financial year?

In 2017 we continued to work intensively on our strategy to become recognised as a leading provider of software to the AECO industry. This is evidenced by our dominant market share in our core territories, which includes over 90 per cent of the UK’s leading construction contractors, seven of the UK’s top 10 retailers, 40 of Sweden’s top 50 construction companies and 95 per cent of German floor manufacturers. As well as continuing to build on our extensive technical know-how, we continue to align our organisation to global trends and maintain strong customer relationships. Elecosoft has a network of strong recognised product brands and further progress was made in 2017 to strengthen our company’s brand in our core markets. The consolidation of our websites to elecosoft.com, elecosoft.se and elecosoft.de has proved successful as website interest continues to reach record figures with exposure to all of our brands with every visit.

My marketing colleagues concentrated efforts to unify our brand, as part of our move towards greater centralisation and collaboration, to put ourselves in a strengthened market position. This feeds into our strategic objective of offering a full solution for businesses. Rather than product-centric marketing, in recent months we have been moving to a portfolio approach, with our communications now all referencing the Elecosoft Group.

Our customary investment in research and development, at a rate of circa 15 per cent of revenue, continues to be a cornerstone to maintaining our intelligent solutions. Future technologies have played a focus in 2017 with Software as a Service (“SaaS”) collaboration and business intelligence web applications scheduled to be launched in 2018, in addition to updates to our existing applications.

In parallel, the Board’s reseller strategy has focused on growing Elecosoft’s geographical presence through controlled investment and risk. We have seen encouraging sales in Australia, where our stair manufacturing software, Staircon®, has been sold directly from Europe. My colleagues report that one of the Australian orders is the largest Staircon order to date. Staircon is typically installed when a factory upgrades its CNC machines, which can mean long sales cycles but also long-term customers and with that, long-term revenue.

Award wins included our customer McCarthy & Stone (the UK’s leading retirement house builder) winning the Digital Construction award with the use of our IconSystem building information management solution. We also won the Best use of IT in a construction project award with the same customer. Finally, we were recognised for the fourth consecutive year as having the best project management and planning software at the Construction Computing Awards.

While the awards we receive are commonly related to our well-regarded technology, our support and client services teams must be applauded for working exceptionally hard to deliver the tangible value to our customers. They ensure that the adoption of Elecosoft technology within our customer’s organisation is seamless and painless to their operations. Evidence of the commitment to client services is demonstrated by the high customer retention and by the high level of maintenance and support renewals which, together with services income, combined to account for 71 per cent of total revenue.

Q What is the Group’s vision, and priorities to achieve it?

The Group’s ambition remains to be the market-leading technology provider in the industries we serve. We believe that to achieve this and to build long-lasting customer relationships, we must excel in every aspect of our business and continue ‘Building on Technology®’. Accordingly, my colleagues are challenged to iteratively improve in all areas of their work.

A key priority for Elecosoft is to deliver intelligent and efficient working practices through its software and services.

We are proud of our customer base which provides evidence that our technology delivers what the user requires. We continue to focus on communicating and delivering our value proposition, whether through direct sales, channel sales, or cross-selling. We have developed our solutions through many years of close discussions with customers and, as a result, we hold a strong market position in our core markets of UK, Sweden, Benelux and Germany. 2017 delivered strong growth in revenue from existing customer which reinforces our commitment to building customer relationships and maintaining loyalty for a robust future.

Financial Review

Elecosoft has had a successful financial year, evidenced by increased income, strong growth in dividends and the elimination of its net borrowings, and a strong balance sheet at the year end.

Recurring Maintenance Revenue (£'000)

9,856

14% increase

Fresh Cash Flow (£'000)

2,645

117% increase

2017 has been another successful year as we have maintained the trends in financial performance seen in 2016. Revenue and reported operating profit grew by 12 per cent and 48 per cent respectively, driven by the strong underlying performance of the Group, the successful integration of the ICON business and favourable movements in the Group's core trading currencies. The Group remains in a strong financial position, with a high and increasing proportion of operating profits converted into cash, resulting in the Group moving into a net cash position by the end of the year.

Revenue

Revenue for the year increased 12 per cent to £20.0m (2016: £17.8m). Underlying revenue growth (excluding the impact of acquisitions and movements in foreign exchange rates) was 4 per cent, driven by growth in new licence sales and in revenue from maintenance and support contracts of 2 per cent and 8 per cent respectively. The acquisition of ICON in October 2016 contributed a further 4 per cent to revenue growth, and the impact of a weaker Sterling against the Swedish Krona, the US Dollar and the Euro adding a further 4 per cent to revenue growth.

The overall revenue profile of the Group remains strong, with the proportion of revenue derived from recurring maintenance and support contracts increasing to 49 per cent (2016: 48 per cent). The level of deferred income at the balance sheet date, which is a measure of future maintenance revenue, increased by 9 per cent to £4.8m (2016: £4.4m).

Revenue growth was driven by direct sales, up 13 per cent to £18.8m (2016: £16.7m) and growth through resellers, up 8 per cent to £1.2m (2016: £1.1m), reflecting the Group's strategy to accelerate revenue growth with partners.

The Group delivered solid growth in its core mature markets of the UK and Sweden, which together comprise 69 per cent of total revenue, of 3 per cent. The Group's strategy to penetrate new geographic markets was reflected in strong underlying revenue growth in the USA, which grew 8 per cent to £0.7m, in the Rest of Europe, which grew 25 per cent to £2.2m and the Rest of World, which grew 23 per cent to £0.4m (all growth rates are at constant rates of exchange).

Profit

Gross profit is revenue less the direct cost of providing products and services to customers, principally the costs of training and consultancy staff. In 2017, the gross profit margin increased by 1.2 percentage points to 87.9 per cent, reflecting cost control and revenue mix.

Reported operating profit grew 48 per cent to £2.4m (2016: £1.6m), or 28 per cent on an underlying basis (excluding the impact of acquisitions and movements in foreign exchange rates). This was driven by the strong revenue performance described above and reflects the benefit of tight cost control across the Group. 2016 also included costs of £0.3m in relation to the acquisition of ICON and the termination of a former Director. 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 26 per cent, or 18 per cent on an underlying basis. The overall adjusted operating margin improved by 1.5 percentage points to 13.9 per cent (2016: 12.4 per cent).

Overheads included within adjusted operating profit increased by 3 per cent on an underlying basis, reflecting tight cost management across the Group and the receipt of £0.2m from the administrators of a previously owned building company. Including the impact of acquisitions and foreign currency effects, overheads increased by 12 per cent.

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Revenue for the year increased 12 per cent to £20.0m.

	2017 £'000	2016 £'000
Operating profit	**2,361**	1,594
Acquisition expenses	**–**	212
Former Director termination payments	**–**	109
Amortisation of acquired intangible assets	**412**	292
Adjusted operating profit	**2,773**	2,207

Software product development expenses amounted to £2.7m for the year (2016: £2.6m), of which £1.1m (2016: £0.6m) was capitalised, demonstrating the commitment to investing increasingly in new product development and substantial product upgrades. The spend capitalised in the year includes investments in Powerproject BIM, Powerproject Vision, Powerproject v15 and other new products scheduled to be launched in 2018. 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 an impairment charge of £0.2m (2016: nil) was recorded in respect of two minor products.

Finance costs in the year, largely in respect of the Group's term debt, totalled £0.1m (2016: £0.1m), resulting in a profit before tax of £2.3m (2016: £1.5m).

The Group tax charge in the year was £0.4m (2016: £0.3m) and represented 15.8 per cent of profit before tax (2016: 17.4 per cent). The decrease in rate compared with 2016 reflected the reduced rate of corporation tax in the United Kingdom which impacted both tax on current year profits, as well as reducing the overall value of deferred tax liabilities.

The net profit attributable to ordinary shareholders increased by 53 per cent to £1.9m (2016: £1.2m). The underlying increase, excluding the impact of acquisitions and currency effects, was 25 per cent.

After adjusting for the post-tax effect of non-operating items and amortisation of acquired intangible assets, adjusted net profit attributable to ordinary shareholders increased by 23 per cent to £2.2m (2016: £1.8m).

	2017 £'000	2016 £'000
Net profit	**1,897**	1,243
Acquisition expenses	**–**	212
Former Director termination payments	**–**	87
Amortisation of acquired intangible assets	**291**	234
Adjusted net profit	**2,188**	1,776

Cash Flows

Cash generated from operations increased to £4.2m (2016: £2.4m), the increase reflecting the strong trading performance of the Group and continued focus on management of working capital. Overall working capital movements were favourable, contributing a net cash inflow of £0.5m (2016: £0.1m).

Capital expenditure on intangible assets, principally comprising the capitalisation of software product development costs, was £1.2m (2016: 0.8m), reflecting the increased focus on the development of new products and major product upgrades. Capital expenditure on property, plant and equipment was £0.2m (2016: £0.4m).

Financial Review continued

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Basic earnings per share increased 49 per cent to 2.5 pence.

After deducting capital expenditure, adjusted operating cash flow, as set out below, was £2.8m (2016: £1.5m), meaning that 102 per cent of adjusted operating profit (2016: 70 per cent) was converted into cash. This reflects the strength of the overall business model, where 49 per cent of the Group's revenue is recurring and typically invoiced annually in advance, and the close focus on management of working capital.

	2017 £'000	2016 £'000
Cash generated in operations	**4,167**	2,422
Purchase of intangible assets	**(1,154)**	(754)
Purchase of property, plant and equipment	**(180)**	(449)
Acquisition expenses	**–**	212
Former Director termination payments	**–**	109
Adjusted operating cash flow	**2,833**	1,540

Free cash flow before dividends and acquisitions, more than doubled in the year to £2.6m (2016: £1.2m). Cash dividends paid to shareholders amounted to £0.2m (2016: £0.1m).

	2017 £'000	2016 £'000
Adjusted operating cash flow	**2,833**	1,540
Net interest paid	**(98)**	(82)
Tax paid	**(251)**	(17)
Proceeds from disposals of property, plant and equipment	**161**	100
Acquisition expenses	**–**	(212)
Former Director termination payments	**–**	(109)
Free cash flow	**2,645**	1,220

Funding and Liquidity

The strong cash generation enabled the Group to end the year with net cash of £1.0m (2016: net borrowings of £1.3m), as set out in the table below.

