2015/2016

Electronic Data Processing PLC

Interim Report
2015/2016

edp

About EDP

Electronic Data Processing PLC is a leading supplier of advanced technology Software Solutions. These include ERP solutions for the Merchanting/Wholesale Distribution Industry, e-business, application hosting and Sales Intelligence Solutions together with a comprehensive range of customer support and education services.

Our values

> We believe in conducting our business activities with integrity, building mutually beneficial long-term relationships with all our customers, providing the highest levels of professional service at every stage.

> We are committed to delivering superior value in our products and services to our customers, on a continuing basis.

> We respect the individuality of each member of our staff, fostering an environment where creativity and productivity are encouraged, valued and rewarded.

> We are dedicated to creating value for shareholders by performing in a manner which will enhance return on investment.

Electronic Data Processing PLC is incorporated in England and Wales under Registration Number 853560

Key Highlights

- Turnover £2.51 million (2015: £2.52 million)
- Adjusted operating profit increased by 19% to £240,000 (2015: £202,000), resulting in an operating margin of 9.5% (2015: 8%)
- Hosting revenues represent 58% of total revenues (2015: 50%)
- Contracted recurring revenues represent 81% of total revenues (2015: 80%)
- R&D expenditure amounted to £500,000 in first half (2015: £540,000)
- Strong, debt-free balance sheet with total cash balances and short-term investments of £5.4 million
- Interim dividend of 2p per share, the same as last year, returns £252,000 to shareholders
- Recently announced strategic review, which is at an early stage, is continuing. We will report conclusions to shareholders in due course

In this report

Visit us online

More information for investors, including reports, announcements and notices, at **www.edp.co.uk**

Chairman's Statement

Sir Michael Heller

Turnover for the half-year ended 31 March 2016 at £2.51 million was broadly comparable with the same period last year (2015: £2.52 million). Our adjusted operating profit (which excludes one-off costs and non-cash IFRS adjustments) increased by 19% to £240,000 (2015: £202,000). This represents an operating margin of 9.5% compared with 8% in the prior period.

Our statutory pre-tax profit for the six months was £116,000 (2015: £179,000). However, this was after an exceptional charge of £98,000 relating to repairs to our surplus property in Milton Keynes. Interest income during the period was £26,000 (2015: £20,000).

The tax charge for the period includes £24,000 of current year taxation together with a deferred tax charge of £18,000, which principally relates to the recalculation of the deferred tax balances at the future rate of corporation tax (18%). Current year taxation represents an effective rate of 21%.

Although trading conditions remain competitive, we have secured a number of new customers for our flag-ship Quantum VS and Vecta products. In the case of Quantum VS, it is pleasing to note continued success in migrating customers from our legacy software applications. We are also seeing good interest in our new Quantum e-business module. We remain committed to increasing the number of customers who receive their software through the hosting service. Hosting offers significant benefits to our customers in terms of data backup and security, business continuity and savings in IT personnel and infrastructure expenditure. During the period hosting revenues represented 58% (2015: 50%) of total revenues.

Contracted recurring revenues, which relate to annual software licences and hosting fees, were a strong 81% of total revenues (2015: 80%).

We remain committed to enhancing our key software products, Quantum VS and Vecta, and expenditure on product R&D during the period amounted to £500,000 (2015: £540,000). The second half of the financial year will see the release of a new mobile app for our Vecta CRM and Business Intelligence product.

We previously reported in the preliminary announcement in December that we had accepted an offer for £1.2 million on our last remaining surplus property in Milton Keynes. The sale is progressing albeit at a much slower pace than originally anticipated. The property is currently let on a short term lease, which, whilst not generating significant rental income, does mitigate £53,000 p.a. of rates. Should the sale complete then we would expect to save a further £35,000 a year of costs in relation to the property. We will of course report any further progress to shareholders in due course.

Group net assets were £4.50 million at 31 March 2016 compared with £4.96 million at the end of the previous financial year. This partly reflects an increase of £217,000, net of deferred tax, in the liability under IAS19 in the Group's defined benefit pension scheme. The IAS19 liability net of deferred tax amounts to £2.03 million. This increase is due principally to a further reduction in the interest rate used to discount the value of the scheme's liabilities under IAS 19. As we have previously reported, the last full actuarial valuation of the scheme as at 31 July 2013 showed a small surplus; the difference in valuations arises principally because under IAS19 the asset value does not take into account the guaranteed annuity rates which have been secured and which are included within the ongoing funding valuation. The scheme is closed to further service accrual and we are not currently required to make any ongoing contributions to the scheme. A full triennial review of the scheme will be carried out as at 31 July this year. Further details relating to the scheme valuation are provided in note 4 to this interim statement.

