INTERIM REPORT

for the six months ended 30 June 2018

stilo
international plc

Stilo develops software tools and cloud services that help organisations create and process structured content in XML format, so that it can be more easily stored, managed, re-used, translated and published to multiple print and digital channels.

We continue to build upon our strong reputation for excellent products and supporting technical expertise, resulting from many years of experience in the structured content marketplace. With offices in the UK and Canada, we support clients throughout North America, Europe and Japan.

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CHAIRMAN'S STATEMENT

Our total sales revenues for the period decreased significantly, principally due to the expiry of a three year customer contract for Migrate. Changes to IFRS accounting rules in 2018 also had the effect of deferring £27,000 of software revenue recognition beyond the end of December 2017 and £64,000 beyond the end of June 2018 resulting in the net reduction in H1 revenue of £37,000.

Nevertheless, with an annual reduction in operating costs, assisted by favourable exchange rates, we have still been able to report a small profit for the half year. This reflects well upon the overall resilience of the Company.

As we look to build future sales, supported by healthy cash reserves and a strong balance sheet, I am pleased to announce the payment of an increased interim dividend of 0.06 pence per share.

David Ashman
Chairman

15 August 2018

FINANCIAL PERFORMANCE

- **Reduction in sales revenues to £707,000 principally due to the expiry of a 3 year customer contract for Migrate.** (2017: £910,000)
- **Reduction in operating costs to £657,000.** (2017: £759,000)
- **Post-tax profits of £42,000.** (2017: £142,000)
- **Cash of £1,442,000 as at 30 June 2018.** (2017: £1,602,000)
- **Payment of an interim dividend of 0.06 pence per Ordinary Share.** (2017: 0.05 pence per share)

BUSINESS HIGHLIGHTS

- **Migrate** customers for the period include **Viewpoint**, **Arris**, **Synopsis**, **Deltek**, **Varian** and **Tibco**.
- **AuthorBridge** order win at **Kaplan Professional Education**, incorporating integration with the **Componize for Alfresco** content management system.
- **OmniMark** sales include **Toshiba Digital Solutions Corporation (Japan Patent Office)**, **European Parliament**, **Qantas** and **Gulfstream**.
- Launch in July of professional service to assist DITA users to **maximise content re-use**, utilising **OptimizeR**, a new product currently under development.

BUSINESS REVIEW

Stilo develops software tools and cloud services that help organisations create and process structured content in XML format, so that it can be more easily stored, managed, re-used, translated and published to multiple print and digital channels.

Over recent years, many organisations have adopted industry specific XML standards e.g. Publishing (DocBook), Aerospace & Defence (S1000D), Finance (XBRL), Life Sciences (SPL), Software and High Tech (DITA). Stilo made the decision some years ago to focus new product development and marketing efforts on the emerging DITA standard. This standard originated within IBM to support the publishing of its technical documentation and has been increasingly adopted by other software and high tech companies. DITA is now beginning to make inroads into additional market sectors including Manufacturing, Life Sciences and Publishing.

In order to diversify beyond the DITA market, we have recently undertaken research into the XML JATS (Journal Article Tag Suite) market for scientific and scholarly publishers. Initial indications are that this could represent a promising new business opportunity for Stilo, and we will seek to address this through the incremental development of AuthorBridge and Migrate.

We continue to build upon our strong reputation for excellent products and supporting technical expertise, resulting from many years of experience in the structured content marketplace. With offices in the UK and Canada, we support clients throughout North America, Europe and Japan.

PRODUCTS AND CUSTOMERS

OmniMark

Stilo's core technology is OmniMark, a long-established development platform used to build high-performance content processing applications integral to enterprise publishing solutions.

Users include The Boeing Company, Pratt and Whitney, Airbus Defence & Space, Clarivate Analytics, and Wolters Kluwer. Sales for the period included orders from the European Parliament, Toshiba Digital Solutions Corporation (Japan Patent Office), Qantas and Gulfstream.

Migrate

Migrate is the world's first cloud XML content conversion service, and utilises OmniMark technology. Through advanced levels of automation, it enables organisations to improve turnaround times, reduce operating costs and take direct control of their work schedules, providing an attractive alternative to traditional outsourced conversion services.

Migrate users include IBM, Cisco, EMC and Oracle. Sales for the period include orders from Viewpoint, Arris, Synopsis, Deltek, Varian and Tibco. Using Migrate, we have helped our customers convert over one million pages of content to the DITA format.