	2017 £'000	2016 £'000
Net debt at 1 January	**(1,304)**	(803)
Free cash flow	**2,645**	1,220
Dividends	**(197)**	(111)
Acquisitions	**–**	(1,700)
Inception of finance leases	**(169)**	(170)
Currency	**56**	260
Net cash/(debt) at 31 December	**1,031**	(1,304)

The Group's net cash position comprises cash at hand of £4.7m (2016: £2.6m), offset in part by gross borrowings of £3.4m (2016: £3.5m) and obligations under finance leases of £0.3m (2016: £0.4m). Gross borrowings comprise a fully drawn overdraft facility of £1.0m and term debt of £2.4m. The term debt is repayable in quarterly instalments over the next three years, with £0.8m repayable in 2018, £0.8m repayable in 2019 and £0.8m repayable in 2020. Both the overdraft and term debt carry an interest rate of 2.75 per cent over the Bank of England base rate.

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

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

Earnings Per Share and Dividends

Basic earnings per share increased 49 per cent to 2.5 pence (2016: 1.7 pence).

After adjusting for the post-tax impact of non-operating items and amortisation of acquired intangible assets, adjusted earnings per share increased 20 per cent to 2.9 pence per share (2016: 2.4 pence per share).

The Board has recommended the payment of a final scrip dividend in respect of the year ended 31 December 2017 of 0.40 pence per share (2016 final dividend: 0.25 pence), with a cash alternative to be made available. This gives total dividends in respect of the financial year of 0.60 pence per share (2016: 0.40 pence), an increase of 50 per cent over 2016.

Simon Morgan
Group Finance Director
26 March 2018

Investment Proposition

Scaling Business Operations

- Building Collaborations
- Commitment to Grow

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

Strong Technology Base

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

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

Growing and Strengthening Market

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

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

Principal Risks

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

The development of new products and the enhancing of existing requires continual appraisal of investments and the returns. Product development is planned, reported and reviewed frequently, and Elecosoft works closely with key customers and channel partners while monitoring industry trends to ensure that new products and features align to market needs and expectations.

Risk	Trend
Product Development Risks	↑
Market Risks	↔
Foreign Exchange Risk	↔
Protection of Intellectual Property	↑
Employees and Organisation	↔
Operations Risks	↑

Key

↑ Increasing risk

↔ Stable

↓ Decreasing risk

Description	Mitigation
The development of new products and the enhancing of existing requires continual appraisal of investments and the returns. Changes in customer requirements, industry and technological innovation contribute to the challenges of developing complex software products.	Product development is planned, reported and reviewed frequently. Elecosoft works closely with key customers and channel partners while monitoring industry trends to ensure that new products and features align to market needs and expectations.
The health of domestic and global economies strongly influences the commercial construction business cycle. A downturn in the construction business cycle can adversely affect Elecosoft's performance.	The risk is mitigated by existing operations spread between countries with plans to expand the geographical reach further through reseller channels. Elecosoft continues to seek opportunities to market its software solutions outside of the construction industry.
The Group earns a proportion of its revenue in currencies other than Sterling. The two other largest currencies in which it trades are Swedish Krona ("SEK") and Euro ("EUR"). Changes in these exchange rates can expose Elecosoft to exchange gains and losses.	Our businesses predominantly trade in their own local currencies and have local operational and development staff which create a natural hedge against currency movements. In addition, we will continue to review foreign exchange contracts to manage risk.
Elecosoft's success is built upon the development of sophisticated software which requires continual protection from competitive businesses who may seek to copy or otherwise replicate the software.	Elecosoft uses a variety of licensing technologies and defines the rights of customers in licence agreements. In addition, the Group seeks to ensure its intellectual property rights are protected by appropriate means and defends its rights where practical.
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.
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.

Governance

Board of Directors

John Ketteley FCA
Executive Chairman

January 1997

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

Jonathan Hunter BBus. BMm
Chief Operating Officer

June 2016

Appointed in June 2016, Jonathan has worked for the Elecosoft group for over a decade. Previous roles include Marketing Manager for the Building Systems division and 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 and led the rebranding of Elecosoft in 2015. He identified and played a major part in the acquisition of ICON in 2016, and in December 2017 Jonathan was appointed Chief Operating Officer.

Anders Karlsson
Managing Director of Elecosoft Sweden

March 2017

Appointed in March 2017. Anders has over 20 years of business development experience from various companies in different management positions. He was initially appointed as Managing Director of Consultec Byggprogram AB in August 2005 and then 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.

Simon Morgan FCA
Group Finance Director

November 2017

Appointed in November 2017, Simon Morgan has held numerous senior financial and other directorships in digital publishing, SaaS and business services companies. Most recently, Simon was CFO of MeteoGroup, a global provider of B2B weather forecasting services, prior to which he had held senior financial and managerial roles in various subsidiaries of RELX plc. Simon qualified as a Chartered Accountant with PwC and is a Fellow of the Institute of Chartered Accountants in England and Wales.

I Independent Non-Executive Director

A Member of the Audit Committee

R Member of the Remuneration Committee

N Member of the Nominations Committee

Serena Lang MBA
Non-Executive Director

December 2014

A R N I

Appointed as a Non-Executive Director in December 2014, Serena Lang 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.

Kevin Craig
Non-Executive Director

March 2017

A R N I

Appointed as a Non-Executive Director in March 2017, Kevin Craig is Founder and CEO of the Political Lobbying and Media Relations Ltd ("PLMR") communications agency. He has served over eleven years to date as a Councillor in London local government and formerly worked for Saatchi and Saatchi (Rowland Company) and DLA Piper. He is also a Non-Executive Director of Company Shop the UK's leading food and surplus redistribution company.

David Dannhauser FCA
Non-Executive Director

February 2018

A R N I

Appointed as a Non-Executive Director in February 2018. David Dannhauser is Chairman of the Audit Committee, and has been CFO of a number of listed companies in the past 20 years, including the position of CFO of Elecosoft from 1994 to 2010, at 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. From 2011 to 2013, David Dannhauser was a Non-Executive Director of Altitude Group plc, the AIM-listed provider of SaaS solutions for the promotional products and print industries in North America and the UK.

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Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2017.

Results for the Year Ended 31 December 2017
The Group profit on ordinary activities before taxation was £2,254,000 (2016: £1,594,000). The detailed financial statements of the Group are set out on pages 40 to 67.

Business Review and Future Developments
A review of the Group's operations during the year and its plans for the future is set out in the Chairman's Statement on pages 8 to 11, the Operating Review on pages 18 to 19 and in Strategy on pages 16 to 17.

Dividends
In light of Elecosoft's strong trading performance and cash generation in the second half, the Board has decided to recommend a final scrip dividend of 0.4 pence per share, with an alternative cash dividend of 0.4 pence per share, to give a total for the year of 0.6 pence per share, an increase of 50 per cent relative to the previous year (2016: total dividend of 0.4 pence per share).

The scrip reference price is 49.6 pence, calculated from the average of the closing price for an ordinary share of the company as derived from the daily official list of the London Stock Exchange during the period of five dealing days ending 23 March 2018.

Payment of the final dividend will be subject to approval by shareholders at the Annual General Meeting and will be paid on 31 May 2018 to shareholders on the register at the close of business on 6 April 2018; the ex-dividend date will be 5 April 2018.

Share Capital
Details of the share capital are shown in note 21 on page 62 of the consolidated financial statements.

Share Price
The middle market price of the Company's ordinary shares on 31 December 2017 was 42.00 pence and the range during the period under review was 28.16 pence to 49.50 pence.

Directors
The current composition of the Board of Directors is shown on pages 5, 28 and 29. Directors who held office during the year were:

J H B Ketteley
J A Hunter
A Karlsson (appointed 27 March 2017)
S P Morgan (appointed 15 November 2017)
G N Spratling (resigned 6 January 2017)
D B Pearson (appointed 20 February 2017; resigned 21 August 2017)
J B Ruddle (resigned 22 December 2017)
S Lang
J B Edwards (retired 31 December 2017)
K Craig (appointed 27 March 2017)
D S Dannhauser (appointed 5 February 2018)

Subsequent to the Year End
D S Dannhauser was appointed as Director on 5 February 2018.

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

S P Morgan and D S Dannhauser will resign at the forthcoming Annual General Meeting by reason of appointment in their first year in office and, being eligible, will offer themselves for re-election.

Directors' Remuneration
The emoluments of the Directors for the year ended 31 December 2017 excluding pension entitlements, were as per the table below.

	Basic salary £'000	Fees £'000	Benefits £'000	LTIP £'000	Pension £'000	**Year to 31 December 2017 Total £'000**	Year to 31 December 2016 Total £'000
Executive							
J H B Ketteley	266	5	5	15	–	**291**	240
J B Ruddle	131	10	7	13	7	**168**	141
J A Hunter	134	5	6	11	11	**167**	55
G N Spratling	–	–	–	–	–	**–**	118
A Karlsson	111	8	5	7	21	**152**	–
S P Morgan	19	1	1	–	4	**22**	–
N Caw[1]	–	–	–	–	–	**–**	158
D B Pearson	78	–	5	–	6	**89**	–
Non-Executive							
J B Edwards	–	44	–	–	–	**44**	41
S Lang	–	68	–	–	–	**68**	41
K Craig	–	28	–	–	–	**28**	–

1 Included in the basic salary figure is an amount of £100,000 for compensation for loss of office.

Policy on Remuneration of Executive Directors and Senior Executives

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

The remuneration of the Executive Directors normally comprises four elements:

i) a basic salary and fees together with benefits-in-kind (such as Company car, private petrol and medical insurance);

ii) a non-pensionable performance-related annual bonus based on the Group's performance and individual contribution to that performance. The Executive Directors are contractually entitled to a bonus scheme, but the amount to be paid is determined by the Remuneration Committee (if applicable); bonuses awarded in respect of the year ended 31 December 2017 are:
J H B Ketteley £16,000 (2016: nil)
J B Ruddle £6,671 (2016: £14,932)
J A Hunter £25,181 (2016: nil)

iii) pension benefits based solely on basic salary; and

iv) performance-related share awards and non-pensionable bonuses under the Company's Long-Term Incentive Plan (if applicable); in the year ended 31 December 2017.

