

INTERIM REPORT 2012



for the six months ended 30 June 2012

New customers for Migrate include IBM Retail Store Solutions, EMC Corporation, Cisco Systems, Micron Technology, Varian Medical Systems, Schlumberger Oilfield UK and Cassidian Communications.

Stilo specialises in helping organisations to automate the conversion of their content into different XML standards.

Our 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 an ever increasing range of mobile devices.

CHAIRMAN'S STATEMENT

We are very encouraged by the growth in orders received in 2012 for Stilo Migrate, our cloud XML content conversion service, following several years of significant investment by the Company in product development.

The Migrate service has recently been recommended by the central IBM Information Documentation Tools group to over 300 globally dispersed documentation teams, as IBM plan to migrate all of their documentation to the XML DITA standard over the next two years. This bodes well for potential future business opportunities.

We continue to invest in ongoing software developments. OmniMark version 10 was successfully released in February 2012, and the capabilities of Migrate have been further enhanced with the release of a new RoboHelp to DITA document conversion service in May 2012.

David Ashman
Chairman

18 September 2012

FINANCIAL PERFORMANCE

- **Profit before taxation and before amortisation of intangibles of £24,000**
(2011: £129,000)
- **Sales revenues reduced to £702,000, reflecting curtailment of SAP-related services activities**
(2011: £1,071,000)
- **Operating costs reduced by 24% to £667,000**
(2011: £874,000)
- **Cash position further strengthened to £973,000 as at 30 June 2012**
(2011: £858,000)

BUSINESS HIGHLIGHTS

- Encouraging growth in orders received for Stilo Migrate, the cloud XML content conversion service, from customers including **IBM Retail Store Solutions, EMC Corporation, Cisco Systems, Micron Technology, Varian Medical Systems, Schlumberger Oilfield UK** and **Cassidian Communications, an EADS North America company.**
- Migrate recommended by central IBM tools group to over 300 globally dispersed documentation teams.
- Migrate functionality enhanced with additional RoboHelp to DITA conversion service.
- OmniMark version 10 successfully released, continuing to address high-performance XML/SGML content processing requirements of major organisations.

BUSINESS REVIEW

Stilo specialises in helping organisations to automate the conversion of their content into different XML standards. Our 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 an ever increasing 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 processing solutions that support large scale publishing applications. Users include **Boeing, Airbus, Thomson Publishing, Wolters Kluwer**, and the **Japan Patent Office**.

Over recent years, the Company has made a significant investment in the development of **Migrate**, the worlds' first cloud XML content conversion service, based upon OmniMark technology. Through automation, it enables our customers to improve turnaround times, reduce operating costs and take direct control of their conversion processes, providing them with an attractive alternative to traditional in-house or outsourced conversion services. Recent Migrate customers include **IBM Retail Store Solutions, Cisco Systems, EMC Corporation, Micron Technology, Varian Medical Systems, Schlumberger Oilfield UK** and **Cassidian Communications, an EADS North America company**.

Our technical team includes leading experts in the development of content conversion tools, and by association, the solving of complex SGML/XML content processing problems. Services engagements previously undertaken on behalf of clients in the aerospace sector have led to the development of **JETView**, a digital publishing solution for aircraft technical documentation. It is used by cargo airline **ABX Air, Inc.** to aggregate and update information periodically provided by aircraft OEMs, and publish that information digitally for use by maintenance engineers.

FINANCIAL PERFORMANCE

The results for the period ended 30 June 2012 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

There was a profit before taxation and amortisation of intangibles of £24,000 (2011: £129,000).

Total sales revenues for the period reduced to £702,000 (2011: £1,071,000) following the curtailment of SAP-related services activities in 2011. The first sales of Stilo Migrate (version 2) were received in 2011 and sales to new customers increased significantly during the period. However, revenues were impacted by a reduction in OmniMark software sales, while revenue generated from software maintenance contracts held broadly level at £378,000 (2011: £384,000).

The Board maintains a careful control over operating costs which decreased by 24% to £667,000 (2011: £874,000).

As of 30 June 2012, Stilo employed 14 permanent staff, based in the UK and Canada. Additionally, use is made of contractors for the delivery of professional services engagements. Although we plan to make some additional investments in the recruitment of development and services personnel, it is not expected to expand headcount significantly in the near future, as we intend to grow revenues predominantly through sales of technology and cloud based services.

Development expenditure in the period was £209,000 (2011: £194,000), of which £14,000 has been capitalised, being customer-specific Migrate developments that are expected to generate revenue later in 2012.

The Company further strengthened its balance sheet, and remains entirely un-gearred with a cash balance of £973,000 as at 30 June 2012 (30 June 2011: £858,000, 31 December 2011: £939,000).

BUSINESS OUTLOOK

The number of companies adopting the XML DITA standard for digital publishing continues to grow steadily, and the use of the Company's Migrate service for content conversion is gaining momentum as its reputation grows with the acquisition of prestigious new clients.

Given an expanding sales pipeline, world-leading technology and technical expertise, and a further strengthened cash position, the Board looks forward to the remainder of 2012 and beyond with confidence.

The business opportunity for XML content conversion technology and services is global and growing and it is Stilo's objective to lead in this market sector through the provision of innovative technology, expert services and advanced levels of automation.



