



14 March 2018

EMIS Group plc
 (“EMIS Group” or “the Group”)

Final Results for the year ended 31 December 2017

EMIS Group plc (AIM: EMIS.L), the UK leader in connected healthcare software and services, today announces its final results for the year ended 31 December 2017.

Financial highlights

	2017	2016	Change
Revenue			
Total revenue	£160.4m	£158.7m	+1%
Recurring revenue	£133.5m	£128.5m	+4%
Operating profit			
Adjusted ¹	£37.4m	£38.8m	-3%
Reported	£10.6m	£23.5m	-55%
Cash flow and net debt			
Cash generated from operations ²	£44.4m	£38.0m	+17%
Net cash/(debt)	£14.0m	£(0.4)m	
Earnings per share			
Adjusted ¹	47.2p	49.4p	-4%
Reported	12.8p	30.4p	-58%
Dividends			
Proposed final	12.9p	11.7p	+10%
Total for year	25.8p	23.4p	+10%

¹ Excludes capitalisation and amortisation of development costs, amortisation of acquired intangibles and exceptional items. Operating exceptional items comprise reorganisation/cost reduction programme costs of £5.8m (2016: £3.6m), service level reporting charges of £11.2m (2016: £nil) and goodwill impairment of £nil (2016: £4.6m). Earnings per share calculations also adjust for the related tax and non-controlling interest impact.

² Stated after deduction of capitalised development costs of £4.4m (2016: £5.7m) and of the cash impact of exceptional items of £5.2m (2016: £3.1m).

Operational highlights – strong financial position and underlying growth

- The Group continues to be financially strong, completing 2017 with recurring revenues up 4% representing 83% of total revenues, a net cash position of £14m and access to debt facilities of up to £60m
- Excluding £3.5m of new investment into Patient during the year, adjusted operating profit improved by 5%
- Legacy issues being proactively managed with NHS Digital, with an £11.2m provision made to cover potential financial settlement and costs to remedy past issues
- Progressive dividend policy maintained, with a 10% increase versus last year and total payments to shareholders of over £15m in 2017

EMIS Health Primary, Community & Acute Care – continued progress

- Leading position in UK GP market maintained, growing market share by 1% to 56% (2016: 55%)
- Achieved accreditation from NHS Digital to deliver Electronic Prescription Service to dispensing doctor market
- Community market share of 17% (2016: 16%), moving up to the number two position in the market
- Encouraging performance for Acute division in H2, maintaining market share with improving momentum in revenue and cost control

EMIS Health Community Pharmacy – strong financial performance

- Moved to joint market leadership with 37% market share (2016: 37%)
- Roll-out of next generation dispensary pharmacy management product (ProScript Connect) on track
- EMIS Web being introduced to community pharmacy market, representing exciting new opportunity

Specialist & Care – improving operational and financial performance

- Maintained position as leading software provider in English diabetic retinopathy screening with a 76% market share (2016: 77%) and as leading outsourced provider of services with a 26% market share (2016: 18%)
- Achieved good revenue growth, with further operational efficiencies under new management delivering a profit in H2 and for the year

Patient – gaining momentum

- Investment in developing future business model increased, in line with plans
- Patient.info upgraded to optimise user experience for all mobile platforms, with 15 million unique users visiting the site each month
- Patient Access used by an average of 1.5m users each month, generating 4.5m transactions

Andy Thorburn, Chief Executive Officer of EMIS Group, said:

“EMIS Group has been built on solid foundations, which remain firmly in place today. We continue to lead the way in joined-up healthcare IT, with market-leading positions, high levels of recurring revenue and a strong financial position. Whilst we are proud of what we have already achieved in delivering connected healthcare, we are continuing to build on this with operational enhancements and key projects that will give us a stable platform for future growth.

“I believe that the robust management of legacy matters is essential, to both enhance our culture and improve performance going forward. This means being more performance-led, with greater accountability, improved operational execution and an increased focus on our customers, users, partners, patients and their needs. To support this, I have engaged closely with senior NHS figures, and have committed the Group to further strengthen its alignment with the strategic priorities of its key customers and users over the period ahead, placing EMIS Group firmly at the heart of the connected IT future of the NHS.

