27 April 2018

Dillistone Group Plc
("Dillistone", the "Company" or the "Group")
Final Results

Dillistone Group Plc, the AIM quoted supplier of recruitment software for the international recruitment industry through its Dillistone Systems, Voyager Software and GatedTalent divisions, is pleased to announce its audited final results for the 12 months ended 31 December 2017.

Highlights for the year:

- Record level of recurring revenues[1], of £7.474m, up 6% from 2016 with total revenue down 4% to £9.582m
- Recurring revenues, representing 78% of Group revenue, covering 97% of Group administration expenses before acquisition related and one-off costs
- GatedTalent launched in October 2017 and which made an operating loss of £0.439m
- Adjusted operating profit[2] fell to £0.309m (2016: £1.463m) before acquisition intangible writes offs and an adjustment for the loss of a contract in our Voyager division which totalled £0.823m pre-tax
- Loss for the year of £0.071m (2016: profit £0.526m)
- Adjusted basic EPS[3] of 3.08p (2016: 7.10p)
- A final dividend of 0.5p per share recommended (2016: 2.8p)
- Cash funds at 31 December 2017 of £1.390m (2016: £1.537m) with borrowings of £0.391m (2016: £0.158m)
- New GatedTalent platform grows rapidly, with more than 160 contracted search firm clients by 26 April 2018 and first revenues in 2018
- Executive membership on the GatedTalent platform is both senior and diverse with CEO, Managing Director and General Manager being most frequently referenced current position and members registered from 75 countries

Commenting on the results and prospects, Mike Love, Non-Executive Chairman, said:

“The current trading performance of the Group is positive with orders for both Dillistone Systems and Voyager Software ahead of the same period in 2017 – with the former more than 25% up on the same period in 2017 and the latter having one of the best quarters for new business orders in its history.

“Our GatedTalent product, launched in October 2017, has been very well received with a growth trajectory that, we believe, will lead to it becoming the dominant product in its market space within a year.

“Recurring revenues for 2017 were at record levels and, despite the ongoing investment in product development, cash reserves have held up well. Overall, despite the evident pressure on new licence sales in 2017 and the loss for the year of £0.071m, going into 2018 the Group believes that it is now in a stronger position in its core markets than in recent years.

“This confidence in the future allows us to recommend a final dividend of 0.5p and we anticipate reporting further positive progress as the year progresses.”

Definitions:

[1] *The component elements of recurring revenues are detailed in note 5.*

[2] *Adjusted operating profit is statutory operating profit before acquisition costs, related intangible amortisation, movements in contingent consideration and other one-off costs. See note 4.*

[3] *Adjusted basic EPS is computed from statutory profits after tax adjusted to exclude the post-tax effect of acquisition costs, related intangible amortisation, movements in contingent consideration and other one-off costs. See note 9.*

Results Webinar - Jason Starr, Chief Executive, and Julie Pomeroy, Finance Director, will be hosting a webinar to review the results at 2.00pm on Wednesday 2 May 2018. To register please visit https://register.gotowebinar.com/register/6953940844866187265 or contact Tom Cooper on tom.cooper@walbrookpr.com or 0797 122 1972.

Annual Report and Accounts - The final results announcement can be downloaded from the Company's website (www.dillistonegroup.com). Copies of the Annual Report and Accounts (in addition to the notice of the Annual General Meeting) will be sent to shareholders by 31 May 2018 for approval at the Annual General Meeting to be held on 26 June 2018.

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

Enquiries:

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Notes to Editors:

Dillistone Group Plc (www.dillistonegroup.com) is a leader in the supply and support of software and services to the recruitment industry. It has five brands operating through three divisions: Dillistone Systems, which targets the executive search industry (www.dillistone.com); Voyager Software, which targets other recruitment markets (www.voyagersoftware.com); and GatedTalent, the next generation executive recruitment platform (www.GatedTalent.com).

Dillistone has made three acquisitions: Voyager Software in September 2011, FCP Internet in July 2013 and ISV Software in September 2014. The Group operates under the FileFinder, Infinity, Evolve, ISV and GatedTalent brands.

Dillistone was admitted to AIM, a market operated by the London Stock Exchange plc, in June 2006. The Group employs over 100 people globally with offices in London (head office) Basingstoke and Southampton, Frankfurt, New Jersey and Sydney.

CHAIRMAN'S STATEMENT

2017 was an exciting year for the Dillistone Group with the launch of GatedTalent (www.GatedTalent.com) on 9 October 2017 at the World Executive Search Congress. Our business has traditionally been involved in the supply of technology to the recruiting and associated sectors. GatedTalent is a private network – a tool which allows executives to share information with trusted recruiters. It is a first for our Group and has the potential to transform the nature of the Group's underlying business model from software to data.