**Omnimark version 10
successfully
released, continuing
to address high-
performance
XML/SGML content
processing
requirements of
major organisations.**

UNAUDITED GROUP INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Six months to 30 June 2012 Unaudited £'000	Six months to 30 June 2011 Unaudited £'000	Year to 31 December 2011 Audited £'000
Revenue – Continuing Operations	702	1,071	1,735
Cost of sales	(14)	(69)	(156)
Gross profit	688	1,002	1,579
Operating costs	(667)	(874)	(1,508)
Other gains	–	–	2
Amortisation of intangible assets	(22)	(37)	(73)
Operating (loss)/profit	(1)	91	–
Finance income	3	1	2
Profit before tax	2	92	2
Income tax	–	–	103
Profit for the period from continuing operations	2	92	105
Earnings per share from continuing operations			
– basic (note 4)	0.0018p	0.084p	0.10p
– diluted (note 4)	0.0017p	0.077p	0.09p

All profits are attributable to owners of the parent.

UNAUDITED GROUP STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Six months to 30 June 2012 Unaudited £'000	Six months to 30 June 2011 Unaudited £'000	Year to 31 December 2011 Audited £'000
Profit for the period	2	92	105
Other comprehensive income			
Foreign currency translation differences	(24)	(5)	17
Total other comprehensive income	(24)	(5)	17
Total comprehensive income relating to the period	(22)	87	88

All comprehensive income is attributable to owners of the parent.

UNAUDITED GROUP STATEMENT OF FINANCIAL POSITION

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Six months to 30 June 2012 Unaudited £'000	Six months to 30 June 2011 Unaudited £'000	Year to 31 December 2011 Audited £'000
Non-current assets			
Goodwill	1,689	1,692	1,690
Other Intangible assets	86	130	94
Plant and equipment	16	21	16
Deferred tax assets	50	–	50
	1,841	1,843	1,850
Current assets			
Trade and other receivables	296	456	204
Income tax asset	–	–	53
Other financial asset	2	–	2
Cash and cash equivalents	973	858	939
	1,271	1,314	1,198
Total Assets	3,112	3,157	3,048
Current liabilities			
Trade and other payables	496	520	386
Non-current liabilities			
Other payables	–	–	25
Total liabilities	496	520	411
Equity attributable to owners of the parent			
Called up share capital	5,619	5,619	5,619
Share premium account	5,524	5,524	5,524
Merger reserve	658	658	658
Retained earnings	(9,185)	(9,164)	(9,164)
Total equity	2,616	2,637	2,637
Total Equity and Liabilities	3,112	3,157	3,048

UNAUDITED GROUP STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Retained Earnings £'000	Total £'000
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
Comprehensive income					
Profit for the period	–	–	–	13	13
Other comprehensive income					
Exchange adjustments	–	–	–	(12)	(12)
Total comprehensive income	–	–	–	1	1
Transactions with owners					
Share based transactions	–	–	–	(1)	(1)
Total transactions with owners	–	–	–	(1)	(1)
Balance at 1 January 2012	5,619	5,524	658	(9,164)	2,637
Comprehensive income					
Profit for the period	–	–	–	2	2
Other comprehensive income					
Exchange adjustments	–	–	–	(24)	(24)
Total comprehensive income	–	–	–	(22)	(22)
Transactions with owners					
Share based transactions	–	–	–	1	1
Total transactions with owners	–	–	–	1	1
Balance at 30 June 2012	5,619	5,524	658	(9,185)	2,616

UNAUDITED GROUP CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Six months to 30 June 2012 Unaudited £'000	Six months to 30 June 2011 Unaudited £'000	Year to 31 December 2011 Audited £'000
Cash flows from operating activities			
Profit before taxation	2	92	2
Adjustment for depreciation and amortisation	27	44	87
Adjustment for investment income	(3)	(1)	(2)
Adjustment for gain on financial derivatives	–	–	2
Adjustment for foreign exchange differences	(25)	(4)	(18)
Adjustment for share-based payments	1	6	5
Operating cash flows before movements in working capital			
	2	137	76
(Increase)/decrease in trade and other receivables	(92)	242	494
Increase/(decrease) in trade and other payables	85	(43)	(152)
Cash generated from operations	(5)	336	418
Tax credit received	53	33	33
Net cash from operating activities	48	369	451
Cash flows from investing activities			
Finance income	3	1	2
Sale of equipment	–	–	1
Development costs capitalised	(14)	–	–
Purchase of plant and equipment	(3)	(7)	(10)
Net cash used in investing activities	(14)	(6)	(7)
Share capital			
Proceeds from new shares issued	–	1	1
Net increase in cash and cash equivalents	34	364	445
Cash and cash equivalents at beginning of period	939	494	494
Cash and cash equivalents at end of period	973	858	939

NOTES TO THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

1. The interim results (approved by the Board of Directors and authorised for issue on 18 September 2012) 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 2011. 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 2012 have been prepared in accordance with the accounting policies expected to apply in respect of the financial statements for the year ended 31 December 2012.

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

NOTES TO THE INTERIM RESULTS *continued*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

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 2012 was 109,808,470 shares (30 June 2011 and 31 December 2011: 109,808,470 shares). The weighted average number of ordinary shares in issue for the six months to 30 June 2012, taking account of outstanding options was 118,063,327 (30 June 2011: 119,420,470, 31 December 2011: 118,408,470).
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**.

DIRECTORS, OFFICERS AND ADVISERS

DIRECTORS AND OFFICERS

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Non-Executive Director and Chairman

Leslie Burnham
Director and Chief Executive Officer

Richard Alsept
*Director, Chief Financial Officer
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