“While our focus currently is on dealing with a number of key projects set out in today’s announcement, we are also working on our detailed plans for growth. I look forward to sharing more details of this with the market and our shareholders later in the year, as the Group continues to invest and adapt to the new models of care that are emerging digitally across our markets.”

There will be an analyst meeting today at 9.00am at Numis Securities, 10 Paternoster Square, London EC4M 7LT. Please contact Florence Mayo at MHP Communications on 020 3128 8572, emis@mhpc.com, for details.

Enquiries:

For further information, contact:

EMIS Group plc

Andy Thorburn, CEO

Peter Southby, CFO

www.emisgroupplc.com

@EMISGroup

Tel: 0113 380 3000

Numis Securities Limited (Nominated Adviser & Broker)

Oliver Hardy/Simon Willis/James Black

Tel: 020 7260 1000

MHP Communications

Reg Hoare/Giles Robinson/Charlie Barker

Tel: 020 3128 8540

Notes to Editors

EMIS Group is the UK leader in connected healthcare software and services. Its solutions are widely used across every major UK healthcare setting from primary, community & acute care, to high street pharmacies and specialist care services. EMIS Group helps healthcare professionals in over 10,000 organisations share vital information, facilitating better, more efficient healthcare and supporting longer and healthier lives.

EMIS Group serves the following healthcare markets under the EMIS Health brand:

- Primary, Community & Acute Care, as the UK leader in clinical management systems for healthcare providers and commissioners. EMIS Health products, including the flagship EMIS Web, hold over 40 million patient records and are used by more than 100,000 professionals in nearly 6,000 healthcare organisations.
- Community Pharmacy, with the UK's single most used integrated community pharmacy and retail system.
- Specialist Care, as England's leading provider of diabetic eye screening software and other ophthalmology-related solutions.

These markets are also supported by other EMIS Group businesses:

- under the Patient brand, the UK's leading independent provider of patient-centric medical and wellbeing information and related transactional services.
- under the Egton brand, providing specialist ICT infrastructure, hardware and engineering services, and non-clinical software into health and social care.
- under the EMIS Care brand, providing healthcare screening programmes such as diabetic eye screening.

CHIEF EXECUTIVE OFFICER'S STATEMENT

I am delighted to be your new CEO and I am looking forward to the challenges and opportunities ahead of us.

A period of change

EMIS Group's underlying performance for 2017 was in line with the Board's expectations, with solid progress delivered in the core business.

Unfortunately, the discovery in early 2018 of a failure to meet certain service levels and reporting obligations with our customer NHS Digital (NHSD), has had a significant negative impact on our 2017 results. A provision of £11.2m has been made to cover the potential financial settlement and costs to remedy these past breaches.

We have been undertaking a review of service level agreements (SLAs) with all of our customers across the Group and to date have found no other material issues. As a result, we believe the NHSD related breach to be a serious, but isolated incident.

The Group has maintained its leading position in its principal markets, with high levels of recurring revenue and a strong financial position. In Primary, Community & Acute Care, the Group's leading GP market share has moved forwards, while our Community market share has also continued to grow.

The roll out of ProScript Connect, the Group's next generation pharmacy dispensary management product, has continued, driving a strong performance in Community Pharmacy, whilst maintaining its leading market share. Specialist & Care delivered a return to profit in the second half of the year and our work to deliver an evolving online digital platform for our Patient business continued in line with our plans.

EMIS Group is proud that it has delivered consistent growth based on its market leading propositions such as EMIS Web since its foundation over thirty years ago, but I am mindful that the healthcare market in the UK is ever changing. As a result, I believe we need to continue to invest and adapt to the new models of care that are emerging digitally, in the community and across the broader care settings we serve.

Financial strength underpinning 2018 performance

The Group continues to be financially strong. We completed 2017 with recurring revenues representing 83% of total revenues, with a net cash position of £14m and with access to debt facilities of up to £60m.

At the same time, we have maintained our progressive dividend policy, with an increase of 10% compared to the last financial year and total payments to shareholders of over £15m in the year.

EMIS Group has made a positive start to 2018 and has already secured revenue for the year ahead amounting to over 90% of the revenue we reported in 2017.