More generally, trading across the Group was challenging in 2017, although we did see some improvement in operational performance in the second half of the year – despite the increasing costs associated with GatedTalent. Overall, Group revenue fell 4% to £9.582m, of which recurring revenue grew 6% to £7.474m.

Adjusted operating profit dropped significantly to £0.309m, in part due to the investment made in GatedTalent and in part due to a decline in new licence sales. Excluding our GatedTalent investment, the Group remained cash generative across this year.

As anticipated in our Interim statement, a SaaS contract with a major client expired in early 2018. This contract, with a client using a legacy product acquired as a result of an acquisition made several years ago, was worth in the region of £600,000 per annum in contribution terms to the Group. Consequently, the Group has accelerated its acquisition intangibles amortisation by £0.459m, taking total amortisation to £0.838m (2016: £0.379m).

The Board has raised £0.400m from the Directors and PDMRs (person discharging managerial responsibilities) in the form of a convertible loan note to provide continued funding for GatedTalent. The loan notes carry an interest rate of 8.15% and a conversion price of 71.6p. The loan note has a 3-year duration but with various rights for early conversion or repayment.

Dividends

In view of the fund raising carried out to develop GatedTalent, we did not pay an interim dividend. However, we propose paying a final dividend of 0.5p (2016: 2.8p) subject to Shareholder approval. The dividend will be payable on 13 July 2018 to Shareholders on the register on 15 June 2018. Shares will trade ex-dividend from 14 June 2018. Future dividends will depend on Group performance.

Staff

Our staff are fundamental to our success. It is through their efforts, commitment and determination that we continue to be a leading technology provider in the sectors we serve. On behalf of the Board I would like to take this opportunity to thank all of our staff for their individual and collective contributions during 2017 and for the huge effort demonstrated during the early months of 2018, supporting our GDPR related projects.

Outlook

Both our Dillistone Systems and Voyager Software divisions have enjoyed strong demand for our products and services during the first quarter of 2018. The Board is delighted to note that, while Voyager revenues will clearly be impacted by the previously announced loss of a legacy contract, Q1 2018 saw one of its best ever quarters in terms of new contract wins.

After a slow January, orders for Dillistone Systems' FileFinder product improved significantly in February and March and ended the quarter more than 25% up on the same period in 2017. Many of these orders were driven by demand for our GatedTalent product which features exclusive integration with FileFinder Anywhere.

In our 27 February announcement, we revealed that we had achieved the milestone of 100 clients for our GatedTalent service. We continue to see strong demand for the platform, with more than 160 firms having now signed contracts. The division has now generated its first subscription revenue.

Long term revenue growth from the GatedTalent platform will be derived from interactions with executives who register with the service and create a profile. Executives join to be "On the radar" of our executive recruiter clients. They may register directly at www.GatedTalent.com or via an invitation from a Search firm – these invitations are typically sent as part of an executive recruiter's GDPR compliancy process.

The platform is working well and as expected and the throughput on the GatedTalent platform is growing month on month and is expected to accelerate rapidly over the period to the end of July. The number of profiles is also growing and is also expected to increase quickly over the coming months.

Having originally anticipated that our clients would send around 1 million invitations, our current belief is that the number of invitations will be around 3 million. The majority of our clients are expected to leave mailing of compliancy messages as late as legally possible and, despite the thousands of messages already sent, we believe that the vast majority of our clients will not send messages before May, with a number of firms likely to complete the process in June or even July.

We are seeing significant variances in invitation conversion rates between clients. Some firms are seeing in excess of 8% of invitations leading to Profiles; others are seeing a fraction of 1% converting. What is apparent from the Profiles that have been created so far, however, is that our executive talent pool will be both senior and diverse. Currently, the three most common Job Titles for our Executives are "CEO", "Managing Director" and "General Manager". We have onboarded profiles from executives in 75 countries. A heatmap with further information on profile data is available at www.gatedtalent.com/metrics/

The Group has paid dividends throughout its time as a public company and, having ended the year with cash of £1.390m, the Board is pleased to be in a position to pay a dividend of 0.5p per share.

Dr Mike Love
Non-Executive Chairman

CEO's Review

Dillistone Group Plc is a global leader in the supply of solutions and services to the recruitment sector worldwide.

Strategy and objectives

The Group's strategy is to grow the business both organically and through acquisition. This strategy is made possible through our commitment to product development, which ensures that the business continues to command a leading role in all of the markets in which it operates.

Our acquisition strategy typically entails consideration of businesses offering:

- products that would further increase market share in the Group's core markets;
- legacy applications, where clients could be transferred to our modern suite of products; or
- complementary applications, which may be cross-sold to clients of the Group.

The Group's objectives are principally to:

- ensure our products meet the needs of the recruitment sector through continual investment and development;
- be a leading player in all of the markets we serve;
- develop our staff, delivering progressive career development;
- increase our profitability and deliver increased shareholder value year on year in conjunction with a progressive dividend policy.