Share awards were made under the Company's Long-Term Incentive Plan amounting to 600,000 (2016: 750,000) options at 48 pence, £288,000 (2016: 28.7 pence, £215,250) options to subscribe for new ordinary shares in the Company under the Elecosoft 2015 Share Option Plan, as adopted by the shareholders at the AGM on 26 May 2016, to various Directors of the Company. The options vest if the performance target of EPS for the year ended 31 December 2019 is at least 2.97 pence (2016: EPS for the year ended 31 December 2018 is at least 2.76 pence, and Revenue for the year ended 31 December 2018 is at least £21,400,000). If the performance targets are not met, the options shall lapse.

Options are exercisable up to ten years after the grant date at the dates specified in the table below. The 2017 options expire on 6 August 2027 (2016 options expire on 26 October 2026).

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);
- S P Morgan (15 November 2017: one month within the first six months, three months within the first year and six months thereafter);
- J A Hunter (14 June 2016: three months); and
- A Karlsson (27 March 2017: six months).

Interest in Contracts

There are no contracts of significance between the Company or its subsidiary companies and any of the Directors. During the year, for office services provided in the normal course of business, the Group paid £5,000 (2016: £5,000) to J H B Ketteley & Co Limited, of which JHB Ketteley is a Director and in which he has an interest. An amount of £36,250 (2016: £43,000) was paid to J H B Ketteley & Co Limited under a lease for occupation by the Company of 66 Clifton Street, London, EC2A 4HB.

HR consultancy services provided during the year on normal commercial terms: Jonathan Edwards £6,960 (2016: nil); Serena Lang nil (2016: £12,000).

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 2017 were as follows:

	At 31 December 2017	At 31 December 2016
J H B Ketteley	**9,068,319**	9,049,760
J B Edwards	**113,700**	113,700
J A Hunter	**16,382**	16,382
K Craig	**22,060**	–

There have been no changes in the Directors' interests since 31 December 2017.

	2017 Exercisable			2016 Exercisable		
	Issued	**£**	**£**	Issued	£	£
J H B Ketteley	**100,000**	**0.48**	**48,000**	250,000	0.287	71,750
J B Ruddle[1]	**100,000**	**0.48**	**48,000**	200,000	0.287	57,400
J A Hunter	**100,000**	**0.48**	**48,000**	150,000	0.287	43,050
G N Spratling[1]	**–**	**0.48**	**–**	150,000	0.287	43,050
A Karlsson	**150,000**	**0.48**	**72,000**	–	–	–
D B Pearson[1]	**150,000**	**0.48**	**72,000**	–	–	–
	600,000		**288,000**	**750,000**		215,250

1. options lapsed following resignation.

Directors' Report continued

Substantial Interests

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

Shareholder	Number of shares	Percentage
HA Allen	11,513,891	14.87
JHB Ketteley	9,068,319	11.71
J D Lee	5.052,850	6.52
Rights & Issues Investment Trust PLC	4,520,781	5.84
Lowland Investment Company PLC	3,153,443	4.07
P R & M J Ketteley	3,127,408	4.04
G V & S M Oury	2,660,000	3.43

Political Donations

The Group did not make any political donations (2016: £nil).

Financial Risk Policies

A summary of the Group's treasury policies and objectives relating to financial risk management, including exposure to associated risks, is set out in note 23 on pages 64 to 67.

Corporate Governance

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

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

Policy on Appointment and Reappointment

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

The Board has Established the Following Committees:

Audit Committee

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

Remuneration Committee

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

Nominations Committee

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

Control Environment

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

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

The systems include:

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

Directors' Responsibilities in Relation to the Financial Statements

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

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

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

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

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditors are not aware; and
- the Directors have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going Concern

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

Research and Development

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

A significant share of our software development expenditure relates to the upgrade of existing products and is written off as incurred. Development expenditure on new or substantially new products is capitalised only if it meets the criteria set out in the Significant Accounting Policies, on page 47.

Employee Involvement

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

Employment of Disabled Persons

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

Directors' Indemnities

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

Auditors

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

By Order of the Board

Simon Morgan
Group Finance Director
26 March 2018

Elecosoft plc
66 Clifton Street
London
EC2A 4HB

Financial Statements

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 2017, 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 2017 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.

Who we are reporting to
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.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach
- Overall materiality: £120,000, which represents 5 per cent of the Group's preliminary profit before taxation;
- Key audit matters were identified as the capitalisation of development costs, carrying value of intangible assets – intellectual property and carrying value of goodwill; and
- There have been full scope audits of the Parent Company and the UK and Swedish non-dormant subsidiaries. Targeted audit procedures have been carried out in respect of subsidiaries in Germany and the one in the US and analytical review procedures in respect of the Dutch subsidiary. The only key change in the scope of the audit this year was to add a full scope audit of a UK entity acquired by the Group in the prior year.

Key audit matters

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

Key Audit Matter – Group	How the matter was addressed in the audit – Group	Key observations
Risk 1 – Capitalisation of development costs Under IAS 38 "Intangible Assets", development costs must be capitalised if recognition criteria are met, including determining whether the project provides a future economic benefit to the Group. This involves significant management judgement and therefore there is a risk that development costs may be incorrectly capitalised. The Group capitalised £1.1m of development costs (2016: £0.6m) relating to intangible fixed assets during the year. We therefore identified the risk that inappropriate capitalisation of development costs was a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • tested management's assessment of their product development activities to ensure that capitalisation is in accordance with the appropriate criteria under IAS 38 "Intangible Assets". Testing included: – discussions with management responsible for product development; – challenging assumptions used in budgets confirming commerciality; and • detailed sample testing of additions in the year including agreeing capitalised amounts to supporting documentation and ensure treated in accordance with the Group's policy on capitalisation. The Group's accounting policy on capitalisation of development costs is shown in note I to the financial statements, Significant accounting policies, and related disclosures are included in note 10.	Our testing did not identify any material misstatements in the capitalisation of development costs in accordance with IAS 38.
Risk 2 – Carrying value of intangible assets – intellectual property In accordance with IAS 36 "Impairment of Assets", an annual impairment review is performed by management to determine whether the carrying value of these assets is appropriate. There is a risk, due to the degree of uncertainty involved in forecasting and discounting future cash flows associated with development projects, that development assets may be impaired. The consolidated balance sheet includes intellectual property of £2.5m (2016: £2.0m). The related amortisation charge in the year was £0.4m (2016: £0.3m) and reflects the anticipated benefit of the development project to the Group over time. There was also an impairment charge in the year of £0.2m (2016: nil). We therefore identified the risk that the carrying value of intellectual property may be misstated as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • assessing the appropriateness and consistency of impairments policies with both IAS 36 "Impairment of Assets"; • comparing project carrying values to management's estimates of the net present value of future income streams whilst discussing and corroborating the ongoing viability of projects; • challenging key assumptions within the impairment review which are growth rates, changes in costs and discount rates; and • reviewing the accuracy of historic estimates and performing sensitivity analyses of expected revenue for 2018 onwards for reasonableness. The Group's accounting policy on intangible assets and consideration of impairment is disclosed in notes I and K to the financial statements, Significant accounting policies, and related disclosures are included in note 10.	Our testing did not identify any material misstatements.
Risk 3 – Carrying value of goodwill An impairment review of goodwill is undertaken by management on an annual basis. There is a high degree of management judgement required in the impairment reviews due to the degree of uncertainty involved in forecasting and discounting future cash flows. Goodwill is recorded as £11.5m in the financial statements (2016: £11.5m). We therefore identified the risk that goodwill could be impaired 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 the appropriateness and consistency of the management's impairment policy with IAS 36 "Impairment of Assets"; • challenging key assumptions applied in the impairment reviews which are growth rates, changes in costs and discount rates; and • testing the accuracy of historic estimates by comparing the 2017 budgeted sales and net cash flows to the results achieved for the year and performing sensitivity analyses of expected revenue for 2018 onwards for reasonableness. The Group's accounting policy on impairment reviews is disclosed in note K to the financial statements, Significant accounting policies, and related disclosures are included in note 9.	Our testing concluded that management's impairment policy complies with IAS 36 and did not identify any material misstatements.

There were no Key Audit Matters in respect of the Parent Company.

Independent Auditor's Report continued
To the members of Elecosoft plc

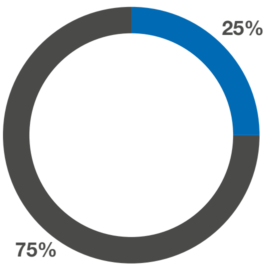
Our application of materiality
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of 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	£120,000 which is 5 per cent of preliminary profit before tax. This benchmark is considered the most appropriate because the group is a commercially organisation with profit based KPIs. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2016 due to increased profits.	£108,000 which is based on 1 per cent of total assets but restricted to 90 per cent of Group materiality. This benchmark is considered the most appropriate because the Parent Company does not generate revenues and holds investments in the subsidiaries. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2016 due to increased profits.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	We also determine 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 determine 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	£5,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£4,750 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

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

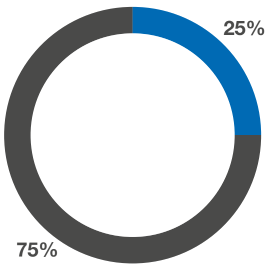
Overall materiality – Group



● Tolerance for potential uncorrected misstatements

● Performance materiality

Overall materiality – Parent



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 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 subsidiaries. Targeted audit procedures were performed for the audit of the German and US subsidiaries and analytical procedures for the Dutch subsidiary;
- 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 assessed the underlying audit working papers as a source of audit evidence for these significant areas;
- audit procedures testing the capitalisation of development costs across the Group and testing impairment reviews were carried out at Group audit level;
- the total percentage coverage of full-scope and targeted procedures over the Group's revenue and total assets was 99 per cent; and
- our audit approach in the current year is consistent with the audit approach adopted for the year ended 31 December 2016.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report set out on pages 1 to 33, 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 opinion on other matters prescribed by the Companies Act 2006 is unmodified

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

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors for the financial statements

As explained more fully in the Directors' responsibilities in relation to the financial statements, as set out on page 32, 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.