Cash and short-term investments (which represent fixed term deposits with maturity in excess of three months) amount to £5.36 million (2015: £5.22 million).

Your Directors have resolved to pay an interim dividend of 2p per share, the same as last year. Last year's total dividend was 5p per share which based on the share price at the date of this report represents a yield of 7.0%. The interim dividend will be paid on 1 August 2016 to those shareholders on the register on 1 July 2016. The shares will be ex-dividend on 30 June 2016.

As ever I would like to thank our staff for their hard work and commitment.

We have recently announced that we are carrying out a strategic review and that process, which is in its early stages, is continuing. We will report the conclusions of the review to shareholders in due course.

Whilst we expect trading conditions to remain competitive, with our ongoing investment in our key products and robust business model, we remain confident about the outlook for the remainder of the year.

Sir Michael Heller
Chairman
1 June 2016

Principal Risks and Uncertainties

We operate in a changing economic and technological environment that presents risks, many of which are driven by factors that we cannot control or predict. The key risks and uncertainties facing EDP and the measures taken to mitigate these risks are as follows:

Risk	Potential impact	Mitigation
Systems and networks		
EDP's business operations rely significantly on the efficient and uninterrupted operation of its information technology systems and networks. Our computer network may be vulnerable to unauthorised access, viruses and other disruptive problems.	Any damage or interruption to EDP's networks, however caused, could have a material adverse effect on the delivery of our products and services. A party that is able to override security measures could misappropriate proprietary information or cause disruption to our operations.	We continually review and test the security of internal systems and networks and have developed recovery plans in the event of systems disruption. We use a third party to internally and externally scan our network to identify any potential vulnerability. Where reliance is placed upon externally provided systems and networks we undertake regular performance ability reviews and ensure that contracts provide for an appropriate level of service maintenance.
Product technology advances		
The markets in which EDP operates are characterised by evolving technology, market practices and industry standards.	Competitors could develop superior products or more cost-effective techniques which could render our products uncompetitive or less acceptable to the market. This could result in the loss of new revenue opportunities or the non-renewal of contracts by existing customers.	We have an ongoing commitment to research and development which allows us to identify and adapt to any technological and market changes that do occur thereby ensuring that our products continue to meet the demands of our customers.
External economic factors		
As with most other businesses in the UK, our operations can be adversely affected by a significant downturn in the economy.	Restricted availability of finance for businesses and a stagnant or recessionary economy could have an adverse effect on the prospects for EDP, as potential customers, particularly in the builders and timber merchants sectors may scale back their IT plans in response to funding difficulties and/or reduced prospects for their businesses.	We seek to ensure that a significant proportion of our revenues are derived from long-term contracts with our customers, that our products appeal to businesses operating in a range of business sectors and that payments for our recurring fees are received annually in advance.
Competitor activity		
EDP operates in a competitive environment.	New entrants to our marketplace and actions taken by existing competitors could have an impact on our levels of business activity and product pricing in the market generally.	We endeavour to provide excellent customer support together with high quality products at a competitive price in order to develop and protect strong customer relationships.
Key employees		
In common with all people-based businesses, our success will, to a significant extent, be dependent on the experience of the Board and senior management. The retention of the services of EDP's key employees cannot be guaranteed.	The loss of key employees could have a material adverse effect on EDP. The failure to retain and develop key technical skills and product knowledge could hinder EDP's future prospects.	We are continually focused on the need to recruit, retain, reward and motivate staff with the appropriate skills.

Responsibility Statement of the Directors in Respect of the Half-Yearly Financial Report

We confirm that, to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union;
- the half-yearly management report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the enterprise during that period; and any changes in the related party transactions described in the last annual report that could have a material effect on the financial position or performance of the enterprise in the first six months of the current financial year.