Putting in foundations for the future

After joining the business in May 2017, I spent the first two months of my tenure on an initial assessment of the Group's business operations, customer service, technology and its leadership. I have spoken directly with our staff at all levels and sought feedback from our customers on their experiences of working with us.

During this process, I have been encouraged by the strength and growth potential of our core clinical management business, our medicines management portfolio, and the innovative solutions that we are delivering, for example in the community and digitally via our Patient business. These solutions are adding significant value across many healthcare settings, and the dedication and knowledge of our teams makes a difference to our customers on a daily basis.

However, there is still work to do. I strongly believe that the robust management of legacy matters is essential, to both enhance our culture and improve the Group's performance going forward. As such, I am committed to ensuring that we further improve our internal controls and execution, and that we continue to invest in our people and in upgrading our clinical management systems, while delivering industry leading customer service across the business.

As a Group, in support of our focus on improving our operational execution, we have been working over the last six months on a programme called "Think Big, Manage Small". Essentially, we are ambitious for the long-term growth of the Group but I believe by breaking down the business into smaller, more focussed teams, we will deal more effectively with the underlying challenges that need to be addressed before we scale to the next stage.

I have therefore structured our business into small units focussed on key market segments with product and development roadmaps evolving to meet the customer needs of each market. These teams are led by market experts whose role is to drive performance in each business unit. These changes have increased our internal accountability, reinvigorated our focus on customer service and produced cost savings.

I am also implementing solutions to the operational lessons we have learned following the recent discovery of the shortcomings in our customer and product support processes. It is clear that we have been under-resourced in both the support function and most importantly in the development team, which is something I am addressing as a key priority.

Operational improvement plans progressing

Since I joined the business, I have changed our Group Executive team with four executives leaving and three new executives joining the business, including a new Group Chief Technology Officer (CTO), all of whom have a track record of delivery in their specialist areas.

Our increased focus on operational execution during the second half, whilst not yet at the levels I expect across all parts of our business, is yielding results with encouraging momentum being delivered across the following areas:

- a new and exciting mobile responsive website at Patient.info;
- completion of our Patient Access 2.0 app which we will launch in the first half of 2018;
- steady progress in our roll-out of EMIS Web in Northern Ireland;
- good growth with Community customers confirming our number two market position;
- a significantly improved Symphony product supporting our unscheduled care customers;
- roll-out of our Child Protection Information Sharing module in Symphony;
- strong sales success in Egton, especially with our new Wi-Fi offerings for GP practices;
- continued development of our Partner ecosystem with 101 partners now connected;
- positive roll-out of ProScript Connect across our Community Pharmacy customer base;
- improved patient satisfaction in our EMIS Care clinics - screening 551,000 patients across the UK and Ireland; and
- saving time and money for customers, whilst improving patient care, with EMIS Mobile.

We will continue this operational focus for all of 2018 and, with our new leadership team in place, I expect our execution to continue to improve.

Performance culture

Underpinning our operational improvement plans is a new focus on metrics and key performance indicators. These objective measures, which are reviewed by the executive management team daily and weekly, are key to understanding our progress against our plans for all aspects of our business.

At all times we will maintain the highest level of clinical, ethical, legal, corporate standards and governance across the Group. This means making our customers and users the Group's

common purpose, working in collaboration with them, and exceeding their expectations at every stage.

Key projects

In this period of change for the Group there are three key projects that will shape our business for the future. The management team is focussed on each one as follows:

1. IT Futures and its importance

The current framework agreement for GP Systems of Choice (GPSoC) formally ends on 27 March 2018. However, the 'call off' contracts that sit under the framework agreement, which cover the 4,100 GP practices in England we serve as well as centrally funded services such as patient facing services (e.g. Patient apps), have already been extended until 31 December 2018. We are in constructive discussions with NHSD to further extend those 'call off' contracts to the end of 2019, to ensure there is sufficient time to put in place its replacement framework agreement.

The next framework agreement for GP systems in England is called IT Futures and we expect the formal procurement process to commence later this year. We are already discussing IT Futures at the highest levels of NHS England and NHSD. We are aligned with NHS England's strategy and are currently working through the detailed requirements with NHSD as part of our preparation for the up and coming framework tender. Although there are no guarantees of success, I feel confident we are well placed to be successful in our bid.