Malcolm Gomersall
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Milton Keynes
26 March 2018

Consolidated Income Statement
for the year ended 31 December 2017

Continuing operations	Notes	**2017 £'000**	2016 £'000
Revenue	1,2	**19,996**	17,795
Cost of sales		**(2,421)**	(2,374)
Gross profit		**17,575**	15,421
Amortisation and impairment of intangible assets	2,10	**(1,035)**	(631)
Acquisition expenses		**–**	(212)
Former Directors termination payments		**–**	(109)
Other selling and administrative expenses		**(14,179)**	(12,875)
Selling and administrative expenses	3	**(15,214)**	(13,827)
Operating profit	2,3	**2,361**	1,594
Finance income	5	**–**	3
Finance cost	5	**(107)**	(93)
Profit before tax		**2,254**	1,504
Tax	6	**(357)**	(261)
Profit for the financial period		**1,897**	1,243
Attributable to:			
Equity holders of the parent		**1,897**	1,243

Earnings per share (pence per share)			
Basic	8	**2.5p**	1.7p
Diluted	8	**2.5p**	1.6p

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2017

	2017 £'000	2016 £'000
Profit for the period	**1,897**	1,243
Other comprehensive income:		
Items that will be reclassified subsequently to profit and loss:		
Translation differences on foreign operations	**14**	92
Other comprehensive income net of tax	**14**	92
Total comprehensive income for the period	**1,911**	1,335
Attributable to:		
Equity holders of the parent	**1,911**	1,335

Consolidated Statement of Changes in Equity
for the year ended 31 December 2017

	Share capital £'000	Merger reserve £'000	Translation reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2016	749	–	(172)	(338)	7,654	7,893
Dividends	–	–	–	–	(111)	(111)
Share-based payments	–	–	–	13	–	13
Elimination of cancelled share-based payments	–	–	–	(14)	–	(14)
Issue of share capital	22	578	–	–	–	600
Transactions with owners	22	578	–	(1)	(111)	488
Profit for the period	–	–	–	–	1,243	1,243
Other comprehensive income:						
Exchange differences on translation of net investments in foreign operations	–	–	92	–	–	92
Total comprehensive income for the period	–	–	92	–	1,243	1,335
At 31 December 2016	771	578	(80)	(339)	8,786	9,716
Dividends	**–**	**–**	**–**	**–**	**(197)**	**(197)**
Share-based payments	**–**	**–**	**–**	**56**	**–**	**56**
Issue of share capital	**3**	**(3)**	**–**	**–**	**–**	**–**
Transactions with owners	**3**	**(3)**	**–**	**56**	**(197)**	**(141)**
Profit for the period	**–**	**–**	**–**	**–**	**1,897**	**1,897**
Exchange differences on translation of net investments in foreign operations	**–**	**–**	**14**	**–**	**–**	**14**
Other	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the period	**–**	**–**	**14**	**–**	**1,897**	**1,911**
At 31 December 2017	**774**	**575**	**(66)**	**(283)**	**10,486**	**11,486**

Consolidated Balance Sheet
at 31 December 2017

	Notes	2017 £'000	2016 £'000
Non-current assets			
Goodwill	9	**11,480**	11,469
Other intangible assets	10	**3,432**	3,321
Property, plant and equipment	11	**833**	868
Deferred tax assets		**219**	–
Total non-current assets		**15,964**	15,658
Current assets			
Inventories	14	**16**	11
Trade and other receivables	15	**3,738**	3,674
Current tax assets		**37**	67
Cash and cash equivalents		**4,737**	2,576
Total current assets		**8,528**	6,328
Total assets		**24,492**	21,986
Current liabilities			
Bank overdraft	17	**(1,012)**	(339)
Borrowings	17	**(790)**	(790)
Obligations under finance leases	17	**(120)**	(163)
Trade and other payables	16	**(1,496)**	(1,459)
Provisions	18	**(209)**	(228)
Current tax liabilities		**(241)**	(89)
Accruals and deferred income	19	**(6,592)**	(6,003)
Total current liabilities		**(10,460)**	(9,071)
Non-current liabilities			
Borrowings	17	**(1,580)**	(2,370)
Obligations under finance leases	17	**(204)**	(218)
Deferred tax liabilities	20	**(721)**	(570)
Non-current provisions	18	**(41)**	(41)
Total non-current liabilities		**(2,546)**	(3,199)
Total liabilities		**(13,006)**	(12,270)
Net assets		**11,486**	9,716
Equity			
Share capital	21	**774**	771
Merger reserve		**575**	578
Translation reserve		**(66)**	(80)
Other reserve		**(283)**	(339)
Retained earnings		**10,486**	8,786
Equity attributable to shareholders of the parent		**11,486**	9,716

The financial statements of Elecosoft plc, registered number 00354915, on pages 40 to 67 were approved by the Board of Directors on 26 March 2018 and signed on its behalf by:

John Ketteley
Executive Chairman

Consolidated Statement of Cash Flows
for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Cash flows from operating activities			
Profit before tax		**2,254**	1,504
Net finance costs	5	**107**	90
Depreciation charge		**247**	207
Amortisation and impairment charge		**1,035**	631
Profit on sale of property, plant and equipment		**(15)**	(28)
Share-based payments charge		**56**	13
Decrease in provisions		**(20)**	(75)
Cash generated in operations before working capital movements		**3,664**	2,342
(Increase)/decrease in trade and other receivables		**(65)**	403
Increase in inventories and work in progress		**(5)**	(1)
Increase/(decrease) in trade and other payables		**573**	(322)
Cash generated in operations		**4,167**	2,422
Interest paid		**(98)**	(85)
Interest received		**–**	3
Income tax paid		**(251)**	(17)
Net cash inflow from operating activities		**3,818**	2,323
Investing activities			
Purchase of intangible assets		**(1,154)**	(754)
Purchase of property, plant and equipment		**(180)**	(449)
Acquisition of subsidiary undertakings net of cash acquired		**–**	(1,700)
Proceeds from sale of property, plant, equipment and intangible assets		**161**	100
Net cash outflow from investing activities		**(1,173)**	(2,803)
Financing activities			
Proceeds from new bank loan		**–**	3,160
Repayment of bank loans	17	**(790)**	(1,722)
Repayments of obligations under finance leases		**(226)**	(153)
Equity dividends paid		**(197)**	(111)
Net cash (outflow)/inflow from financing activities		**(1,213)**	1,174
Net increase in cash and cash equivalents		**1,432**	694
Cash and cash equivalents at beginning of period		**2,237**	1,283
Effects of changes in foreign exchange rates		**56**	260
Cash and cash equivalents at end of period		**3,725**	2,237
Cash and cash equivalents comprise:			
Cash and short-term deposits		**4,737**	2,576
Bank overdrafts		**(1,012)**	(339)
		3,725	2,237

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 2017 comprise the Company and its subsidiaries (together referred to as “the Group”). The consolidated and Parent Company financial statements were authorised for issuance on 26 March 2018.

The address of the registered office is given on page 29. The nature of the Group’s operations and its principal activities are set out in the Chairman’s Statement on pages 8 to 11, Strategic Report on pages 6 to 25, Directors’ Report on pages 30 to 33 and Note 2 on pages 51 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 2017 and the Companies Act 2006 applicable for companies reporting under IFRS.

B. Basis of preparation

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

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

Significant accounting judgements and estimates

Application of the 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

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

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units (“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 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 and that future economic benefits will be realised, 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.

Brexit

In light of the June 2016 referendum vote in favour of the UK leaving the EU, the Board weighed the fiscal and operational impacts. The spread of business across the EU landscape with local income and expenditures creates a natural hedge to volatility which is closely monitored and no additional actions were undertaken outside the normal course of business.

Significant Accounting Policies continued

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 49% (2016: 48%) 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. Notwithstanding the Group has net current liabilities of £1,932,000 at 31 December 2017 (2016: £2,743,000), these amounts include deferred income of £4,789,000 (2016: £4,401,000) 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 net cash of £1,031,000 available to support its business operations and therefore the Board believes that the Group is well positioned to manage the business risks. Revenue, operating profit and cash flow budgets have been prepared at business unit level. After making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

D. Basis of consolidation

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

All intercompany balances and transactions are eliminated in full.

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

Business combinations

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

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

E. Revenue

Revenue from the sale of software licences represents the fair value of consideration received or receivable in respect of software licences supplied to third parties in the period, excluding value added tax and trade discounts. This revenue is recognised when the software licence is delivered. Revenue from software maintenance and support contracts is measured at fair value of consideration receivable and is treated as deferred income and taken to revenue in the consolidated income statement on a straight-line basis in line with the service and obligations over the term of the contract.

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

F. 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.

G. Finance income and costs

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

H. Taxation

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

Deferred tax is calculated using the liability method on temporary differences and provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill nor on the initial recognition of an asset or liability, unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided the expected tax rates are enacted or substantively enacted at the balance sheet date and charged or credited to the consolidated income statement or consolidated statement of comprehensive income.

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

I. Intangible assets

Goodwill arising on consolidation represents the excess of the consideration transferred, excluding expenses, over the Group's interest in the fair value of the identifiable net assets acquired. The carrying value of goodwill is recognised as an asset and reviewed for impairment, and any impairment is recognised immediately in the consolidated 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 consolidated 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.

J. Property, plant and equipment

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

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

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

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

Significant Accounting Policies continued

K. Impairment of assets

Goodwill

The carrying amounts of the Group's goodwill assets are assessed annually as to whether an impairment adjustment may be required. The assets under review are grouped under the appropriate cash-generating unit 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 consolidated income statement.

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

L. Inventories

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

M. Leases

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

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

N. Share-based payments

The Company issues share options to employees from time to time. Under IFRS, the equity-settled, share-based payment awards are valued at fair value at inception and this cost is recognised over the option vesting period. 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.

O. Provisions and contingent liabilities

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

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

P. Pensions

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

Q. Foreign currencies

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

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

R. Financial instruments

Financial assets

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

Trade receivables

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

Cash and cash equivalents

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

Financial liabilities

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

S. Equity

The balances classified as share capital represent the proceeds of the nominal value on the issue of the Company's equity share capital net of issue costs.