By order of the Board

J.M. Storey
Secretary
1 June 2016

The Directors at the date of this half-yearly financial report are:

Sir Michael Heller	Chairman (Non-Executive)
J.H. Wassell	Chief Executive
A.R. Heller	Non-Executive Director
C.R. Spicer	Network Services Director
J.M. Storey	Finance Director

Condensed Consolidated Income Statement

for the six months ended 31 March 2016

	Unaudited six months to 31 March 2016 £'000	Unaudited six months to 31 March 2015 £'000	Audited full year to 30 September 2015 £'000
Revenue	**2,505**	2,519	5,157
Gross profit	**2,367**	2,336	4,758
Administrative expenses	**(2,277)**	(2,177)	(4,381)
Operating profit	**90**	159	377
Profit on sale of property	**—**	—	117
Write-down of property value	**—**	—	(189)
Finance income	**26**	20	42
Profit before tax	**116**	179	347
Income tax expense	**(42)**	(37)	(43)
Profit for the period attributable to equity holders of the Parent	**74**	142	304
Earnings per share			
– Basic	**0.59p**	1.13p	2.41p
– Diluted	**0.58p**	1.11p	2.39p

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 31 March 2016

	Unaudited six months to 31 March 2016 £'000	Unaudited six months to 31 March 2015 £'000	Audited full year to 30 September 2015 £'000
Profit for the period	**74**	142	304
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement losses on defined benefit pension scheme	**(169)**	(705)	(213)
Income tax on other comprehensive income	**15**	141	43
Other comprehensive income for the period, net of tax	**(154)**	(564)	(170)
Total comprehensive income for the period attributable to equity holders of the Parent	**(80)**	(422)	134

Condensed Consolidated Balance Sheet

at 31 March 2016

	Unaudited at 31 March 2016 £'000	Unaudited at 31 March 2015 £'000	Audited at 30 September 2015 £'000
Non-current assets			
Property, plant and equipment	**2,545**	2,722	2,545
Deferred tax asset	**446**	544	453
Intangible assets	**428**	420	431
	3,419	3,686	3,429
Current assets			
Inventories	**81**	79	64
Trade and other receivables	**1,611**	1,390	1,445
Investments	**3,500**	2,000	3,000
Cash and cash equivalents	**1,857**	3,220	2,547
Assets held for sale	**—**	301	—
	7,049	6,990	7,056
Total assets	**10,468**	10,676	10,485
Current liabilities			
Deferred income	**(1,890)**	(1,859)	(2,008)
Income tax payable	**(115)**	(118)	(79)
Trade and other payables	**(1,313)**	(1,175)	(1,000)
	(3,318)	(3,152)	(3,087)
Non-current liabilities			
Deferred income	**(71)**	(13)	(57)
Employee benefits	**(2,475)**	(2,718)	(2,265)
Deferred tax liability	**(102)**	(130)	(115)
	(2,648)	(2,861)	(2,437)
Total liabilities	**(5,966)**	(6,013)	(5,524)
Net assets	**4,502**	4,663	4,961
Equity			
Share capital	**689**	689	689
Share premium	**119**	119	119
Capital redemption reserve	**625**	625	625
Treasury shares	**(587)**	(587)	(587)
Retained earnings	**3,656**	3,817	4,115
Total equity attributable to equity holders of the Parent	**4,502**	4,663	4,961

Condensed Consolidated Cash Flow Statement

for the six months ended 31 March 2016

	Unaudited six months to 31 March 2016 £'000	Unaudited six months to 31 March 2015 £'000	Audited full year to 30 September 2015 £'000
Cash flows from operating activities			
Profit for the period	**74**	142	304
Adjustments for:			
Depreciation	**114**	116	228
Amortisation	**58**	44	81
Net profit on disposal of property, plant and equipment	**(15)**	(4)	(120)
Write-down of property value	**—**	—	189
Transfer of inventory to property, plant and equipment	**(6)**	—	(2)
Defined benefit pension charge net of employer contributions	**41**	38	77
Finance income	**(26)**	(20)	(42)
Income tax expense	**42**	37	43
Change in inventories	**(17)**	(12)	3
Change in receivables	**(173)**	165	124
Change in payables	**(65)**	(145)	(68)
Change in deferred income	**(104)**	(59)	134
Equity settled share-based payment transactions	**—**	1	1
Cash (used in)/received from operations	**(77)**	303	952
Interest received	**33**	11	19
Income taxes received/(paid)	**2**	68	(5)
Net cash (used in)/received from operating activities	**(42)**	382	966
Cash flows from investing activities			
Purchase of property, plant and equipment	**(121)**	(45)	(167)
Purchase of intangible assets	**(19)**	(17)	(17)
Capitalised development expenditure	**(36)**	(91)	(139)
Net proceeds from sale of property, plant and equipment	**28**	7	424
Net cash (used in)/generated by investing activities	**(148)**	(146)	101
Cash flows from financing activities			
Transfers to fixed-term deposit investments	**(500)**	(2,000)	(3,000)
Dividends paid	**—**	—	(504)
Net cash used in financing activities	**(500)**	(2,000)	(3,504)
Net decrease in cash and cash equivalents	**(690)**	(1,764)	(2,437)
Cash and cash equivalents at beginning of period	**2,547**	4,984	4,984
Cash and cash equivalents at end of period	**1,857**	3,220	2,547