2. EMIS Web clinical management system upgrade

In anticipation of the new IT Futures requirements, we have commenced an upgrade of our clinical management system, EMIS Web. Our upgraded system will be more modular in nature, further cloud-enabled and interoperable, and will have new flexible configuration tools to meet the emerging care models we are seeing across the NHS.

The upgrade programme is being led by our new CTO, together with our Group Development Director who was one of the original architects of EMIS Web over ten years ago. We are combining existing skills in our business with new technology skills to provide a more flexible and adaptable clinical management software platform to meet the new models of care that are emerging.

The upgrade will evolve over time with new, more flexible modules being introduced on a regular basis, thus minimising project execution risks.

3. NHSD service level issues

We are in discussions with NHSD on the settlement arrangements for the SLA issues we announced in January 2018. We expect that this process will take some time to conclude as our findings need to be independently validated. We are working constructively and collaboratively with our customer and will continue to keep the market updated.

As part of our improved service level performance management process we have also reviewed the SLAs in contracts for other customers and we can confirm that no other material breaches have been identified to date. All SLA performance metrics are now being managed on a daily and weekly basis as part of our new operational improvement plans and we are confident that EMIS Group now has the appropriate processes in place to ensure that such breaches are not repeated in future.

In order to manage these key projects, we expect that operational costs will increase by £3m in 2018, reducing to £2m in 2019 and will be fully normalised in 2020.

Summary and outlook

EMIS Group has been built on solid foundations, which remain firmly in place today. We continue to lead the way in joined-up healthcare IT, with market-leading positions, high levels of recurring revenue and a strong financial position. Whilst we are proud of what we have

already achieved in delivering connected healthcare, we are continuing to build on this with operational enhancements and key projects that will give us a stable platform for future growth.

I believe that the robust management of legacy matters is essential, to both enhance our culture and improve performance going forward. This means being more performance-led, with greater accountability, improved operational execution and an increased focus on our customers, users, partners, patients and their needs. To support this, I have engaged closely with senior NHS figures, and have committed the Group to further strengthen its alignment with the strategic priorities of its key customers and users over the period ahead, placing EMIS Group firmly at the heart of the connected IT future of the NHS.

While our focus currently is on dealing with a number of key projects set out in today's announcement, we are also working on our detailed plans for growth. I look forward to sharing more details of this with the market and our shareholders later in the year, as the Group continues to invest and adapt to the new models of care that are emerging digitally across our markets.

OPERATIONAL REVIEW

2017 was a busy year for EMIS Group, and despite a tighter NHS budget environment, the Group continued to make solid progress in each element of its business. During 2017, our Primary, Community & Acute Care businesses came together under common leadership – reflecting the anticipated changes in NHS models of care intended to deliver more integrated care between hospitals, GP practices and community services. These changes have increased internal accountability, reinvigorated our focus on customer service and produced cost savings.

EMIS Health Primary, Community & Acute Care

Primary

EMIS Health grew its UK GP market share in the year by 1% to 56% and maintained its market leadership position.

EMIS Health now supports clinicians providing integrated care across 128 different clinical care pathways such as diabetes services, minor injury services and child and adolescent mental health services. This means high-quality, informed and integrated clinical care can be delivered.

The Group benefitted from strong market shares across all four nations of the UK, with a number one position in England (57% market share), number two in Wales (45%), number one in Northern Ireland (55%) and number one in Scotland (54%).

As announced on 30 January 2018, in 2019 and 2020 EMIS Health's market share in Wales, relating to just under 200 practices and approximately £2m of revenue per annum, will reduce as it was not appointed to the forthcoming NHS Wales GP framework agreement. While we submitted what we believed was a strong and competitive bid for the Welsh framework agreement, we were not prepared to sign up to some of the contract terms requested by the customer for a relatively small contract. However, we are a long term market player and remain committed to winning new business across Wales with other products and services in our portfolio.

We are actively involved in the Scotland bid which is a similar sized framework for the Group. We will continue to develop the bid over the coming months and proceed as appropriate.