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

T. Employee Share Ownership Trust

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

Significant Accounting Policies continued

U. New standards and interpretations not applied

The following new amendments to standards were in issue but are not yet effective for the financial year beginning 1 January 2017:

	Effective date
International Accounting Standards (IAS/IFRS)	
IFRS 9 "Financial instruments"	1 January 2018
IFRS 15 "Revenue from contracts with customers"	1 January 2018
IFRS 16 "Leases"	1 January 2019

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

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

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

Notes to the Consolidated Financial Statements

1. Revenue

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

	2017 £'000	2016 £'000
Licence sales	**5,775**	4,955
Recurring maintenance and support revenue	**9,856**	8,622
Services income	**4,365**	4,218
Total revenue	**19,996**	17,795

2. Segment information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to the segments and to assess their performance.

The chief operating decision maker has been identified as the Executive Directors. The Group revenue is derived entirely from the sale of software licences, software maintenance and support and related services. Consequently, the Executive Directors review the three revenue streams, but as the costs are not recorded in the same way, the information is presented as one segment and as such the information is presented in line with management information.

	2017 Software £'000	2016 Software £'000
Revenue	**19,996**	17,795
Adjusted EBITDA	**3,643**	2,753
Amortisation and impairment of purchased intangible assets	**(623)**	(339)
Depreciation	**(247)**	(207)
Adjusted operating profit	**2,773**	2,207
Amortisation of acquired intangible assets	**(412)**	(292)
Acquisition expenses	**–**	(212)
Former Directors' termination payments	**–**	(109)
Operating profit	**2,361**	1,594
Net finance cost	**(107)**	(90)
Segment profit before tax	**2,254**	1,504
Tax	**(357)**	(261)
Segment profit after tax	**1,897**	1,243

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 2017 are explained in the Financial Review on page 21 and the accounting policy requirements for capitalisation are set out on in the Significant Accounting Policies in section I. Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation, and adjusted to exclude acquisition expenses and former Director termination payments.

	2017 Software £'000	2016 Software £'000
Group assets and liabilities		
Segment assets	**24,492**	21,986
Unallocated assets	**–**	–
Total Group assets	**24,492**	21,986
Segment liabilities	**13,006**	12,270
Unallocated liabilities	**–**	–
Total Group liabilities	**13,006**	12,270

Notes to the Consolidated Financial Statements continued

2. Segment information continued

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:

	2017 £'000	2016 £'000
UK	**6,468**	5,498
Scandinavia	**7,239**	6,745
Germany	**3,066**	2,982
USA	**656**	601
Rest of Europe	**2,178**	1,653
Rest of World	**389**	316
Total revenue	**19,996**	17,795

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

Revenue by product group is as follows:

	2017 £'000	2016 £'000
Project management	**9,161**	8,572
Site management	**460**	474
Estimating	**2,973**	2,964
Engineering	**2,008**	1,783
CAD/Design	**2,352**	2,180
Information management	**1,044**	53
Visualisation	**1,998**	1,769
Total revenue	**19,996**	17,795

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

Revenue by sales channel is as follows:

	2017 £'000	2016 £'000
Direct	**18,780**	16,674
Reseller	**1,216**	1,121
Total revenue	**19,996**	17,795

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:

	2017 £'000	2016 £'000
UK	**8,836**	8,027
Scandinavia	**5,893**	6,145
Germany	**1,156**	1,396
USA	**3**	–
Rest of Europe	**76**	88
Rest of World	**–**	2
	15,964	15,658

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 (2016: 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.

	2017 £'000	2016 £'000
Software product development	**1,694**	1,968
Depreciation of property, plant and equipment	**247**	207
Amortisation of acquired intangible assets	**412**	292
Amortisation of other intangible assets	**401**	339
Impairment of other intangible assets	**222**	–
Receipt from administrators of former group company	**(166)**	–
Profit on disposal of property, plant and equipment	**(15)**	(28)
Foreign exchange (gains)/losses	**55**	(73)
Fees payable to the Company's auditor for:		
The audit of the Parent Company and consolidated financial statements	**33**	38
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries	**49**	54
Other services	**8**	2
Operating lease rentals:		
Plant, equipment and vehicles	**56**	42
Properties	**440**	394

4. Employee information

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

	2017 number	2016 number
Sales & marketing	**55**	54
Client services	**59**	56
Software development	**50**	46
Management and administration	**37**	34
	201	190

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

	2017 £'000	2016 £'000
Wages and salaries	**8,977**	8,194
Social security	**1,833**	1,680
Pension costs	**582**	566
Share-based payments	**56**	13
	11,448	10,453
Less: Development staff costs capitalised	**(1,052)**	(625)
	10,396	9,828

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

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

	2017 £'000	2016 £'000
Short-term employee benefits	**797**	576
Post-employment benefits	**49**	23
Termination benefits	**–**	100
Share-based payments	**46**	13
Executive Directors	**892**	712
Fees – Non-Executive Directors	**140**	82
	1,032	794

The emoluments of the highest paid Director were £291,000 (2016: £280,000).

Notes to the Consolidated Financial Statements continued

4. Employee information continued

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 income/(cost)

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

	2017 £'000	2016 £'000
Finance income:		
Bank and other interest receivable	–	3
Finance costs:		
Bank overdraft and loan interest	(101)	(84)
Finance leases and hire purchase contracts	(6)	(9)
Total net finance cost	(107)	(90)

6. Taxation

(a) Tax on profit on ordinary activities

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

	2017 £'000	2016 £'000
Current tax:		
UK corporation tax on profits of the year	122	34
Tax adjustments in respect of previous years	72	–
	194	34
Foreign tax	231	145
Total current tax	425	179
Deferred tax:		
Origination and reversal of temporary differences	(55)	87
Tax adjustments in respect of previous years	(13)	(5)
Total deferred tax	(68)	82
Tax charge in the income statement	357	261

Income tax for the UK has been calculated at the weighted average rate of UK corporation tax of 19.25 per cent (2016: 20.0 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 19.25 per cent (2016: 20.0 per cent) for the period under review. The reconciliation is explained below:

	2017 £'000	2016 £'000
Profit on continuing operations before tax	2,254	1,504
Tax calculated at the average standard rate of UK corporation tax of 19.25 per cent (2016: 20.0 per cent) applied to profits before tax	434	301
Effects of:		
Expenses not deductible for tax purposes	32	90
Research & development tax relief	(36)	(54)
Deferred tax not recognised	(16)	(15)
Prior year adjustments	(23)	(5)
Utilisation of losses	(60)	(80)
Tax rate differences in foreign jurisdictions	26	16
Other differences	–	8
Continuing operations tax charge for the year	357	261

(c) Unrecognised tax losses

The Group has tax losses of £1,673,000 (2016: £1,764,000) arising in the UK. Potential deferred tax asset not recognised in respect of losses in UK subsidiaries is £293,000 (2016: £347,000). No deferred tax is recognised on the unremitted earnings of overseas subsidiaries.

7. Dividends

Dividends paid during the year comprised a final 2016 dividend of 0.25 pence per ordinary share (2016: nil) and a 2017 interim dividend of 0.20 pence per ordinary share (2016: 0.15 pence).

Shareholders were offered an opportunity to receive the 2016 final dividend in the form of new shares in lieu of the proposed final dividend. The 2017 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 £197,000 (2016: £111,000) were paid during the year as follows.

Ordinary shares	**2017 pence per share**	2016 pence per share	**2017 £'000**	2016 £'000
Declared and paid during the year				
Interim – current year	**0.20**	0.15	**64**	111
Final – previous year	**0.25**	–	**133**	–
	0.45	0.15	**197**	111

Scrip dividends were issued in the year as follows.

	Shares issued		**Value of shares issued (£'000)**	
Ordinary shares	**2017**	2016	**2017**	2016
Declared and paid during the year				
Interim – current year	**204,629**	–	**89**	–
Final – previous year	**146,721**	–	**57**	–
	351,350	–	**146**	–

The Directors have recommended a final scrip dividend of 0.40 pence per ordinary share for 2017, with an alternative cash dividend of 0.40 pence per ordinary share, resulting in a total dividend for the year of 0.60 pence per ordinary share (2016: 0.25 pence). The scrip reference price is 49.6p, calculated from the average of the closing price for an ordinary share of the Company as derived from the official list of the London Stock Exchange during the period of five dealing days ending 23 March 2018.

If the 2017 final dividend is approved at the Annual General Meeting in May 2018 the dividend will be paid on 31 May 2018 to shareholders on the register at the close of business on 6 April 2018 (ex-div date 5 April 2018). In accordance with IFRS, the dividend is not provided for as a liability in the accounts until it becomes a legal liability of the Company and therefore will be recorded in the interim and annual accounts for 2018.

8. Basic and diluted earnings per share

	2017			2016		
	Net profit attributable to shareholders £'000	**Weighted average number of shares (millions)**	**EPS (pence)**	Net profit attributable to shareholders £'000	Weighted average number of shares (millions)	EPS (pence)
Basic earnings per share	**1,897**	**76.3**	**2.5**	1,243	74.4	1.7
Diluted earnings per share	**1,897**	**76.7**	**2.5**	1,243	75.5	1.6

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

9. Goodwill

	2017 £'000	2016 £'000
Cost:		
As at 1 January	**11,469**	10,152
Acquisition of business	**–**	1,245
Exchange differences	**11**	72
As at 31 December	**11,480**	11,469
Impairment:		
At 1 January and 31 December	**–**	–
Net book value	**11,480**	11,469

Notes to the Consolidated Financial Statements continued

9. Goodwill continued

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

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

	2017 £'000	2016 £'000
Elecosoft UK	**4,804**	4,804
Asta Development Germany	**239**	230
Elecosoft Sweden	**4,501**	4,453
Elecosoft Netherlands	**21**	20
Eleco Software Germany	**336**	367
Esign Software Germany	**354**	370
Elecosoft ICON	**1,225**	1,225
	11,480	11,469

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

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

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

	2017		2016	
CGU	Post-tax discount rate	Nominal long-term growth rate	Post-tax discount rate	Nominal long-term growth rate
Elecosoft UK	**12.0%**	**1.5%**	12.0%	1.5%
Asta Development Germany	**12.0%**	**2.3%**	12.0%	1.6%
Elecosoft Sweden	**12.0%**	**2.6%**	12.0%	2.4%
Elecosoft Netherlands	**12.0%**	**2.3%**	12.0%	2.2%
Eleco Software Germany	**12.0%**	**2.3%**	12.0%	1.6%
Esign Software Germany	**12.0%**	**2.3%**	12.0%	1.6%
Elecosoft ICON	**12.0%**	**1.5%**	12.0%	1.5%

These budgets and strategic plans cover a five year period. The growth rates used to extrapolate the cash flows beyond this period ranges between 1.5 per cent and 2.6 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.