Key Performance Indicators (KPIs)

The Board and management use absolute figures to monitor the performance of the business using the following financial KPIs:

	FY 2017 £000	FY 2016 £000	Measure used by management	Met /not met
Total revenues	9,582	9,963	year on year growth	not met
Recurring revenues	7,474	7,027	year on year growth	met
Non recurring revenues	1,644	2,370	year on year growth	not met
Adjusted profit before tax	303	1,458	year on year growth	not met
Cash	1,390	1,537	sufficient cash resources maintained	met

Adjusted profit before tax is statutory profit before acquisition costs, related intangible amortisation, movements in contingent consideration and other one-off costs. See note 4 and note 7.

Where KPIs are not being met, the Board considers ways in which performance could be improved. In addition, the Board monitors order levels and employee numbers as well as performance against budget.

Our business model

The business is split into three Divisions. Dillistone Systems and Voyager Software are our established businesses, with GatedTalent launched in the second half of 2017.

Dillistone Systems specialises in the supply of software and services into executive-level recruitment teams. Voyager Software's clientele are primarily involved in contingent recruitment, including permanent placement, contract placement and the provision of temporary staff. GatedTalent is a private network of executives, accessed by executive recruiters. This Division generates revenue based on a combination of recruiter subscription and transaction fees for connecting with executives. There is a close relationship between GatedTalent and Dillistone Systems.

The majority of our products are commercialised through one or more of the following:

1. an upfront licence fee plus a recurring support fee;
2. Software as a Service (SaaS) subscription basis; or
3. a hybrid model incorporating an upfront payment and recurring support and cloud hosting fees.

There is a continuing move away from the upfront license model towards our cloud delivery services.

The business operates out of four countries: the UK, Germany, the US and Australia. As well as supplying and supporting our software we also host the software for a proportion of our clients. This is done through data centres in Europe, the Americas, Singapore and Australia.

Group review of the business

2017 saw recurring revenues grow 6% to £7.474m (2016: £7.027m) reflecting the increasing adoption of our SaaS offering. Non-recurring revenues decreased to £1.644m (2016: £2.370m). As a result, overall revenues decreased by 4% to £9.582m (2016: £9.963m) with recurring revenues representing 78% of Group revenues (2016: 71%). Costs have increased in part due to GatedTalent which made an operating loss of £0.439m and which was in development for all of 2017. We saw our first revenue from GatedTalent in Q1 of 2018 although, as anticipated, revenue in the first half will not be significant and the Division will be loss making in 2018.

Adjusted EBITDA[1] fell to £1.409m (2016: £2.433m). Adjusted operating profit fell to £0.309m (2016: £1.463m) and pre-tax profits before acquisition related items and one-off adjustments reduced to £0.303m (2016: £1.458m). There was an operating loss for the year of £0.514m (2016: profit £0.412m) and loss for the year of £0.071m (2016: profit £0.526m). Cash at the year end was £1.390m (2016: £1.537m).

[1]*Adjusted EBITDA is adjusted operating profit with depreciation and amortisation added back. See note 4.*

Divisional Reviews

Dillistone Systems

The Dillistone Systems division is primarily focused on providing technology solutions to the executive search market via our range of “FileFinder” applications. This client group is made up of both executive search firms and executive search teams in major organisations.

Dillistone Systems’ head office is in London and it has offices in the US, Germany and Australia. The Division accounts for 47% (2016: 49%) of the Group’s revenue and it saw revenue fall 6% to £4.548m (2016: £4.858m). The Division is expected to benefit particularly from the launch of GatedTalent, which targets the same market as FileFinder and is tightly integrated.

Earnings before interest, tax, depreciation and amortisation (‘EBITDA’) fell to £0.778m (2016: £1.434m) as sales fell and costs increased. Total amortisation and depreciation charge was £0.589m (2016: £1.229m). (In 2016 we reviewed our amortisation policy for capitalised development costs to bring it more into line with industry practice by writing off all such costs over five years rather than a range of five to ten years and the impact of this on the Dillistone division was an increase to the 2016 charge by £0.600m). Operating profit for 2017 was £0.189m (2016: £0.205m).

Voyager Software

Voyager Software is a provider of technology products targeted at the entire recruitment landscape, from front office to back office and bureaus, and includes both recruitment management systems and pre-employment skills testing technology.

In 2017, the Voyager Software division accounted for 53% (2016: 51%) of Group revenues. The Division’s revenues decreased by 1% to £5.034m (2016: £5.105m). EBITDA increased by 10% to £1.200m (2016: £1.093m). Amortisation and depreciation increased to £0.511m (2016: £0.461m). Divisional operating profit increased 9% to £0.689m (2016: £0.632m).