During the period, EMIS Health achieved accreditation from NHSD to deliver its Electronic Prescription Service (EPS) to the dispensing doctor market. This is an important development for EMIS Health both in supporting our existing customer base while delivering new growth opportunities in this sector. This also aligns with a new technology foundation for dispensing doctors that will allow users to adopt the mandated dispensing standards as defined under the Falsified Medicine Directive (FMD).

EMIS Group supports the desire of NHS England to have more organisations connected in the UK healthcare ecosystem. EMIS Health has been building its own ecosystem of healthcare providers and recently added its 101st partner on the EMIS Web platform.

Egton, the Group's ICT infrastructure, engineering and non-clinical software division, performed well, expanding its range of software, hardware and services, including health administration, compliance software and GP practice websites. As part of a new suite of innovative products, Egton deployed Wi-Fi infrastructure and analytics to over 1,000 GP surgeries during 2017. New products for 2018 include a digitisation service, currently in pilot, which offers practices the ability to scan paper records, freeing up valuable practice space and supporting the NHS's "Paperless 2020" strategy.

Community

EMIS Health grew in the community segment in the year and moved up to number two in the market with a 17% market share (2016: 16%).

The NHS continues to innovate with new models of care in the community to relieve pressure from front line services in hospitals across the UK. EMIS Health can help by providing software for doctors and nurses 'on the go' in the community who visit patients at home. EMIS Health is upgrading EMIS Web and investing in dedicated product and development teams to meet the challenges of the future, working closely with its community market user group.

We expect to see further growth in this market in 2018 and beyond. The goal in the mid-term is to consolidate our number two market position and aim for market leadership over time.

The potential for joined-up care across healthcare localities using EMIS Web continues to grow. Currently EMIS Health has a strong presence in community and 100% presence in primary care within 42 Clinical Commissioning Groups (CCGs) (2016: 38).

Acute

The main driver for acute trusts is the paperless initiative, best represented by the Global Digital Exemplar (GDE) Programme, supported by central NHS funding. EMIS Health operates in the best of breed sector of the acute market, and is holding market share well thanks to the strong clinical and functional software in our current portfolio.

With a new management team in place, the Group was encouraged with performance in the Acute division in the second half of 2017, with improving momentum in revenue and cost control.

EMIS Health invested further into its A&E system, Symphony, to better meet the market's needs in 2017 and beyond. We retained our number two position in this market, and increased market share by 2% to 19% (2016: 17%).

The medicines management element of the Acute business continued to perform well, holding the number two market position and increasing market share by 1% to 29% (2016: 28%). Further work is being carried out to deliver new technology ahead of the mandated dispensing standards as defined under the FMD.

EMIS Health Community Pharmacy

EMIS Health Community Pharmacy (EHCP) continued to grow well in 2017, maintaining its market share at 37% (2016: 37%), thereby becoming the joint market leader.

The roll-out of our new ProScript Connect software is progressing well, in line with our plans. Customer feedback has been positive and EHCP expects all of its direct customers to be on this upgraded software by the end of 2018.

The Celesio roll-out to the AAH Pharmaceuticals independent estate continues, and EHCP expects good growth from this in 2018 with the majority expected to be completed by the end

of the year. The Lloyds element of the roll-out is likely to be delayed as the customer has another major IT project to complete ahead of deploying ProScript Connect.

EHCP recently introduced EMIS Web into community pharmacy, opening up a new market for the product. EMIS Web will support community pharmacies with Patient Group Directions (PGD) - delegated small procedures that can be undertaken in English pharmacy consulting rooms such as travel or flu vaccinations - alleviating some pressure on GPs and A&E departments.

Integration between our primary care system, EMIS Web, and community pharmacy system, ProScript Connect will provide pharmacists with full access to patients' GP records (with appropriate consent) and the ability to record information that can be shared with the GP.

Specialist & Care

Specialist & Care has maintained its position as the leading software provider in English diabetic retinopathy screening with a 76% market share (2016: 77%).

In our 2017 half year results announcement, the Group highlighted a risk to its market share in this area because EMIS Health Specialist had not been selected as a partner for Public Health England's (PHE) national screening platform, which was intended to achieve a standardised local programme operation through common IT system design and core functionality.

PHE has postponed this procurement process and moved its focus to the implementation of interval-based screening. We continue to work closely with the national team to ensure its successful implementation.