Complementing Migrate, we announced in July the introduction of a new professional service utilising OptimizeR. OptimizeR is a tool that we are developing to help automate the de-duplication of DITA content and help maximise the opportunity for content re-use. It will initially be used by Stilo professional services personnel and will be productised in due course as we gain experience of various customer use cases.

OptimizeR addresses key issues for customers who are converting their legacy content to DITA, in addition to experienced DITA users, and represents a promising new business opportunity. We are encouraged by initial feedback received from prospective customers and business partners.

AuthorBridge

AuthorBridge is a web-based XML authoring tool, designed for occasional content contributors who have no knowledge of XML or its complexities. It is currently targeted at large enterprises, which are looking to extend the use of DITA across different business units and potentially support thousands of users.

Development of AuthorBridge continues to progress well in 2018, albeit with significant slippage against original schedules. Its initial adoption by the central Information Developer Tools team at IBM in the USA and the Nuclear Regulatory Commission in Washington D.C. provides a good foundation upon which we can build future sales.

Early in 2018 AuthorBridge was selected by Kaplan Professional Education as their web authoring tool of choice and has since been successfully integrated with their Componize for Alfresco content management system. The partnership with Componize is encouraging and is already helping to generate additional business opportunities for AuthorBridge in the DITA market.

OPERATIONS

Stilo operates from offices located in Swindon, UK and Ottawa, Canada. The technical team is based in our Ottawa office.

As of 30 June 2018, there were 17 permanent employees in the Company, complemented by the use of contractors. We will not be growing headcount significantly in 2018, as we look to contain our costs in line with the latest sales projections.

FINANCIAL PERFORMANCE

The results for the six months ended 30 June 2018 have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as adopted by the European Union.

In 2018 the interim results for Stilo show post-tax profits of £42,000. (2017: £142,000)

Total sales revenues for the period decreased to £707,000 (2017: £910,000), principally due to the expiry of a 3 year customer contract for Migrate. A reduction in maintenance revenues and the net impact of transition to the new accounting standard IFRS 15 were otherwise offset by increases in sales of Migrate, OmniMark licences and initial embryonic revenues for AuthorBridge.

The Company maintains careful control over all operating costs. Favourable exchange rates helped as we reduced our operating costs during the period, excluding capitalised development costs, to £657,000 (2017: £759,000).

Investment in R & D continued in 2018, with total expenditure for the period of £271,000 (2017: £290,000). As a result of this investment, Stilo continues to benefit from research and development tax credits. Of this expenditure, £99,000 relating to the development of AuthorBridge has been capitalised (2017: £91,000), and the total accumulated capitalised costs will be depreciated over a 10 year period, likely commencing in 2019.

There was a reduced cash balance of £1,442,000 as at 30 June 2018 (30 June 2017: £1,602,000) and Stilo remains entirely un-geared. This balance sheet stability provides a sound financial base for the Company and will support continued investment in product development, sales and marketing.

DIVIDENDS

During the period, the final dividend for the year ended 31 December 2017 was paid, of 0.05 pence per share (2016: 0.05 pence), providing an increased total dividend of 0.10 pence for the year.

The Board is pleased to declare the payment of an Interim dividend for the year ending 31 December 2018 to shareholders of 0.06 pence per share (2017: 0.05 pence per share) which will be paid on 20 November 2018 to those shareholders on the register as at 19 October 2018. The shares will be marked ex-dividend on 18 October 2018.

The Board's policy is to maintain payment of a steady and progressive dividend, well covered and paid subject to maintaining sufficient funds within the business with regard to prudent forecasts of future capital requirements, without the need for debt funding.

BUSINESS OUTLOOK

The global market for dynamically publishing structured content to multiple channels continues to grow, which in turn drives the market for XML content conversion and authoring tools.

In the Company's AGM Statement of 23 May 2018 and Trading Update of 26 July 2018 we indicated that results for the year ending 31 December 2018 would likely be impacted because of the non-repeatability of two significant contracts that were received in 2017. Unfortunately, during the first six months of 2018 the Company has not made the sales breakthroughs required to compensate for the orders shortfall.

This position is likely to continue for the second half of 2018, as the Company looks to build the sales pipeline whilst controlling costs in line with sales projections.