2017 saw some major developments in the Division including:

- Development of TempNinja – A new mobile companion app allowing candidates to view and accept temporary jobs, update their availability and chat directly with recruiters using Voyager’s popular VDQ! and Infinity SaaS solution.
- Additional functionality released in Infinity (including Infinity SaaS) including enhanced support for the temporary recruitment sector & Power BI reporting.
- A well received industry wide education programme around the forthcoming GDPR legislation being recognised as an industry leader.
- Enhancements and new content for ISV.Online including tests around the GDPR.

GatedTalent

GatedTalent was established in 2017 to provide a network allowing executives to share information with selected executive recruiters in a GDPR compliant manner. The GatedTalent product was under development throughout 2017 and therefore did not generate revenue.

GatedTalent is the most exciting product we have developed in recent years. The platform is free to executives. Revenue will be generated from executive recruiters through subscriptions to the platform and through charges for “connection requests” made through the platform.

The platform is now live, with clients using it; compliance messages being sent and profiles being created. Subscription revenue is now being generated. We expect that GatedTalent will manage the process of sending around 3 million such messages during the course of 2018. We believe that the vast majority of our clients will not send messages before May 2018, with a number of firms likely to complete the process in June or even July.

The Division is effectively a start-up business within the Group and is expected to be loss making in 2018, although we do anticipate that it will have a direct and positive impact on the performance of our Dillistone Systems business starting in 2018. During 2017, GatedTalent incurred an operating loss of £0.439m and development expenditure of £0.391m was capitalised.

The Board is confident that all three Divisions have strong futures.

Financial Review

Total revenues decreased by 4% to £9.582m (2016: £9.963m) with recurring revenues increasing by 6% to £7.474m (2016: £7.027m) while non-recurring revenues decreased to £1.644m (2016: £2.370m). Third party resell revenue amounted to £0.464m in the period (2016: £0.566m).

Cost of sales increased by 4% to £1.536m (2016: £1.478m), mainly due to continued investment in cloud based hosting facilities through Azure and Amazon.

Administrative costs, excluding acquisition related items, depreciation and amortisation, rose 10% to £6.637m (2016: £6.052m). In part this was due to the investment in GatedTalent which made an operating loss £0.439m. Total depreciation and amortisation, decreased to £1.100m (2016: £1.690m) following the one-off adjustment of £0.720m in 2016 relating to the review of its amortisation policy for capitalised development costs.

Acquisition related administrative costs totalled £0.823m (2016: £0.331m) and were in respect of the amortisation of intangibles arising on the Voyager, FCP and ISV acquisitions and movement in the estimation of contingent consideration. The current year figure also includes an acceleration of the acquisition intangibles amortisation as a result of the loss of a major contract in that business as disclosed in note 7. Finance cost includes £0.005m (2016: £0.015m) relating to the unwinding of the discount in respect of the contingent consideration.

Recurring revenues covered 97% of administrative expenses before acquisition related and one-off costs (2016: 100%). Excluding depreciation and amortisation of our own internal development, the administrative costs are covered 113% (2016: 116%) by recurring revenues.

The Group benefitted from a tax credit in 2017 of £0.454m (2016: credit £0.134m). The 2017 credit reflects the significant R&D tax credits available to all three divisions and the assumption that any tax losses will be surrendered for the R&D tax credit payment. It has also been impacted by the reduction in tax rate to 19.25% (2016: 20%) as well as the impact of the one-off adjustment in respect of amortisation of development costs and adjustments to prior year computations. These benefits are partially offset by the higher rates of corporation tax that are payable overseas. The acquisition related items tax credit reflects the reduction in deferred tax that arises as amortisation is charged in the profit and loss account.

Profit for the year before acquisition related and other one-off items amounted to £0.606m (2016: £1.395m). The 2017 adjusted profits benefitted from a tax credit of £0.303m (2016: tax credit of £0.063m). The loss for the year after acquisition related items and other one-off items was £0.071m

(2016: profit £0.526m). Basic earnings per share (EPS) fell to (0.36)p (2016: 2.68p). Fully diluted EPS fell to (0.36)p (2016: 2.62p). Adjusted basic EPS fell to 3.08p (2016: 7.10p).

Capital expenditure

The Group invested £1.506m in property, plant and equipment and product development during the year (2016: £1.126m). This expenditure included £1.358m (2016: £1.056m) spent on capitalised development related costs.

Trade and other payables

As with previous years, the trade and other payables includes deferred income, ie income which has been billed in advance but is not recognised as income at that time. This principally relates to support, SaaS and cloud hosting renewals, which are billed in 2017 but are in respect of services to be delivered in 2018. Contractual income of this type is recognised monthly over the period to which it relates. It also includes deposits taken for work which has not yet been completed; as such income is only recognised when the work is substantially complete or the client software goes "live". Also included in trade and other payables is £0.146m (2016: £0.375m) in respect of contingent consideration. At the end of 2017, there was one tranche of contingent consideration payable in respect of ISV relating to the revenue in the nine month period to 30 September 2017 and this was paid in February 2018.