EMIS Care remains the clear market leader in outsourced diabetic eye screening and ophthalmology imaging services with a 26% market share (2016: 18%).

In 2017, EMIS Care successfully mobilised the following mainly three year initial-term contracts, which have an initial total contract value of £19m:

- Lancashire Lot 2 (North Lancashire & Fylde Coast – from the NHS)
- West Yorkshire Lot 2 (Bradford, Huddersfield & Calderdale – from the NHS, EMIS Care and 1st Retinal Screen)
- Bath, Swindon and Wiltshire (from the NHS and Virgin Care)
- Surrey (from Virgin Care)
- Plymouth (from the NHS)

Patient

EMIS Group has made good progress in its patient-facing business during 2017, investing in key developments to provide a platform for growth in the medium-term.

Patient.info, which enables the general public to self-care by searching for high-quality information relating to clinical conditions, has been upgraded to optimise its user experience for all mobile platforms. We re-designed the information architecture, so that multiple content formats can be discovered easily. Rich-media formats have been introduced, including short-form video content from some of the UK's leading clinical consultants. In 2017 an average of 15 million unique users visited the site each month.

Patient Access enables citizens to view their clinical record including test results, build their own Personal Health Record which they can share with their GP, book appointments directly with their GPs, securely message their GPs and order repeat medications. On average, 1.5 million users generate 4.5 million transactions on Patient Access each month. Patient will launch the Patient Access 2.0 app in the second half of 2018, following final NHS approvals.

	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Revenue	117.6	120.5	21.9	21.4	18.0	14.2	2.9	2.6	160.4	158.7
Adjusted segmental operating profit/(loss)	34.9	33.8	5.6	4.9	0.2	0.2	(1.9)	1.5	38.8	40.4
Group expenses									(1.4)	(1.6)
Adjusted operating profit¹									37.4	38.8
Adjusted operating margin	29.7%	28.0%	25.7%	22.8%	0.8%	1.5%	(65.9)%	58.2%	23.3%	24.4%

1. Excludes capitalisation and amortisation of development costs, amortisation of acquired intangibles and exceptional items.

Revenue

Group recurring revenue, principally licences, maintenance & software support, hosting and other support services, was £133.5m (2016: £128.5m), up 4% and representing 83% of total revenue (2016: 81%). This high level of recurring revenue and the strength of the Group's customer relationships continue to provide an excellent foundation for the business to invest with confidence in developing future products and services, as well as providing good visibility of future financial performance.

The drivers of revenue change within the Group included the following:

- licences, slightly higher at £55.1m (2016: £54.8m), with growth in areas such as Community offset by a reduction in some GPSoC and one-off Community Pharmacy revenues;
- maintenance & software support, which increased overall to £41.4m (2016: £38.6m) with growth in subscription fees in a number of areas of the Group, including practice Wi-Fi;
- other support services, driven higher by the new contracts implemented in EMIS Care to £32.5m (2016: £29.3m);
- training, consultancy and implementation, which reduced to £12.4m (2016: £14.6m), with fewer new implementation projects in Primary, Community & Acute Care;
- hosting, which was lower at £11.6m (2016: £13.1m), as a result of a reduction in funded hosting asset and cost-plus revenues (offset by lower depreciation and costs); and
- hardware revenues, which were lower at £7.4m (2016: £8.3m).

Profitability

Adjusted operating profit reduced by 3% to £37.4m (2016: £38.8m). However, this is after taking account of the £3.5m of new investment in the Patient business during 2017. Excluding Patient's results, which were reduced in 2017 by this investment, adjusted operating profit across the Group grew by 5%. In a lower-growth revenue environment, this was achieved principally through tight cost control.

The operating margin reduced to 23.3% (2016: 24.4%), but excluding Patient improved by 1% to 24.9% (2016: 23.9%).

Group staff costs increased as, although staff numbers at the year-end were unchanged at 1,922 (2016: 1,922), the average headcount increased to 1,906 (2016: 1,875). However, the allocation of those staff across the Group has changed over the year, with increases in India (up from 128 to 197) and EMIS Care (up from 221 to 299) being offset by reductions in the Primary, Community & Acute Care segment in particular. With further investment in development and customer-facing functions now underway, staff numbers and costs are expected to rise during 2018.

