INTERIM REPORT 2011

for the six months ended 30 June 2011

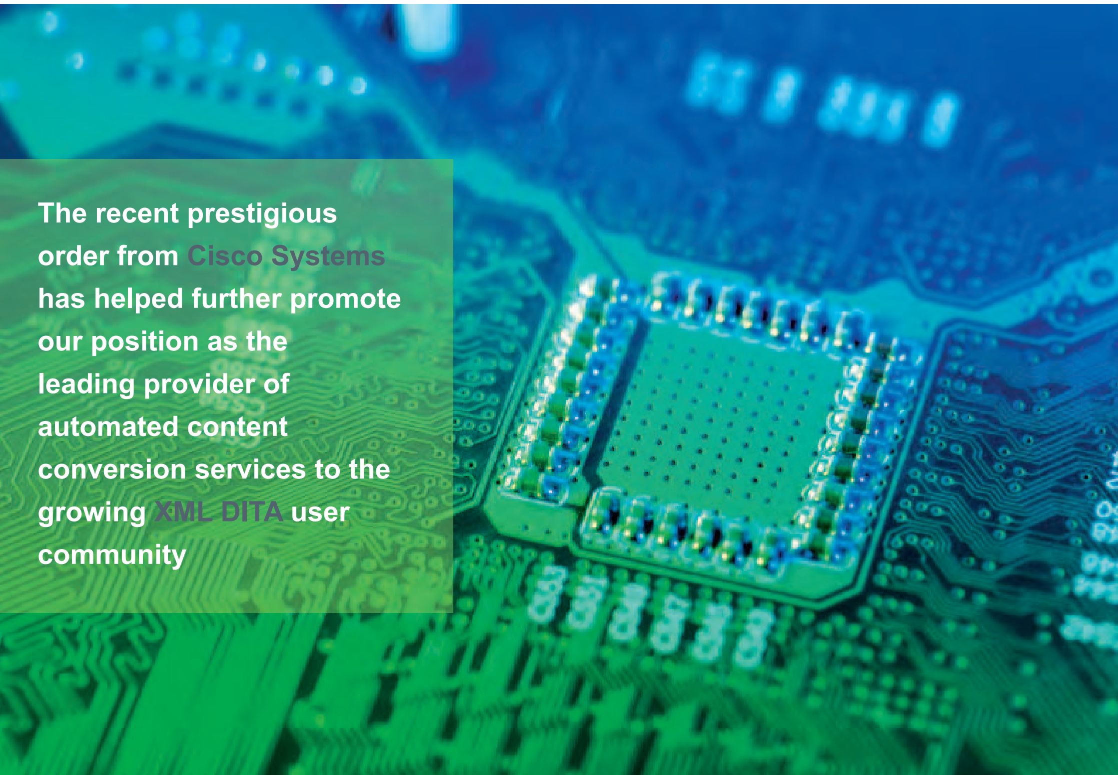
stilo international plc

Stilo provides specialist software and services to organisations in aerospace and defence, manufacturing, technology, publishing and government.

We operate two complementary business divisions:

- Digital Publishing Technology and Services
- Product Lifecycle Management Solutions for SAP®

New Migrate services for automating EBOOK production are scheduled for release in the coming months



The recent prestigious order from Cisco Systems has helped further promote our position as the leading provider of automated content conversion services to the growing XML DITA user community

CHAIRMAN'S STATEMENT

I am pleased to report that we have made good progress in the first six months of 2011, and have continued to strengthen our cash position.

Our profitability has increased year on year, primarily through an uplift in OmniMark software orders from existing customers upgrading their digital publishing systems. We also continue to benefit from repeatable maintenance revenues derived from a global OmniMark user base that has been built up over many years.

In 2010 we announced the release of version 2 of Migrate, the world's first cloud content conversion service. Following successful trials at IBM, the updated service went into full production in early 2011, and has been received very favourably by the IBM documentation teams.

The recent prestigious order from Cisco Systems announced on 8 August 2011 has helped further promote our position as the leading provider of automated content conversion services to the growing XML DITA user community, and we continue to invest in the development of additional Migrate services targeted at other XML users.

David Ashman
Chairman

8 September 2011

FINANCIAL HIGHLIGHTS

- **Profit before taxation increase to £92,000**
  (2010: £50,000)
- **Sales revenues £1.1m**
  (2010: £1.1m)
- **Operating margins improve to 8.5%**
  (2010: 4.6%)
- **Cash position strengthened to £858,000 as at 30 June 2011**
  (2010: £709,000)

BUSINESS HIGHLIGHTS

- **Orders received for Stilo Migrate, the cloud XML content conversion service, from IBM and GLOBALFOUNDRIES**
- **Significant OmniMark software orders received from the Japan Patent Office to power high-performance content processing applications**
- **Continued progress with the development of a new Migrate service to automate the conversion of content to EBOOK formats**
- **Successful completion of major services contracts with ALLDATA and AgustaWestland**

Digital Publishing Technology and Services

Stilo specialises in helping organisations to automate the conversion of their content into different XML standards, to enable customers to extract the content they require, in the most appropriate format, more quickly and more accurately. Stilo's solutions are used by commercial publishers, technology companies and government organisations that need to convert existing document formats into new digital standards for publishing content to the web, CD-Rom and a rapidly growing range of mobile devices.