Cash

The Group finished the year with cash funds of £1.390m (2016: £1.537m); bank borrowings of £nil (2016: £0.158m) and a convertible loan of £0.391m (after taking into account the equity adjustment). This is after capital expenditure of £1.506m, the final payment to the vendors of ISV of £0.219m and dividend payments of £0.551m.

Jason Starr
Chief Executive Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £'000	2016 £'000
Revenue	**5**	9,582	9,963
Cost of sales		(1,536)	(1,478)
Gross profit		8,046	8,485
Administrative expenses		(8,560)	(8,073)
Operating (loss)/profit		(514)	412
Adjusted operating profit before acquisition related and one–off items	**4**	309	1,463
Acquisition related and one-off items	**7**	(823)	(1,051)
Operating (loss)/profit		(514)	412
Financial income		1	3
Financial cost		(12)	(23)
(Loss)/profit before tax		(525)	392
Tax income	**8**	454	134
(Loss)/profit for the year		(71)	526
Other comprehensive income			
Items that will be reclassified subsequently to profit and loss:			
Currency translation differences		(24)	16
Total comprehensive income for the year		(95)	542

Earnings per share			
Basic	**9**	**(0.36)p**	**2.68p**
Diluted	**9**	**(0.36)p**	**2.62p**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Convertible loan reserve £'000	Share option £'000	Foreign exchange £'000	Total £'000
Balance at 31 December 2015	**983**	**1,631**	**365**	**4,008**	**-**	**71**	**101**	**7,159**
Comprehensive income								
Profit for the year ended 31 December 2016	-	-	-	526	-	-	-	526
Other comprehensive income								
Exchange differences on translation of overseas operations	-	-	-	-	-	-	16	16
Total comprehensive income	-	-	-	526	-	-	16	542
Transactions with owners								
Share option charge	-	-	-	2	-	14	-	16
Dividends paid	-	-	-	(811)	-	-	-	(811)
Total transactions with owners	-	-	-	*(809)*	-	*14*	-	*(795)*
Balance at 31 December 2016	**983**	**1,631**	**365**	**3,725**	**-**	**85**	**117**	**6,906**
Comprehensive income								
(Loss) for the year ended 31 December 2017	-	-	-	(71)	-	-	-	(71)
Other comprehensive income								
Exchange differences on translation of overseas operations	-	-	-	-	-	-	(24)	(24)
Total comprehensive income	-	-	-	(71)	-	-	(24)	(95)
Transactions with owners								
Share option charges	-	-	-	4	-	16	-	20
Issue of convertible loan note	-	-	-	-	14	-	-	14
Dividends paid	-	-	-	(551)	-	-	-	(551)
Total transactions with owners	-	-	-	*(547)*	*14*	*16*	-	*(517)*
Balance at 31 December 2017	**983**	**1,631**	**365**	**3,107**	**14**	**101**	**93**	**6,294**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Group	
	2017	**2016**
ASSETS	**£'000**	**£'000**
Non-current assets		
Goodwill	3,415	3,415
Other intangible assets	4,881	5,263
Property, plant and equipment	164	215
	8,460	8,893
Current assets		
Inventories	3	5
Trade and other receivables	1,677	2,196
Cash and cash equivalents	1,390	1,537
	3,070	3,738
Total assets	11,530	12,631
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	983	983
Share premium	1,631	1,631
Merger reserve	365	365
Convertible loan reserve	14	-
Retained earnings	3,107	3,725
Share option reserve	101	85
Translation reserve	93	117
Total equity	6,294	6,906
Liabilities		
Non-current liabilities		
Trade and other payables	12	15
Borrowings	386	-
Deferred tax liability	668	784
Current liabilities		
Trade and other payables	4,335	4,599
Borrowings	5	158
Current tax payable	(170)	169
Total liabilities	5,236	5,725
Total liabilities and equity	11,530	12,631