The Group has recognised two operating exceptional items in 2017. The first relates to the reorganisation programme, which was extended in the second half of the year as the incoming CEO made further changes in shaping the business and preparing it for future growth, including a number of replacement hires at senior levels. The cost of the programme was £5.8m.

The second, a charge of £11.2m, relates to the service level reporting issue announced in January 2018. The provision reflects the estimated cost of settling the issue with NHSD and the cost of remediating the software code to address the problem backlog present at the year end, together with associated professional fees. This is a slightly higher cost than that

indicated in our January 2018 announcement of upper single digits of millions of pounds, updated having undertaken further analysis.

After accounting for the exceptional items, the capitalisation and amortisation of development costs, and for the amortisation of acquired intangibles, statutory operating profit was £10.6m (2016: £23.5m).

Taxation

The tax charge for the year was £2.1m (2016: £5.2m). The effective tax rate for the year was 19.8% (2016: 20.0%).

Earnings per share (EPS)

Adjusted basic and diluted EPS were 47.2p and 47.0p respectively (2016: 49.4p and 49.2p). The statutory basic and diluted EPS were both lower at 12.8p (2016: 30.4p and 30.3p respectively) as a result of the exceptional items and an increase in the amortisation of capitalised development costs.

Dividend

Subject to shareholder approval at the Annual General Meeting on 1 May 2018, the Board proposes an increase in the final dividend to 12.9p (2016: 11.7p) per ordinary share, payable on 4 May 2018 to shareholders on the register at the close of business on 3 April 2018. This would make a total dividend of 25.8p (2016: 23.4p) per ordinary share for 2017. This is 10% higher than in the prior year, reflecting the Group's strong financial position, the Board's commitment to increasing dividends at least in line with underlying profit growth and its continued confidence in the Group's prospects.

Cash flow and net cash/(debt)

The principal movements in net cash/(debt) were as follows:

	2017 £m	2016 £m
Cash from operations:		
Cash generated from operations	48.8	43.7
Less: internal development costs capitalised	(4.4)	(5.7)
Adjusted cash from operations	49.6	41.1
Cash cost of exceptional costs	(5.2)	(3.1)
Net cash generated from operations	44.4	38.0
Business combinations	-	(3.8)
Net capital expenditure	(6.6)	(5.9)
Transactions in own shares	-	0.6
Tax	(8.1)	(7.7)
Dividends	(15.5)	(14.0)
Other	0.2	1.5
Change in net cash/(debt) in the year	14.4	8.7
Net cash/(debt) at end of year	14.0	(0.4)

Having absorbed the Patient investment in the year, net cash generated from operations increased by 17% to £44.4m (2016: £38.0m), with a strong working capital improvement compared to the prior year, in part assisted by an increase in deferred income. Net cash from operations is stated after expensing the cash cost of the exceptional costs in the year of £5.2m (2016: £3.1m). On an adjusted basis, adding back this cost, cash flow from operations was 21% higher than in 2016.

Net cash spent on capital expenditure (excluding capitalised development costs) was broadly consistent at £6.6m (2016: £5.9m). Capital additions in the year included £4.0m on computer equipment (£1.2m of which related to funded hosting contract assets) and £1.0m on programme assets in EMIS Care.

After tax, dividends and other payments, the total net cash inflow of £14.4m resulted in a year-end net cash position of £14.0m (2016: net debt of £0.4m). At 31 December 2017, the Group had available bank facilities of £30.0m committed until June 2020, with an accordion arrangement to increase the quantum up to £60.0m and further options to extend the period up to June 2022.