UNAUDITED GROUP INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months to 30 June 2018 Unaudited £'000	Six months to 30 June 2017 Unaudited £'000	Year to 31 December 2017 Audited £'000
Revenue – Continuing Operations	**707**	910	1,894
Cost of sales	**(4)**	(7)	(13)
Gross profit	**703**	903	1,881
Operating costs	**(657)**	(759)	(1,578)
Amortisation of intangible assets	**–**	–	–
Operating profit	**46**	144	303
Finance income	**5**	3	6
Profit before tax	**51**	147	309
Income tax	**(9)**	(5)	4
Profit for the period attributable to the equity shareholders of the parent company	**42**	142	313
Earnings per share			
– basic (note 4)	**0.04p**	0.12p	0.28p
– diluted (note 4)	**0.04p**	0.12p	0.26p
Dividends			
– dividends paid per share	**0.05p**	0.05p	0.10p

UNAUDITED GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months to 30 June 2018 Unaudited £'000	Six months to 30 June 2017 Unaudited £'000	Year to 31 December 2017 Audited £'000
Profit for the period	**42**	142	313
Other comprehensive income			
Items that may subsequently be reclassified to profit and loss			
Foreign currency translation differences	**(37)**	(17)	(32)
Total other comprehensive income	**(37)**	(17)	(32)
Total comprehensive income relating to the period	**5**	125	281

All comprehensive income is attributable to equity shareholders of the parent company.

UNAUDITED GROUP STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	As at 30 June 2018 Unaudited £'000	As at 30 June 2017 Unaudited £'000	As at 31 December 2017 Audited £'000
Non-current assets			
Goodwill	**1,660**	1,660	1,660
Other intangible assets	**771**	566	688
Plant and equipment	**18**	16	12
Deferred tax assets	**50**	50	50
	2,499	2,292	2,410
Current assets			
Trade and other receivables	**209**	280	170
Income tax asset	**53**	–	54
Cash and cash equivalents	**1,442**	1,602	1,621
	1,704	1,882	1,845
Total Assets	**4,203**	4,174	4,255
Current liabilities			
Trade and other payables	**472**	523	504
Non-current liabilities			
Other payables	**71**	26	13
Total liabilities	**543**	549	517
Equity attributable to equity shareholders of the parent company			
Called up share capital	**1,139**	1,139	1,139
Share premium	**29**	29	29
Merger reserve	**658**	658	658
Retained earnings	**1,834**	1,799	1,912
Total equity	**3,660**	3,625	3,738
Total Equity and Liabilities	**4,203**	4,174	4,255

UNAUDITED GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Attributable to equity shareholders of the parent company				
	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2017 (audited)	1,138	29	658	1,702	3,527
Comprehensive income					
Profit for the period	–	–	–	142	142
Other comprehensive loss					
Exchange adjustments – may recycle to profit and loss account	–	–	–	(17)	(17)
Total comprehensive income	–	–	–	125	125
Transactions with owners					
Share based transactions	–	–	–	29	29
Dividend paid	–	–	–	(57)	(57)
Shares issued	1	–	–	–	1
Total transactions with owners	–	–	–	(28)	(27)
Balance at 30 June 2017 (unaudited)	1,139	29	658	1,799	3,625
Comprehensive income					
Profit for the period	–	–	–	171	171
Other comprehensive loss					
Exchange adjustments – may recycle to profit and loss account	–	–	–	(15)	(15)
Total comprehensive income	–	–	–	156	156
Transactions with owners					
Share based transactions	–	–	–	14	14
Dividend paid	–	–	–	(57)	(57)
Shares issued	–	–	–	–	–
Total transactions with owners	–	–	–	(43)	(43)
Balance at 31 December 2017 (audited)	1,139	29	658	1,912	3,738
Impact of adopting IFRS 15	–	–	–	(27)	(27)
Balance at 31 December 2017 (IFRS 15)	1,139	29	658	1,885	3,711
Comprehensive income					
Profit for the period	–	–	–	42	(42)
Other comprehensive loss					
Exchange adjustments – may recycle to profit and loss account	–	–	–	(37)	(37)
Total comprehensive income	–	–	–	5	5
Transactions with owners					
Share based transactions	–	–	–	1	1
Dividend paid	–	–	–	(57)	(57)
Shares issued	–	–	–	–	–
Total transactions with owners	–	–	–	(56)	(56)
Balance at 30 June 2018 (unaudited)	**1,139**	**29**	**658**	**1,834**	**3,660**