CONSOLIDATED CASH FLOW STATEMENT
AS AT 31 DECEMBER 2017

	2017	2017	2016	2016
Operating activities	**£'000**	**£'000**	**£'000**	**£'000**
(Loss)/profit before tax	(525)		392	
Adjustment for				
Financial income	(1)		(3)	
Financial cost	12		23	
Depreciation and amortisation	1,938		2,069	
Share option expense	20		16	
Foreign exchange adjustments arising from operations	(12)		31	
Operating cash flows before movement in working capital:	1,432		2,528	
(Increase)/decrease in receivables	573		(487)	
Decrease in inventories	2		11	
Increase/(decrease) in payables	(123)		62	
Taxation refunded/(paid)	(12)		24	
Net cash generated from operating activities		1,872		2,138
Investing activities				
Interest received	1		3	
Financial cost	(7)		(8)	
Purchases of property, plant and equipment	(55)		(70)	
Investment in development costs	(1,439)		(1,056)	
Contingent and deferred consideration paid	(219)		(212)	
Net cash used in investing activities		(1,719)		(1,343)
Financing activities				
Net proceeds from convertible loan note	400		-	
Bank loan repayments made	(158)		(167)	
Dividends paid	(551)		(811)	
Net cash used in financing activities		(309)		(978)
Net decrease in cash and cash equivalents		(156)		(324)
Cash and cash equivalents at beginning of year		1,537		1,595
Effect of foreign exchange rate changes		9		125
Cash and cash equivalents at end of year		1,390		1,537

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. Publication of non-statutory accounts

In accordance with section 435 of the Companies Act 2006, the Directors advise that the financial information set out in this announcement does not constitute the Group's statutory financial statements for the year ended 31 December 2017 or 2016, but is derived from these financial statements. The financial statements for the year ended 31 December 2016 have been audited and filed with the Registrar of Companies. The financial statements for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The financial statements for the year ended 31 December 2017 have been audited and will be filed with the Registrar of Companies following the Company's Annual General Meeting. The Independent Auditors Report on the Group’s statutory financial statements for the years ended 31 December 2017 and 2016 were unqualified and did not draw attention to any matters by way of emphasis and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

2. Basis of preparation

The preliminary announcement is extracted from the consolidated financial statements of the Group. The financial statements of the subsidiaries are prepared for the same reporting date as the parent company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets or liabilities are eliminated in full.

3. Accounting policies and changes thereto

This preliminary announcement has been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year to 31 December 2017.

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2017, have had a material impact on the Group or parent Company.

The following standards have been issued by the IASB and have been adopted by the EU but not adopted early by the Group:

Standard	Key requirements	Effective date as adopted by the EU
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019

IFRS 9 – Financial instruments

This standard comes into effect for accounting periods beginning on or after 1 January 2018. Given the nature of the financial assets and liabilities of the Group, the key area for consideration are trade receivables with the introduction of ‘expected credit loss’ calculations. Given the work performed thus far, no material valuation impact is anticipated.

IFRS 15 – Revenue from customer contracts
This standard comes into effect for accounting periods beginning on or after 1 January 2018. The standard applies a single, five-step model based on the principle of transfer of promised goods and services (performance obligations) to the customer. Revenue is recognised upon satisfaction of these performance obligations. Having carried out a detailed assessment of the types of contracts the Group has with its customers, it is expected that the new standard will have a material impact on reported revenue due to the change in the timing of revenue recognition. The Group expects to use the retrospective approach when adopting the standard.

With respect to IFRS 15 implementation, the most significant ways that Dillistone generates income from its customers are as follows:

- *Software as a Service ('SaaS') subscriptions* – the customer pays a regular fixed amount for the right to access both software and related support service. Revenue is currently recognised over the life of the subscription, which is unchanged under IFRS 15;
- *Outright licences* – the customer pays a one-off amount to purchase a licence conferring a perpetual right to use a version of the software. Currently, revenue is recognised at the point control passes to the customer (i.e. 'live' date). Under IFRS 15, licences sold with elective support contracts are separate performance obligations and continue to be recognised at a point in time. However, licences sold with mandatory support contracts consist of one performance obligation, with revenue recognition matching the support contract;
- *Product support* – the customer pays a regular fixed amount for the right to access technical support services and the right to future software upgrades. Support subscriptions can be mandatory or elective depending on the software version purchased. Performance obligations under support contracts are satisfied over the subscription life, thus revenue is recognised over time under IFRS 15, as it is currently;
- *Installation services* – the customer pays a fee for the software to be installed, with revenue currently recognised when the installation is complete. This will continue to be the case under IFRS 15 for most installations, which are not complex and could be completed by a third party. For complex installations, these combine with the licence to form one performance obligation, and revenue recognition consequently matches the licence;
- *Training* – the customer pays a fee to be trained in using the software. Training revenue is recognised under the existing standard when delivered. Under IFRS 15 this will continue to be the case for most training, as it is not essential to using the software. However, for training that is essential, training combines with the licence as one performance obligation with revenue recognition following the licence.

On the basis of the work performed thus far, the Group considers there to be no material adjustments to revenue arising from complex installations and essential training. The material impact on reported revenue arises from the combination of outright licence sales and mandatory support contracts into one performance obligation. This revenue will move from being recognised at a point in time to over time being the expected life of the support contract. We have taken the portfolio approach with respect to these contracts and have estimated an expected life of 5 years for them, which we intend to review on a periodic basis. Our work to date estimates an increase to 2017 revenue in the range of £0.1 - £0.3 million, and the change to retained earnings at 1 January 2017 to be a reduction in the range of £1.0 - £1.5 million. These calculations imply deferred income to be recognised in future periods in the range of £0.9 - £1.2 million. There will also be a corresponding tax deduction in respect of this adjustment in 2018.