10. Other intangible assets

	Customer relationships £'000	Intellectual property £'000	Total £'000
Cost:			
At 1 January 2016	3,258	2,234	5,492
Acquisition of business	782	495	1,277
Additions	–	129	129
Additions – internal development	–	625	625
Disposals	–	(496)	(496)
Exchange	1	25	26
At 31 December 2016	4,041	3,012	7,053
Additions	**–**	**102**	**102**
Additions – internal development	**–**	**1,052**	**1,052**
Transfers	**–**	**(9)**	**(9)**
Exchange	**1**	**4**	**5**
At 31 December 2017	**4,042**	**4,161**	**8,203**
Accumulated amortisation and impairment:			
At 1 January 2016	2,443	1,139	3,582
Amortisation charge for the year	288	343	631
Disposals	–	(495)	(495)
Exchange	–	14	14
At 31 December 2016	2,731	1,001	3,732
Amortisation charge for the year	**372**	**441**	**813**
Impairment	**–**	**222**	**222**
Transfers	**–**	**3**	**3**
Exchange	**–**	**1**	**1**
At 31 December 2017	**3,103**	**1,668**	**4,771**
Net book value:			
At 31 December 2016	1,310	2,011	3,321
At 31 December 2017	**939**	**2,493**	**3,432**

The values attributed to customer relationships represent the fair value of acquired customer contracts and relationships held by the acquired company at the date of acquisition. Similarly, values attributed to intellectual property represent the fair value of acquired intellectual property. Acquisitions in 2016 were Integrated Computing and Office Networking Limited ("ICON") and Asta Development BV.

Additions in the year represent purchased intangible assets of £102,000 (2016: £129,000) and internal development costs capitalised of £1,052,000 (2016: £625,000). 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 21.

Amortisation charges are shown separately on the Consolidated Income Statement. An impairment charge of £222,000 (2016: nil) was recorded in the year in respect of two minor development projects following a review of their recoverable amount.

Notes to the Consolidated Financial Statements continued

11. Property, plant and equipment

	Leasehold buildings £'000	Plant, equipment and vehicles £'000	Total £'000
Cost:			
At 1 January 2016	**16**	**1,509**	**1,525**
Acquisition of business	**8**	**23**	**31**
Additions	**182**	**401**	**583**
Disposals	**(19)**	**(311)**	**(330)**
Exchange	**–**	**83**	**83**
At 31 December 2016	187	1,705	1,892
Additions	**1**	**342**	**343**
Disposals	**–**	**(516)**	**(516)**
Transfers	**(3)**	**44**	**41**
Exchange	**–**	**18**	**18**
At 31 December 2017	**185**	**1,593**	**1,778**
Accumulated depreciation and impairment:			
At 1 January 2016	**16**	**1,006**	**1,022**
Depreciation charge for the year	**16**	**191**	**207**
Disposals	**(19)**	**(259)**	**(278)**
Exchange	**–**	**73**	**73**
At 31 December 2016	13	1,011	1,024
Depreciation charge for the year	**36**	**211**	**247**
Disposals	**–**	**(370)**	**(370)**
Transfers	**5**	**30**	**35**
Exchange	**–**	**9**	**9**
At 31 December 2017	**54**	**891**	**945**
Net book value:			
At 31 December 2016	174	694	868
At 31 December 2017	**131**	**702**	**833**

Additions in the year include £163,000 (2016: £134,000) of plant, equipment and vehicles acquired on a finance lease or hire purchase agreement. The net book value of plant, equipment and vehicles includes an amount of £320,000 (2016: £386,000) in respect of assets held under finance leases and hire purchase agreements.

12. Operating lease commitments

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

	Property 2017 £'000	**Other 2017 £'000**	Property 2016 £'000	Other 2016 £'000
Within one year	**519**	**47**	405	30
Between two and five years	**1,255**	**33**	1,184	20
After five years	**1,008**	**–**	1,167	9
	2,782	**80**	2,756	59

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

13. Capital commitments

Capital expenditure commitments of £nil (2016: £nil) have been placed with suppliers at 31 December 2017.

14. Inventories

	2017 £'000	2016 £'000
Finished goods	**16**	11
	16	11

At 31 December 2017, the Group's inventory provisions were £nil (2016: £nil).

15. Trade and other receivables

	2017 £'000	2016 £'000
Gross trade receivables	**3,195**	3,243
Impairment	**(50)**	(75)
Net trade receivables	**3,145**	3,168
Other receivables	**178**	84
Prepayments and accrued income	**415**	422
	3,738	3,674

The Group offers credit terms to customers depending on the credit status of the customer. The Group makes provision against trade receivables when it considers them to be impaired and takes into account the specific circumstances of the receivable and the Group's relationship with the customer. The average credit period taken on the sales of goods and services is 49 days (2016: 54 days). No interest is charged on past due trade receivables (2016: £nil).

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

	2017 £'000	2016 £'000
Sterling	**1,249**	937
Euro	**638**	732
Swedish Krona	**1,687**	1,737
US Dollar	**121**	220
Other	**43**	48
	3,738	3,674

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

	2017 £'000	2016 £'000
At 1 January	**(75)**	(41)
Restatement in respect of previous year	**–**	–
Written off as uncollectable	**23**	8
Recovered during the period	**2**	19
Provided against during the period	**1**	(55)
Exchange	**(1)**	(6)
At 31 December	**(50)**	(75)

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:

	2017 £'000	2016 £'000
Not more than three months	**646**	499
More than three months but less than six months	**–**	21
More than six months but less than one year	**12**	–
More than one year	**–**	–
	658	520

Notes to the Consolidated Financial Statements continued

16. Trade and other payables

	2017 £'000	2016 £'000
Trade payables	**543**	654
Other taxation and social security	**499**	429
Other liabilities	**454**	376
	1,496	1,459

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 36 days (2016: 36 days). The Directors consider that the carrying amount of trade payables approximates to their fair value.

17. Borrowings

	2017 £'000	2016 £'000
Current liabilities:		
Bank loans and overdrafts	**1,802**	1,129
Obligations under finance leases and hire purchase contracts	**120**	163
	1,922	1,292
Non-current liabilities:		
Bank loans	**1,580**	2,370
Obligations under finance leases and hire purchase contracts	**204**	218
	1,784	2,588
Total loans and borrowings	**3,706**	3,880
Cash and cash equivalents	**(4,737)**	(2,576)
Net (cash)/borrowings	**(1,031)**	1,304

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

- an outstanding term loan of £2.4m, with twelve quarterly loan repayments of £197,500 commencing from January 2018, carrying an interest rate of 2.75 per cent over base rate; and
- a £1.0m overdraft facility, carrying an interest rate of 2.75 per cent over base rate.

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

The bank loans and overdrafts are repayable as follows:

	2017 £'000	2016 £'000
In one year or less	**1,802**	1,129
Between one and two years	**790**	790
Between two and five years	**790**	1,580
	3,382	3,499

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

	2017 £'000	2016 £'000
Plant, equipment and vehicles:		
In one year or less	**120**	163
Between one and two years	**70**	91
Between two and five years	**134**	127
	324	381

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

	Present lease value £'000	Interest £'000	Minimum lease payments £'000
In one year or less	163	5	168
Between one and two years	91	3	94
Between two and five years	127	2	129
At 31 December 2016	381	10	391
In one year or less	**120**	**4**	**124**
Between one and two years	**70**	**3**	**73**
Between two and five years	**134**	**2**	**136**
At 31 December 2017	**324**	**9**	**333**

18. Provisions

	2017 £'000	2016 £'000
At 1 January 2017	**269**	342
Charge to the income statement	**–**	38
Utilised in the year	**(20)**	(113)
Exchange	**1**	2
At 31 December 2017	**250**	269
Current liabilities	**209**	228
Non-current liabilities	**41**	41
	250	269

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

19. Accruals and Deferred Income

	2017 £'000	2016 £'000
Accruals	**1,803**	1,602
Deferred income	**4,789**	4,401
	6,592	6,003

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.

Notes to the Consolidated Financial Statements continued

20. Deferred Tax

	Deferred tax assets				Deferred tax liabilities			
	Tax losses carried forward £'000	Excess of amortisation over tax allowances £'000	Other temporary differences £'000	Total £'000	Intangible assets £'000	Accelerated capital allowances £'000	Other temporary differences £'000	Total £'000
At 1 January 2016	–	–	–	–	(332)	123	(33)	(242)
Reclassification	–	–	–	–	(20)	–	20	–
Acquisition of business	–	–	–	–	(241)	–	–	(241)
Credit/(charge) to the income statement	–	–	–	–	58	(63)	(77)	(82)
Exchange differences	–	–	–	–	–	–	(5)	(5)
At 31 December 2016	**–**	**–**	**–**	**–**	**(535)**	**60**	**(95)**	**(570)**
Reclassification	**–**	**127**	**–**	**127**	**(99)**	**(61)**	**33**	**(127)**
Credit/(charge) to the income statement	**101**	**(11)**	**2**	**92**	**127**	**1**	**(152)**	**(24)**
Exchange differences	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2017	**101**	**116**	**2**	**219**	**(507)**	**–**	**(214)**	**(721)**

The acquisition of businesses in 2016 represents the deferred tax on the valuation of the acquired customer relationships and software.

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

Deferred tax assets and liabilities are presented as non-current in the consolidated balance sheet. Potential deferred tax assets in respect of losses in UK subsidiaries of £293,000 (2016: £347,000) 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.