Condensed Consolidated Statement of Changes in Equity

for the six months ended 31 March 2016

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
At 1 October 2015 (audited)	689	119	625	(587)	4,115	4,961
Profit for the period	—	—	—	—	74	74
Other comprehensive income:						
– remeasurement loss on defined benefit pension scheme net of tax	—	—	—	—	(154)	(154)
Total comprehensive income	—	—	—	—	(80)	(80)
Transactions with owners:						
– share-based payment transactions	—	—	—	—	(1)	(1)
– dividends approved	—	—	—	—	(378)	(378)
Total transactions with owners	—	—	—	—	(379)	(379)
At 31 March 2016 (unaudited)	**689**	**119**	**625**	**(587)**	**3,656**	**4,502**

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
At 1 October 2014 (audited)	689	119	625	(587)	4,496	5,342
Profit for the period	—	—	—	—	142	142
Other comprehensive income:						
– remeasurement loss on defined benefit pension scheme net of tax	—	—	—	—	(564)	(564)
Total comprehensive income	—	—	—	—	(422)	(422)
Transactions with owners:						
– share-based payment transactions	—	—	—	—	(5)	(5)
– dividends approved	—	—	—	—	(252)	(252)
Total transactions with owners	—	—	—	—	(257)	(257)
At 31 March 2015 (unaudited)	689	119	625	(587)	3,817	4,663

1 Interim financial information

Electronic Data Processing PLC is a public limited company listed on the London Stock Exchange and incorporated and domiciled in England.

The condensed consolidated interim financial information was approved for issue on 1 June 2016.

The condensed financial information is not the Company's statutory accounts. The interim financial information for the six month periods ended 31 March 2015 and 31 March 2016 has not been audited. The comparative figures for the financial year ended 30 September 2015 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies.

The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report, and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

2 Basis of preparation

The unaudited condensed consolidated interim financial information for the six months ended 31 March 2016 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, 'Interim Financial Reporting' as adopted by the EU. The half-yearly condensed consolidated financial report should be read in conjunction with the annual financial statements for the year ended 30 September 2015, which have been prepared in accordance with IFRSs as adopted by the EU.

3 Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2015, as described in those financial statements.

No new standards, amendments to existing standards or interpretations became effective during the period to 31 March 2016.

The following new standards and amendments to existing standards are not yet effective and have not been early adopted by the Group:

- IFRS 9 'Financial Instruments';
- IFRS 10 (amended) 'Consolidated Financial Statements';
- IFRS 11 (amended) 'Joint Arrangements';
- IFRS 12 (amended) 'Disclosure of Interests in Other Entities';
- IFRS 14 'Regulatory Deferral Accounts';
- IFRS 15 'Revenue from Contracts with Customers';
- IFRS 16 'Leases';
- IAS 1 (amended) 'Presentation of Financial Statements';

3 Accounting policies continued

- IAS 7 (amended) 'Statement of Cash Flows';
- IAS 12 (amended) 'Income Taxes';
- IAS 16 (amended) 'Property, Plant and Equipment';
- IAS 27 (amended) 'Separate Financial Statements';
- IAS 28 (amended) 'Investments in Associates and Joint Ventures';
- IAS 38 (amended) 'Intangible Assets';
- IAS 41 (amended) 'Agriculture'; and
- amendments to various standards resulting from Annual Improvements 2012–2014 Cycle.

4 Significant judgements, assumptions and risks

In preparing these interim results the main areas of significant judgements and estimates made by management in applying the Group's accounting policies are the same as those that applied to the accounts for the year ended 30 September 2015, namely:

- employee benefits;
- software intellectual property rights;
- freehold property valuation and classification;
- development costs; and
- revenue recognition.