IFRS 16 – Leases
This standard comes into effect for accounting periods beginning on or after 1 January 2019. The standard requires almost all leases to be recorded in the statement of financial position. This requires recognition of a right-of-use asset and lease liability. The lease liability is measured as the present value of the future lease payments, discounted at the interest rate implicit in the lease if determinable, or otherwise at the lessee's incremental borrowing rate. The asset is measured as

equivalent to the lease liability, adjusted for other costs including initial direct costs or obligations under the lease such as restoration costs. The asset is subsequently depreciated on a straight line basis to the expected maturity date of the lease. The liability is increased by interest and reduced by the lease payments made. The impact of this standard is currently being assessed.

4. Reconciliation of adjusted operating profits to consolidated statement of comprehensive income

	Note	Adjusted operating profits 2017 £'000	Acquisition related and one-off items 2017* £'000	2017 £'000	Adjusted operating profits 2016 £'000	Acquisition related items 2016* £'000	2016 £'000
Revenue		9,582	-	9,582	9,963	-	9,963
Cost of sales		(1,536)	-	(1,536)	(1,478)	-	(1,478)
Gross profit		8,046	-	8,046	8,485	-	8,485
Administrative expenses		(7,737)	(823)	(8,560)	(7,022)	(1,051)	(8,073)
Operating profit/(loss)		309	(823)	(514)	1,463	(1,051)	412
Financial income		1	-	1	3	-	3
Financial cost		(7)	(5)	(12)	(8)	(15)	(23)
Profit/(loss) before tax		303	(828)	(525)	1,458	(1,066)	392
Tax income/(expense)		303	151	454	(63)	197	134
Profit/(loss) for the year		606	(677)	(71)	1,395	(869)	526
Other comprehensive income net of tax: Currency translation differences		(24)	-	(24)	16	-	16
Total comprehensive income for the year net of tax		582	(677)	(95)	1,411	(869)	542
Earnings per share							
Basic	**9**	**3.08p**		**(0.36)p**	**7.10p**		**2.68p**
Diluted	**9**	**3.08p**		**(0.36)p**	**6.95p**		**2.62p**

* *See accounts note 5*

5. Segment reporting

The Board principally monitors the Group's operations in terms of results of the two divisions, Dillistone Systems and Voyager Software. Segment results reflect management charges made or received.

Divisional segments

For the year ended 31 December 2017

	Dillistone £'000	**Voyager £'000**	**GatedTalent £'000**	**Central £'000**	**Total £'000**
Segment revenue	4,548	5,034	**-**	-	**9,582**
Segment EBITDA	778	1,200	(439)	(130)	**1,409**
Depreciation and amortisation expense	(589)	(511)	-	-	**(1,100)**
Segment result	189	689	(439)	(130)	**309**
Acquisition related amortisation	-	-	-	(838)	**(838)**
Acquisition related income	-	-	-	15	**15**
Operating profit/(loss)	189	689	(439)	(953)	**(514)**
Financial income	1	-		-	**1**
Loan interest	-	-		(7)	**(7)**
Acquisition related interest expenses	-	-		(5)	**(5)**
Loss before tax					**(525)**
Income tax income					**454**
Loss for the year					**(71)**
Additions of non-current assets	608	502	396	-	**1,506**

For the year ended 31 December 2016

	Dillistone £'000	Voyager £'000	Central £'000	Total £'000
Segment revenue	4,858	5,105	-	9,963
Segment EBITDA	1,434	1,093	(94)	2,433
Depreciation and amortisation expense	(1,229)	(461)	-	(1,690)
Segment result	205	632	(94)	743
Acquisition related amortisation	-	-	(379)	(379)
Acquisition related income	-	-	48	48
Operating profit/(loss)	205	632	(425)	412
Financial income	3	-	-	3
Loan interest	-	-	(8)	(8)
Acquisition related interest expenses	-	-	(15)	(15)
Profit before tax				392
Income tax income				134
Profit after tax				526
Additions of non-current assets	600	527	-	1,127

Products and services

The following table provides an analysis of the Group's revenue by products and services:

Revenue

	2017 £'000	2016 £'000
Recurring income	7,474	7,027
Non-recurring income	1,644	2,370
Third party revenues	464	566
	9,582	9,963

Recurring income includes all support services, SaaS and hosting income. Non-recurring income includes sales of new licenses, and income derived from installing those licences including training, installation and data translation. Third party revenues arise from the sale of third party software.

It is not possible to allocate assets and additions between recurring, non-recurring income and third party revenue.