21. Called up share capital

	No. of shares	**2017 Nominal value £'000**	No. of shares	2016 Nominal value £'000
Authorised:				
Ordinary shares of 1 pence each	**85,000,000**	**850**	85,000,000	850
Allotted, called up and fully paid:				
At start of year	**77,089,350**	**771**	74,867,127	749
Issue of ordinary shares	**351,350**	**3**	2,222,223	22
At end of year	**77,440,700**	**774**	77,089,350	771

The increase in called up and fully paid share capital in the year relates to the issue of shares in respect of scrip dividends. In 2016, 2,222,223 ordinary shares were issued to fund the acquisition of Integrated Computing and Office Networking Limited.

22. Share-based payments

The Company operates one share scheme and options outstanding at 31 December 2017 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	7.1
27 October 2016	400,000	1 June 2019	26 October 2026	8.8
9 August 2017	1,015,000	1 May 2020	8 August 2027	9.6
	1,715,000			9.0

Share awards were made under the Company's Long Term Incentive Plan ("LTIP") during the year amounting to 1,265,000 (2016: 750,000) shares at an exercise price of 48.0 pence per share (2016: 28.70 pence).

During the year, a total of 600,000 share options were granted to the Executive Directors and are exercisable after 2.7 years (refer to the Directors Report on page 30), subject to 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, the employee may (depending upon the timing and circumstances of his departure) be entitled to retain some of their options but only if certain yearly earnings per share targets have at that time been met. The options are exercisable until 8 August 2027, ten years after the date of grant.

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

The options awarded in 2015 are exercisable after 3.0 years, subject to certain performance criteria being achieved, whereby the Company's audited earnings per share for the year ended 31 December 2017 must be at least 22.5 per cent higher than the Company's audited earnings per share for the year ended 31 December 2014. In the event that the employee leaves within the three year period, they may (depending upon the timing and circumstances of their departure) be entitled to retain some of their 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:

	2017 Number	**2017 Weighted average exercise price**	2016 Number	2016 Weighted average exercise price
Outstanding at the beginning of the year	**1,050,000**	**26.4**	900,000	20.8
Granted during the year	**1,265,000**	**48.0**	750,000	28.7
Exercised during the year	**–**	**–**	–	–
Forfeited during the year	**(600,000)**	**36.7**	(600,000)	20.8
Outstanding at the end of the year	**1,715,000**	**38.7**	1,050,000	26.4
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 2017 was £56,000 (2016: £13,000).

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

	2017	2016
Share price at grant date	**44.00p**	27.75p
Exercise price per share	**48.00p**	28.70p
% Expected to vest (at date of grant)	**98%**	98%
Expected life (years)	**5.0**	2.6
Dividend yield	**0.90%**	1.80%
Share price volatility	**39%**	n/a
Fair value per option	**12.9p**	10.4p

Notes to the Consolidated Financial Statements continued

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.

	2017 £'000	2016 £'000
Loans and receivables:		
Cash and cash equivalents	**4,737**	2,576
Trade and other receivables	**3,323**	3,252
Loans and receivables	**8,060**	5,828
Financial liabilities:		
Trade and other payables	**997**	1,029
Bank loans and overdrafts	**3,382**	3,499
Accruals	**1,803**	1,603
Non-current liabilities	**–**	–
Financial liabilities held at amortised cost	**6,182**	6,131

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

(b) Interest rate and currency profile of financial assets and liabilities

Financial assets and liabilities comprise interest-bearing and non-interest bearing assets and liabilities.

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

	Financial liabilities		Financial assets		Net financial (assets)/ liabilities
	Floating rate £'000	Total £'000	Floating rate £'000	Total £'000	£'000
Sterling	**4,214**	**4,214**	**1,795**	**1,795**	**2,419**
Euro	**260**	**260**	**2,286**	**2,286**	**(2,026)**
Swedish Krona	**1,683**	**1,683**	**3,606**	**3,606**	**(1,923)**
US Dollar	**25**	**25**	**241**	**241**	**(216)**
South African Rand	**–**	**–**	**57**	**57**	**(57)**
Other	**–**	**–**	**75**	**75**	**(75)**
At 31 December 2017	**6,182**	**6,182**	**8,060**	**8,060**	**(1,878)**
Sterling	4,362	4,362	823	823	3,539
Euro	269	269	1,611	1,611	(1,342)
Swedish Krona	1,478	1,478	2,823	2,823	(1,345)
US Dollar	22	22	408	408	(386)
South African Rand	–	–	56	56	(56)
Other	–	–	107	107	(107)
At 31 December 2016	6,131	6,131	5,828	5,828	303

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 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 un-hedged monetary assets/(liabilities) of the Group that are not denominated in the functional currency of the operating unit and which therefore give rise to exchange gains and losses in the income statement.

Functional currency of Group operation	Sterling £'000	Euro £'000	Swedish Krona £'000	US Dollar £'000	Other £'000	Total £'000
Sterling	**–**	**22**	**–**	**228**	**23**	**273**
Euro	**–**	**–**	**–**	**–**	**–**	**–**
Swedish Krona	**2**	**453**	**–**	**10**	**51**	**516**
At 31 December 2017	**2**	**475**	**–**	**238**	**74**	**789**
Sterling	–	24	–	394	9	427
Euro	–	–	–	–	–	–
Swedish Krona	–	179	–	(1)	91	269
At 31 December 2016	–	203	–	393	100	696

(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 £107,000 (2016: £90,000). 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 25 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 £197,000 lower (2016: £172,000) if Sterling strengthened by 10 per cent and £217,000 higher (2016: £211,000) if Sterling weakened by 10 per cent.

	Net financial (assets)/liabilities:			Profit/(loss)		Equity	
Effect of change in Sterling +/-10%	2017 £'000	Rate +10% £'000	Rate -10% £'000	Rate +10% £'000	Rate -10% £'000	Rate +10% £'000	Rate -10% £'000
Denominated in Sterling	**2,428**	**–**	**–**	**–**	**–**	**–**	**–**
Not denominated in Sterling	**(4,314)**	**392**	**(431)**	**(96)**	**106**	**(197)**	**217**
Total net financial liabilities	**(1,886)**	**392**	**(431)**	**(96)**	**106**	**(197)**	**217**

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

Notes to the Consolidated Financial Statements continued

23. Financial instruments continued

(ii) Interest rates

Changes in market interest rates expose the Group to the risk of fluctuations in the cash flow relating to its financial assets and liabilities, some of which attract interest at floating rates (see note 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.

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

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

(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.

	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	**1,405**	**1,405**	**–**	**–**	**–**	**–**
Bank loans and overdraft	**4,906**	**2,640**	**214**	**423**	**827**	**802**
Obligations under finance leases	**332**	**31**	**31**	**62**	**73**	**135**
At 31 December 2017	**6,643**	**4,076**	**245**	**485**	**900**	**937**
Trade and other payables	653	653	–	–	–	–
Bank loans and overdraft	3,693	568	219	433	848	1,625
Obligations under finance leases	391	42	42	84	94	129
At 31 December 2016	4,737	1,263	261	517	942	1,754

The amounts for bank loans and overdraft and the obligations under finance leases are inclusive of interest payable in the period. The Group's facilities with Barclays Bank plc are explained on page 22 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 2017, the facilities were fully drawn.

	2017 £'000	2016 £'000
Expiring in one year or less	**1,790**	1,790
Expiring between one and two years	**790**	790
Expiring between two and five years	**790**	1,580
	3,370	4,160

(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:

	2017 £'000	2016 £'000
UK	**850**	702
Germany	**135**	92
Scandinavia	**1,523**	1,592
Rest of Europe	**120**	490
Rest of World	**466**	248
	3,094	3,124

(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.

The Group's banking facilities are subject to three financial covenants, which are tested quarterly: EBITA to gross financing costs, net borrowings to EBITDA and cash flow to debt service.

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 2017, the continuing operations EBITDA for the year was £3,643,000 (2016: £2,432,000) and net cash was £1,031,000 (2016: £1,304,000 net borrowings).

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 2017 and have concluded that no material loss is likely to accrue from any such unprovided claims.

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 £36,250 (2016: £43,000) was paid to JHB Ketteley & Co Limited under a lease for occupation by the Group of 66 Clifton Street, London, EC2A 4HB and £5,000 (2016: £5,000) for a contribution to the office costs at Burnham-on-Crouch. An amount of £7,000 was paid to J Edwards, a Non-Executive Director, for employee services during the year.

26. Post balance sheet events

There were no post balance sheet events to report.

27. Exchange rates

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

	Income statement		Balance sheet	
	2017	2016	**2017**	2016
Swedish Krona to Sterling	**11.03**	11.61	**11.08**	11.23
Euro to Sterling	**1.14**	1.23	**1.13**	1.17
US Dollar to Sterling	**1.30**	1.36	**1.35**	1.24

Company Statement of Changes in Equity
for the year ended 31 December 2017

	Share capital £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2016	**749**	**–**	**(124)**	**2,951**	**3,576**
Dividends	–	–	–	(111)	(111)
Share-based payments	–	–	13	–	13
Elimination of cancelled share-based payments	–	–	(14)	–	(14)
Issue of share capital	22	578	–	–	600
Transactions with owners	22	578	(1)	(111)	488
Profit for the period	–	–	–	711	711
Total comprehensive income for the period	–	–	–	711	711
At 31 December 2016	**771**	**578**	**(125)**	**3,551**	**4,775**
Dividends	–	–	–	(197)	(197)
Share-based payments	–	–	56	–	56
Issue of share capital	3	(3)	–	–	–
Transactions with owners	3	(3)	56	(197)	(141)
Profit for the period	–	–	–	781	781
Exchange differences on translation of net investments in foreign operations	–	–	(14)	–	(14)
Total comprehensive income for the period	–	–	(14)	781	767
At 31 December 2017	**774**	**575**	**(83)**	**4,135**	**5,401**

Company Balance Sheet

At 31 December 2017

	Notes	2017 £'000	2016 £'000
Fixed assets			
Intangible assets	2	**89**	66
Tangible assets	3	**60**	9
Investments	4	**1,099**	1,099
Debtor due after more than one year	5	**15,977**	15,717
		17,225	16,891
Current assets			
Debtors	6	**2,550**	1,776
Cash at bank and in hand		**141**	198
		2,691	1,974
Creditors: amounts falling due within one year	7	**(12,726)**	(11,501)
Provisions for liabilities	9	**(209)**	(219)
Net current assets/(liabilities)		**(10,244)**	(9,746)
Total assets less current liabilities		**6,981**	7,145
Creditors: amounts falling due after more than one year	8	**(1,580)**	(2,370)
Net assets		**5,401**	4,775
Capital and reserves			
Called up share capital	10	**774**	771
Merger reserve		**575**	578
Other reserve	11	**(83)**	(125)
Profit and loss account		**4,135**	3,551
Shareholders' equity		**5,401**	4,775

The financial statements of Elecosoft plc, registered number 00354915, on pages 68 to 76 were approved by the Board of Directors on 26 March 2018 and signed on its behalf by:

John Ketteley
Executive Chairman

Statement of Company Accounting Policies

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

Basis of accounting

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

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

Significant accounting judgements and estimates

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

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

Intercompany loan interest rates

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

Recoverability of intercompany investments and loans

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

Intangible and tangible fixed assets

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

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

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

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

Investments in subsidiaries

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

Finance and operating leases

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

Share-based payments

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

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

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

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

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

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

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

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

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

Notes to the Company Financial Statements

1. Profit for the year

As permitted by section 408 of the Companies Act 2006, the Parent Company's profit and loss account has not been included in these financial statements. The Parent Company's profit for the financial year was £781,000 (2016: £711,000).