Stilo's core technology is **OmniMark**, a leading content processing platform used by customers over many years to develop high-performance, content conversion solutions that support large scale publishing applications. Users include Boeing, Airbus, Thomson Publishing, Wolters Kluwer, the Japan Patent Office and the British Library. OmniMark v10 is scheduled for release later in 2011.

The company has made a significant investment in the development of **Migrate**, the world's first cloud content conversion service, based upon OmniMark technology. Through automation, it enables our customers to improve turnaround times, reduce operating costs and take better control of their content quality, providing them with an attractive alternative to traditional outsourcing business models for content conversion services. Migrate customers include IBM, Cisco Systems, STMicroelectronics, Schlumberger and GLOBALFOUNDRIES.

Product Lifecycle Management Solutions for SAP®

Over recent years our SAP business has primarily comprised professional services engagements with customers in the aerospace and defence, manufacturing and engineering sectors.

Resulting from knowledge and experience gained in these engagements, we have successfully developed the Stilo **Product Change Impact Analysis** (PCIA) software, recently certified by SAP® for use with SAP® systems. The software helps organisations to identify and address all possible impacts of a product change decision upon manufacturing and supply chain logistics, and implement changes quickly and cost effectively. Customers include AgustaWestland, BAe Global Combat Systems, Hampson Aerospace and Martin Baker.

As a result of the anticipated tailing-off of services contracts within the Aerospace and Defence sector, we have downsized our SAP team to focus exclusively on sales of the PCIA software. An encouraging sales pipeline of new business prospects is now beginning to materialise.

FINANCIAL PERFORMANCE

The results for the period ended 30 June 2011 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

There was an improved profit before taxation of £92,000 (2010: £50,000).

Total sales revenues for the period were broadly unchanged at £1,071,000 (2010: £1,097,000). This followed the anticipated tail-off in SAP related services in the UK defence and aerospace sectors, offset by increased sales of OmniMark. However, the change in product mix saw an improvement in margins and gross profit increased to £1,002,000 (2010: £992,000). The Board maintains a careful control over operating costs which decreased by 3% to £874,000 (2010: £905,000). As a result operating margins improved from 4.6% in the period ended 30 June 2010 to 8.5% for this period. This was after absorbing foreign exchange losses of £27,000 (2010: gains of £10,000).

Stilo employs 16 permanent staff, based in the UK and in Canada. Extensive use is made of contractors for the delivery of professional services engagements.

Revenues from the sale of technology in the Digital Publishing Division increased with orders for OmniMark software and maintenance from Japan Patent Office, European Parliament, EADS CASA, and from IBM for the Migrate service. Orders for Migrate have been received from Cisco and GLOBALFOUNDRIES, both of which will contribute to revenues in the second half of 2011.

Major services contracts were completed in this period with ALLDATA in the Digital Publishing Division, and with AgustaWestland in the PLM Solutions Division.

The Company further strengthened its cash balance to £858,000 as at 30 June 2011 (30 June 2010: £709,000, at 31 December 2010: £494,000).

BUSINESS OUTLOOK

It is very pleasing to see the uplift in OmniMark software orders as customers continue to upgrade their legacy systems. The Migrate cloud content conversion service has been successfully implemented at IBM, and a recent prestigious order from Cisco Systems announced in August 2011 helps further promote our position as the leading provider of automated content conversion services to the growing XML DITA community of users.

New Migrate services for automating EBOOK production are scheduled for release in the coming months, as the majority of commercial publishers seek to transition from print to new digital formats supported by a growing range of e-readers, tablets and mobile devices. The Board intends to invest further in this area through additional product development, and by allocating greater sales and marketing resources to capitalise upon this exciting new business opportunity.

OmniMark v10 is scheduled for release later in 2011.

The Board looks forward to the remainder of 2011 and beyond with confidence.

UNAUDITED GROUP INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Six months to 30 June 2011 Unaudited £'000	Six months to 30 June 2010 Unaudited £'000	Year to 31 December 2010 Audited £'000
Revenue – continuing operations	**1,071**	1,097	2,384
Cost of sales	**(69)**	(105)	(379)
Gross profit	**1,002**	992	2,005
Administrative expenses	**(874)**	(905)	(1,823)
Exceptional expenses	**–**	–	–
Amortisation of intangible assets	**(37)**	(37)	(74)
Operating profit	**91**	50	108
Finance income	**1**	–	1
Profit before tax	**92**	50	109
Income tax	**–**	–	33
Profit for the period from continuing operations	**92**	50	142
Earnings per share from continuing operations			
– basic (note 4)	**0.084p**	0.046p	0.13p
– diluted (note 4)	**0.077p**	0.046p	0.12p

All profits are attributable to owners of the parent.

UNAUDITED GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Six months to 30 June 2011 Unaudited £'000	Six months to 30 June 2010 Unaudited £'000	Year to 31 December 2010 Audited £'000
Profit for the period	**92**	50	142
Other comprehensive income			
Foreign currency translation differences	**(5)**	13	21
Total other comprehensive income	**(5)**	13	21
Total comprehensive income relating to the period	**87**	63	163

All comprehensive income is attributable to owners of the parent.