No customer represented more than 10% of revenue of the Group.

6. Geographical analysis

The following table provides an analysis of the Group's revenue by geographic market.

The Board does not review the business from a geographical performance viewpoint and this analysis is provided for information only.

Revenue

	2017 £'000	2016 £'000
UK	6,782	7,142
Europe	1,041	1,047
US	1,341	1,388
Australia	418	386
	9,582	9,963

Non-current assets by geographical location

	2017 £'000	2016 £'000
UK	8,453	8,886
US	5	6
Australia	2	1
	8,460	8,893

7. Acquisition related and other one-off items

	2017 £'000	2016 £'000
Included within administrative expenses:		
Estimated change in fair value of contingent consideration	(15)	(48)
Amortisation of acquisition intangibles	379	379
Acceleration of amortisation of acquisition intangibles	459	-
Additional amortisation on change of estimated useful life of platform technology	-	720
	823	1,051
Included within financial cost:		
Unwinding of discount on contingent consideration	5	15
	828	1,066

8. Tax (income)/expense

	2017 £'000	2016 £'000
Current tax	(100)	178
Prior year adjustment – current tax	(238)	(91)
Total current tax	(338)	87
Deferred tax	36	(100)
Prior year adjustment – deferred tax	(1)	(50)
Deferred tax re acquisition intangibles	(151)	(68)
Prior year adjustment - deferred tax re acquisition intangibles	(-)	(3)
Total deferred tax	(116)	(221)
Tax (income)/expense for the year	(454)	(134)
Factors affecting the tax charge for the year		
(Loss)/profit before tax	(525)	392
UK rate of taxation	19.25%	20%
Profit before tax multiplied by the UK rate of taxation	(101)	78
Effects of:		
Overseas tax rates	1	31
Impact of deferred tax not provided	18	13
Enhanced R&D relief	(209)	(169)
Disallowed expenses	32	31
Rate differences re current tax and deferred tax	6	26
Rate difference between CT rate and rate of R&D repayment rate	38	-
Prior year adjustments	(239)	(144)
Tax (income)/expense	(454)	(134)

Deferred tax liability provided in the financial statements is as follows:

	Group			Company	
	2017 £'000	Movement £'000	2016 £'000	2017 £'000	2016 £'000
Internally generated intangible and fixed assets	341	26	315	-	-
Provisions	-	9	(9)	-	-
Acquisition intangibles	327	(151)	478	-	-
	668	(116)	784	-	-

	Group			Company	
	2016	Movement	2015	2016	2015
	£'000	£'000	£'000	£'000	£'000
Internally generated intangible and fixed assets	315	(152)	467	-	-
Provisions	(9)	1	(10)	-	-
Acquisition intangibles	478	(71)	549	-	-
	784	(222)	1,006	-	-

The UK corporation tax rate fell in April 2017 to 19% from 20% and accordingly the rate for the year is 19.25%. Deferred tax is provided in relation to the UK at rates of between 17% to 19% depending on when reversals are expected to occur. The tax credit is impacted by the higher rates of corporation tax payable in the US, offset by the R&D tax credits available to Dillistone Systems division, Voyager Software division and GatedTalent division. It has also been assumed that where there are tax losses arising as a result of R&D tax credits they will be surrendered for a tax repayment at the HMRC stated rate of 14.5%. The release of prior year provisions relates, in part, to the agreement of the prior years' tax positions of UK and US companies together with the formation of a tax group in Australia allowing surrender of losses between companies in the same jurisdiction and the utilisation of tax losses not previously recognised. The Group has gross tax losses and temporary timing differences of £205,000 (2016: £369,000) for which no deferred tax asset has been recognised as the timing of their utilisation is uncertain.

9. Earnings per share

	2017 Using adjusted operating profit	2017	2016 Using adjusted operating profit	2016
Profit/(loss) attributable to ordinary shareholders (note 2)	£606,000	£(71,000)	£1,395,000	£526,000
Weighted average number of shares	19,668,021	19,668,021	19,668,021	19,668,021
Basic earnings per share	3.08 pence	(0.36) pence	7.10 pence	2.68 pence
Weighted average number of shares after dilution	19,675,831	19,668,021	20,082,096	20,082,096
Fully diluted earnings per share	3.08 pence	(0.36) pence	6.95 pence	2.62 pence

Reconciliation of basic to diluted average number of shares:

	2017	2016
Weighted average number of shares (basic)	19,668,021	19,668,021
Effect of dilutive potential ordinary shares – employee share plans	7,997	414,075
Weighted average number of shares after dilution	19,676,018	20,082,096

There are 1,270,732 (2016: 638,257) share options not included in the above calculations.

The impact of the convertible loan notes in the period is not dilutive and therefore does not impact the calculation of the fully diluted earnings per share.