2. Intangible fixed assets

	Intellectual property £'000
Cost:	
At 1 January 2016	1,679
Additions	49
Disposals	(496)
At 31 December 2016	1,232
Additions	**44**
Disposals	**–**
At 31 December 2017	**1,276**
Accumulated amortisation and impairment:	
At 1 January 2016	1,651
Amortisation charge for the year	11
Disposals	(496)
At 31 December 2016	1,166
Amortisation charge for the year	**21**
Disposals	**–**
At 31 December 2017	**1,187**
Net book value at 31 December 2016	66
Net book value at 31 December 2017	**89**

3. Tangible fixed assets

	Leasehold land and buildings £'000	Plant, equipment and vehicles £'000	Total £'000
Cost:			
At 1 January 2016	19	239	258
Additions	–	7	7
Disposal	(19)	(136)	(155)
At 31 December 2016	–	110	110
Additions	–	**60**	**60**
Disposal	–	**(25)**	**(25)**
At 31 December 2017	–	**145**	**145**
Accumulated depreciation:			
At 1 January 2016	19	233	252
Depreciation charge for the year	–	4	4
Disposal	(19)	(136)	(155)
At 31 December 2016	–	101	101
Depreciation charge for the year	–	**9**	**9**
Disposal	–	**(25)**	**(25)**
At 31 December 2017	**–**	**85**	**85**
Net book value at 31 December 2016	–	9	9
Net book value at 31 December 2017	**–**	**60**	**60**

4. Investments in subsidiaries

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

	Shares at cost £'000	Investments £'000	Total £'000
Cost:			
At 1 January 2016	21,076	728	21,804
At 31 December 2016	21,076	728	21,804
At 31 December 2017	**21,076**	**728**	**21,804**
Accumulated provision:			
At 1 January 2016	20,705	–	20,705
At 31 December 2016	20,705	–	20,705
At 31 December 2017	**20,705**	**–**	**20,705**
Net book value at 31 December 2016	371	728	1,099
Net book value at 31 December 2017	**371**	**728**	**1,099**

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

The carrying value and recoverability of investments in discontinued ElecoBuild operations were fully provided against at 31 December 2017.

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 78.

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

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

5. Debtor due after more than one year

	2017 £'000	2016 £'000
Amounts due from subsidiary undertakings	**15,977**	15,717
	15,977	15,717

6. Debtors

	2017 £'000	2016 £'000
Trade debtors	**14**	10
Other debtors	**21**	22
Prepayments and accrued income	**133**	92
Deferred tax	**18**	25
Amounts due from subsidiary undertakings	**2,364**	1,627
	2,550	1,776

Notes to the Company Financial Statements continued

7. Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Bank loans and overdrafts	**1,802**	1,741
Trade creditors	**89**	214
Other creditors	**53**	35
Accruals and deferred income	**159**	232
Other taxation and social security	**23**	(56)
Current tax	**77**	59
Amounts due to subsidiary undertakings	**10,523**	9,276
	12,726	11,501

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

The Group's facilities with Barclays Bank plc are explained on page 22 of the Financial Review.

	2017 £'000	2016 £'000
Bank loans	**1,580**	2,370
	1,580	2,370

Bank loans and overdrafts are repayable as follows:

	2017 £'000	2016 £'000
In one year or less	**1,802**	1,542
Between one and two years	**790**	790
Between two and five years	**790**	1,580
	3,382	3,912

9. Provisions for liabilities

	2017 £'000	2016 £'000
At 1 January 2017	**219**	332
Utilised in the year	**(10)**	(113)
At 31 December 2017	**209**	219

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

10. Called up share capital

	No. of shares	2017 Nominal value £'000	No. of shares	2016 Nominal Value £'000
Authorised:				
Ordinary shares of 1 pence each (2016: 1 pence each)	**85,000,000**	**850**	85,000,000	850
Allotted, called up and fully paid:				
At 1 January 2017	**77,089,350**	**771**	74,867,127	749
Issue of ordinary shares	**351,350**	**3**	2,222,223	22
At 31 December 2017	**77,440,700**	**774**	77,089,350	771

The increase in called up and fully paid share capital in the year relates to the issue of shares in respect of scrip dividends. In 2016, 2,222,223 ordinary shares were issued to fund the acquisition of Integrated Computing and Office Networking Limited.

11. Share-based payments

The Company operates one share scheme and options outstanding at 31 December 2017 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	7.1
27 October 2016	400,000	1 June 2019	26 October 2026	8.8
9 August 2017	1,015,000	1 May 2020	8 August 2027	9.6
	1,715,000			9.0

Share awards were made under the Company's Long Term Incentive Plan ("LTIP") during the year amounting to 1,265,000 (2016: 750,000) shares at an exercise price of 48.0 pence per share (2016: 28.70 pence).

During the year, a total of 600,000 share options were granted to the Executive Directors and are exercisable after 2.7 years (refer to the Directors Report on page 30), subject to 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, the employee may (depending upon the timing and circumstances of their departure) be entitled to retain some of their options but only if certain yearly earnings per share targets have at that time been met. The options are exercisable until 8 August 2027, ten years after the date of grant.

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

The options awarded in 2015 are exercisable after 3.0 years, subject to certain performance criteria being achieved, whereby the Company's audited earnings per share for the year ended 31 December 2017 must be at least 22.5 per cent higher than the Company's audited earnings per share for the year ended 31 December 2014. In the event that the employee leaves within the three year period, they may (depending upon the timing and circumstances of their departure) be entitled to retain some of their 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:

	2017		2016	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at the beginning of the year	**1,050,000**	**26.4**	900,000	20.8
Granted during the year	**1,265,000**	**48.0**	750,000	28.7
Exercised during the year	**–**	**–**	–	–
Forfeited during the year	**(600,000)**	**36.7**	(600,000)	20.8
Outstanding at the end of the year	**1,715,000**	**38.7**	1,050,000	26.4
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 2017 was £56,000 (2016: £13,000).

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

	2017	2016
Share price at grant date	**44.00p**	27.75p
Exercise price per share	**48.00p**	28.70p
% Expected to vest (at date of grant)	**98%**	98%
Expected life (years)	**5.0**	2.6
Dividend yield	**0.90%**	1.80%
Share price volatility	**39%**	n/a
Fair value per option	**12.9p**	10.4p

Notes to the Company Financial Statements continued

12. Reserves

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

The Employee Share Ownership Trust held 896,593 shares at 31 December 2017 with a market value of £377,000 (2016: £269,000) and has waived its entitlement to dividends on ordinary shares held by it until such time as they are vested in employees.

13. Operating lease commitments

	Property 2017 £'000	**Other 2017 £'000**	Property 2016 £'000	Other 2016 £'000
Leases expiring:				
Within one year	**73**	**–**	–	–
Between two and five years	**–**	**–**	–	–
	73	**–**	–	–

14. Related party transactions

The Company has taken advantage of the exemption granted by paragraph FRS102.33.1A not to disclose transactions with other Group companies as all subsidiaries are wholly owned. The Directors of Elecosoft plc had no material transactions with the Company during the year, other than a result of service agreements or as disclosed in the Directors' Report. Details of the Directors' remuneration are disclosed in the Directors' Report on page 30.

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 £36,250 (2016: £43,000) was paid to JHB Ketteley & Co Limited under a lease for occupation by the Group of 66 Clifton Street, London, EC2A 4HB and £5,000 (2016: £5,000) for a contribution to the office costs at Burnham-on-Crouch. An amount of £7,000 was paid to J Edwards for employee services during the year who is a Non-Executive Director.

Five Year Summary

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000 (restated)	Year ended 31 December 2013[1] £'000
Revenue					
Software	**19,996**	17,795	15,260	15,172	16,318
Discontinued operations	**–**	–	1,400	1,312	16,144
Adjusted EBITDA	**3,643**	2,753	1,795	1,465	1,579
Amortisation and impairment of purchased intangible assets	**(623)**	(339)	(115)	(12)	–
Depreciation	**(247)**	(207)	(174)	(187)	(222)
Adjusted operating profit	**2,773**	2,207	1,506	1,266	1,357
Amortisation of acquired intangible assets	**(412)**	(292)	(380)	(360)	(376)
Exceptionals	**–**	(321)	–	(138)	–
Operating profit	**2,361**	1,594	1,126	906	981
Finance expense	**(107)**	(90)	(120)	(220)	(357)
Profit before taxation	**2,254**	1,504	1,006	686	624
Taxation	**(357)**	(261)	(204)	(173)	(174)
Profit after taxation	**1,897**	1,243	802	513	450
Basic earnings per share (continuing operations)	**2.5p**	1.7p	1.1p	0.8p	0.8p
Shareholders equity/(deficit)	**11,486**	9,716	7,893	6,722	(2,353)
Dividend per share	**0.60p**	0.40p	0.00p	0.00p	0.00p

1 as reported

Five Year Summary continued

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

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

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