UNAUDITED GROUP STATEMENT OF FINANCIAL POSITION
FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Six months to 30 June 2011 Unaudited £'000	Six months to 30 June 2010 Unaudited £'000	Year to 31 December 2010 Audited £'000
Non-current assets			
Goodwill	**1,692**	1,690	1,693
Other intangible assets	**130**	204	167
Plant and equipment	**21**	16	21
Deferred tax assets	**–**	–	–
	1,843	1,910	1,881
Current assets			
Trade and other receivables	**456**	427	698
Income tax asset	**–**	27	33
Cash and cash equivalents	**858**	709	494
	1,314	1,163	1,225
Total Assets	**3,157**	3,073	3,106
Current liabilities			
Trade and other payables	**520**	618	563
Non-current liabilities			
Other payables	**–**	–	–
Total liabilities	**520**	618	563
Equity attributable to owners of the parent			
Called up share capital	**5,619**	5,618	5,618
Share premium account	**5,524**	5,524	5,524
Merger reserve	**658**	658	658
Retained earnings	**(9,164)**	(9,345)	(9,257)
Total equity	**2,637**	2,455	2,543
Total Equity and Liabilities	**3,157**	3,073	3,106

UNAUDITED GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Retained Earnings £'000	Total £'000
Balance at 1 January 2010	5,618	5,524	658	(9,424)	2,376
Comprehensive income					
Profit for the period	–	–	–	50	50
Other comprehensive income					
Exchange adjustments	–	–	–	13	13
Total comprehensive income	–	–	–	63	63
Transactions with owners					
Share based transactions	–	–	–	16	16
Total transactions with owners	–	–	–	16	16
Balance at 30 June 2010	5,618	5,524	658	(9,345)	2,455
Comprehensive income					
Profit for the period	–	–	–	92	92
Other comprehensive income					
Exchange adjustments	–	–	–	8	8
Total comprehensive income	–	–	–	100	100
Transactions with owners					
Share based transactions	–	–	–	(12)	(12)
Total transactions with owners	–	–	–	(12)	(12)
Balance at 1 January 2011	5,618	5,524	658	(9,257)	2,543
Comprehensive income					
Profit for the period	–	–	–	92	92
Other comprehensive income					
Exchange adjustments	–	–	–	(5)	(5)
Total comprehensive income	–	–	–	87	87
Transactions with owners					
Share based transactions	1	–	–	6	7
Total transactions with owners	1	–	–	6	7
Balance at 30 June 2011	**5,619**	**5,524**	**658**	**(9,164)**	**2,637**

UNAUDITED GROUP CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Six months to 30 June 2011 Unaudited £'000	Six months to 30 June 2010 Unaudited £'000	Year to 31 December 2010 Audited £'000
Cash flows from operating activities			
Profit before taxation	**92**	50	109
Adjustment for depreciation and amortisation	**44**	62	88
Adjustment for investment income	**(1)**	–	(1)
Adjustment for foreign exchange differences	**(4)**	–	11
Adjustment for share-based payments	**6**	16	4
Operating cash flows before movements in working capital	**137**	128	211
Decrease in trade and other receivables	**242**	53	(218)
Increase/(decrease) in trade and other payables	**(43)**	85	24
Cash generated from operations	**336**	266	17
Tax credit received	**33**	27	54
Net cash from operating activities	**369**	293	71
Cash flows from investing activities			
Finance income	**1**	–	1
Development costs capitalised	**–**	–	–
Purchase of plant and equipment	**(7)**	(20)	(14)
Net cash used in investing activities	**(6)**	(20)	(13)
Share capital			
Proceeds from new shares issued	**1**	–	–
Net increase in cash and cash equivalents	**364**	273	58
Cash and cash equivalents at beginning of period	**494**	436	436
Cash and cash equivalents at end of period	**858**	709	494

1. The interim results (approved by the Board of Directors and authorised for issue on 7 September 2011) 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 2010. 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 2011 have been prepared in accordance with the accounting policies expected to apply in respect of the financial statements for the year ended 31 December 2011.

3. There is no tax charge for the period due to the availability of tax losses brought forward.

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 2011 was 109,808,470 shares (30 June 2010 and 31 December 2010: 109,728,470 shares). The weighted average number of ordinary shares in issue for the six months to 30 June 2011, taking account of outstanding options was 119,420,470 (31 December 2010: 118,579,470). For the six months to 30 June 2010, in accordance with IAS33 paragraph 47 there were no dilutive effects on the earnings per share calculations as the average price of ordinary shares in Stilo International plc was below the exercise price of the outstanding share options granted.

5. Copies of this report will be sent to shareholders and will be available to the public from the Company's registered office, Regus House, Windmill Hill Business Park, Whitehill Way, Swindon, SN5 6QR. The report will also be available to download from the investor relations section of the Company's website www.stilo.com.

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Leslie Burnham
Director and Chief Executive Officer

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Chief Financial Officer
and Company Secretary

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