UNAUDITED GROUP CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months to 30 June 2018 Unaudited £'000	Six months to 30 June 2017 Unaudited £'000	Year to 31 December 2017 Audited £'000
Cash flows from operating activities			
Profit before taxation	**51**	147	309
Adjustment for depreciation and amortisation	**5**	6	12
Adjustment for investment income	**(5)**	(3)	(6)
Adjustment for share based payments	**1**	29	8
Adjustment for foreign exchange differences	**(13)**	11	43
Operating cash flows before movements in working capital	**39**	190	366
(Increase)/decrease in trade and other receivables	**(39)**	105	220
Increase/ (decrease) in trade and other payables	**1**	(48)	(81)
Cash generated from operations	**1**	247	505
Tax paid	**(60)**	(1)	(50)
Tax credit received	**52**	58	58
Net cash used in/from operating activities	**(7)**	304	513
Cash flows from investing activities			
Finance income	**5**	3	6
Development costs capitalised	**(99)**	(91)	(213)
Purchase of plant and equipment	**(11)**	(4)	(6)
Net cash used in investing activities	**(105)**	(92)	(213)
Financing activities			
Dividends paid	**(57)**	(57)	(114)
Issue of ordinary share capital	**–**	1	1
Net cash used in financing activities	**(57)**	(56)	(113)
Net (decrease)/increase in cash and cash equivalents	**(169)**	156	187
Cash and cash equivalents at beginning of period	**1,621**	1,466	1,466
Exchange losses on cash and cash equivalents	**(10)**	(20)	(32)
Cash and cash equivalents at end of period	**1,442**	1,602	1,621

1. The interim results (approved by the Board of Directors and authorised for issue on 15 August 2018) are neither audited nor reviewed and do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The financial information for the full preceding year is extracted from the statutory accounts for the financial year ended 31 December 2017. Those accounts, upon which the auditors issued an unqualified opinion, and did not contain a statement under Section 498 (2) and (3) of the Companies Act 2006, have been delivered to the Registrar of Companies. As permitted, this interim report has been prepared in accordance with UK AIM listing rules and not in accordance with IAS 34 'Interim Financial Reporting'; therefore it is not fully in compliance with IFRS.

2. Stilo International plc is a public limited company incorporated in the United Kingdom. The Company is domiciled in the United Kingdom and its ordinary shares are traded on the AIM market of the London Stock Exchange plc. Stilo provides specialist software and professional services.

The consolidated interim results have been prepared in accordance with the recognition and measurement principles of IFRS including standards and interpretations issued by the International Accounting Standards Board, as adopted by the European Union. They have been prepared using the historical cost convention.

The preparation of the interim results requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. If in the future such estimates and assumptions, which are based on management's best judgement at the reporting date, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change. The interim results are presented in sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

The interim results of the Group for the period ended 30 June 2018 have been prepared in accordance with the accounting policies expected to apply in respect of the financial statements for the year ending 31 December 2018.

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3. The financial position and performance of the group was particularly affected by the adoption of the new revenue standard IFRS 15 `Revenue from contracts with customers`as from 1 January 2018. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules retrospectively with the cumulative effect of initially applying the standard recognised at the date of the initial application. The impact of the adoption as at 1 January 2018 was to reduce retained earnings and increase deferred income by £27,000 due to a change in the recognition of revenue on Migrate licences.

4. The basic earnings per share is calculated on the weighted average number of shares in issue during the period. The fully diluted earnings per share takes account of outstanding options. The weighted average number of ordinary shares in issue for the six months to 30 June 2018 was 113,930,470 shares (30 June 2017: 113,778,887 and 31 December 2017: 113,854,048 shares). The weighted average number of ordinary shares in issue for the six months to 30 June 2018, for the fully diluted earnings per share, taking account of outstanding options was 116,615,746 (30 June 2017: 119,858,713, 31 December 2017: 119,241,436).

5. Copies of this report will be available to download from the investor relations section of the Company's website **www.stilo.com**.

DIRECTORS, OFFICERS AND ADVISERS

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Non-Executive Director and Chairman

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Director and Chief Executive Officer

Liam O'Donoghue
Non-Executive Director and Company Secretary

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AuthorBridge order win at Kaplan Professional Education, incorporating integration with the Componize for Alfresco content management system

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