These estimates and associated assumptions are based on historical experience and other reasonable factors which form the basis of determining the reported values of assets and liabilities.

During the period the Directors updated the assumptions underlying the valuation of the defined benefit pension scheme under IAS 19.

As a result of the reduction in corporate bond yields during the period, the discount rate used to value the present value of the scheme's liabilities was reduced from 3.7% at 30 September 2015 to 3.5% at 31 March 2016. Furthermore, the mortality improvement tables have been updated to incorporate the latest available models. The net effect of these changes has been the recognition of an actuarial loss of £154,000, net of tax, in other comprehensive income.

In the six months to 31 March 2016 there have been no other changes to the estimates applied to the areas identified above that have materially affected the half-yearly financial information.

5 Segment information

The Group has identified its reportable segment based on the financial reports that internally are provided to the Group's Chief Operating Decision Maker ('CODM'). In line with its management structure, the Executive Directors collectively make the key operating decisions and review internal monthly management accounts and budgets as part of this process. Accordingly, the Executive Directors collectively are considered to be the CODM.

The information reported regularly to the CODM presents the Group as a single segment supplying software and related services to customers operating in similar markets. The Group's software products share a common sales, development and implementation resource. Consequently the Group has determined that there is one operating segment and therefore one reportable segment, Software.

Segment performance is measured based on segment profit before tax excluding IAS 19 defined benefit pension scheme adjustments and profits or losses on property disposals or revaluations.

	Software Unaudited six months to 31 March 2016 £'000	Software Unaudited six months to 31 March 2015 £'000
Revenue – external customers	**2,505**	2,519
Profit		
Adjusted operating profit	**240**	202
Redundancy costs	**—**	(56)
Exceptional property costs	**(98)**	—
Segment non-cash net IFRS (charge)/credit	**(11)**	51
Interest revenue	**26**	20
Segment profit before tax	**157**	217
Defined benefit pension scheme charge net of employer contributions	**(41)**	(38)
Consolidated profit before tax	**116**	179

6 Adjusted operating profit

	Unaudited six months to 31 March 2016 £'000	Unaudited six months to 31 March 2015 £'000
Operating profit	**90**	159
Redundancy costs	**—**	56
Exceptional property costs	**98**	—
Adjustments for non-cash items:		
Amortisation of intangible assets under IFRS	**42**	33
Capitalised development costs	**(36)**	(91)
Defined benefit pension scheme charge under IFRS	**41**	38
Other charges under IFRS	**5**	7
Adjusted operating profit	**240**	202

7 Taxation

The current period taxation charge is derived from the Directors' best estimate of the annual tax rate applied to the result for the period.

The Group's effective tax rate for the six months to 31 March 2016 was 36% (2015: 21%). The increase in the effective tax rate resulted primarily from the recalculation of the Group's deferred tax asset on the pension scheme liability at 18% (2015: 20%).

8 Earnings per share

Basic earnings per share is calculated by dividing the profit after tax of £74,000 (2015: £142,000) by 12,610,976 (2015: 12,610,976) being the weighted average number of shares in issue during the period. Basic earnings per share is 0.59p (2015: 1.13p).

For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Company has one class of dilutive potential ordinary share, share options granted to employees under its Enterprise Management Incentive Share Option Plan. These shares have been included in the diluted earnings per share calculation.

Diluted earnings per share is calculated by dividing the profit after tax of £74,000 (2015: £142,000) by 12,723,284 (2015: 12,784,066) being the weighted average number of shares in issue adjusted for the effects of all dilutive potential ordinary shares. Diluted earnings per share is 0.58p (2015: 1.11p).

9 Dividends

The 2015 final dividend of 3.0p per share was approved by shareholders during the period to 31 March 2016 and a liability of £378,000 has been recognised in this half-yearly report.

The Directors announce an interim dividend of 2.0p per share (2015: 2.0p per share) payable on 1 August 2016 to shareholders who are on the register at 1 July 2016. This interim dividend, amounting to £252,000, (2015: £252,000) has not been recognised as a liability in this half-yearly report.

ELECTRONIC DATA PROCESSING PLC

4th Floor, Fountain Precinct, Balm Green, Sheffield S1 2JA
Telephone: 0114 262 2000
www.edp.co.uk