Group statement of comprehensive income

for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Revenue	2,3	160,354	158,712
Costs:			
Changes in inventories		(182)	609
Cost of goods and services		(14,492)	(14,760)
Staff costs ¹		(75,162)	(71,197)
Other operating expenses ²		(40,119)	(31,750)
Depreciation of property, plant and equipment		(4,506)	(4,504)
Amortisation of intangible assets	8	(15,253)	(13,571)
Adjusted operating profit		37,406	38,753
Development costs capitalised	8	4,426	5,684
Amortisation of intangible assets ³	8	(14,204)	(12,652)
Reorganisation/cost reduction programme	4	(5,800)	(3,630)
Service level reporting charges	4	(11,188)	-
Impairment of goodwill	4	-	(4,616)
Operating profit	2	10,640	23,539
Finance income		3	188
Finance costs		(302)	(425)
Share of result of joint venture		596	499
Gain on sale of associate	4	-	1,532
Profit before taxation		10,937	25,333
Income tax expense	5	(2,074)	(5,208)
Profit for the year		8,863	20,125
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences		30	27
Other comprehensive income		30	27
Total comprehensive income for the year		8,893	20,152
Attributable to:			
- equity holders of the parent		8,083	19,128
- non-controlling interest in subsidiary company		810	1,024
Total comprehensive income for the year		8,893	20,152
Earnings per share attributable to equity holders of the parent	6	Pence	Pence
Basic		12.8	30.4
Diluted		12.8	30.3

¹ Including reorganisation/cost reduction programme costs of £5,688,000 (2016: £3,387,000).

² Including contract asset depreciation of £1,285,000 (2016: £1,955,000), reorganisation/cost reduction programme costs of £112,000 (2016: £243,000), service level reporting charges of £11,188,000 (2016: £nil) and goodwill impairment of £nil (2016: £4,616,000).

³ Excluding amortisation of computer software used internally of £1,049,000 (2016: £919,000).

Group balance sheet

as at 31 December 2017

	Notes	2017 £'000	2016 £'000
Non-current assets			
Goodwill		50,336	50,336
Other intangible assets	8	50,508	60,617
Property, plant and equipment		22,037	22,187
Investment in joint venture		98	152
		122,979	133,292
Current assets			
Inventories		1,633	1,815
Trade and other receivables		40,148	39,970
Current tax assets		1,128	-
Cash and cash equivalents	10	13,991	4,303
		56,900	46,088
Total assets		179,879	179,380
Current liabilities			
Trade and other payables		(20,207)	(21,089)
Current tax liabilities		-	(1,918)
Bank loans	10	-	(1,951)
Bank overdraft	10	-	(2,782)
Deferred income		(33,736)	(28,418)
Provision	4	(11,188)	-
		(65,131)	(56,158)
Non-current liabilities			
Deferred tax liability		(6,734)	(9,080)
		(6,734)	(9,080)
Total liabilities		(71,865)	(65,238)
Net assets		108,014	114,142
Equity			
Ordinary share capital		633	633
Share premium		51,045	51,045
Own shares held in trust		(2,293)	(2,275)
Retained earnings		51,289	58,239
Other reserve		2,057	2,027
Equity attributable to owners of the parent		102,731	109,669
Non-controlling interest		5,283	4,473
Total equity		108,014	114,142

Group statement of cash flows

for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Cash generated from operations	9	48,834	43,657
Finance costs		(359)	(328)
Finance income		3	4
Tax paid		(8,139)	(7,655)
Net cash generated from operating activities		40,339	35,678
Cash flows from investing activities			
Purchase of property, plant and equipment		(6,198)	(5,413)
Proceeds from sale of property, plant and equipment		329	527
Development costs capitalised	8	(4,426)	(5,684)
Purchase of software	8	(718)	(987)
Dividends received		650	400
Business combinations		-	(3,849)
Proceeds from sale of associate		-	1,532
Net cash used in investing activities		(10,363)	(13,474)
Cash flows from financing activities			
Transactions in own shares held in trust		(30)	579
Bank loan repayments		(2,000)	(5,500)
Dividends paid	7	(15,476)	(14,006)
Net cash used in financing activities		(17,506)	(18,927)
Net increase in cash and cash equivalents		12,470	3,277
Cash and cash equivalents at beginning of year		1,521	(1,756)
Cash and cash equivalents at end of year	10	13,991	1,521

Cash and cash equivalents of £13,991,000 (2016: £1,521,000) comprise cash of £13,991,000 (2016: £4,303,000) and a bank overdraft of £nil (2016: £2,782,000).

Group statement of changes in equity

for the year ended 31 December 2017

	Share capital £'000	Share premium £'000	Own shares held in trust £'000	Retained earnings £'000	Other reserve £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2016	633	51,045	(2,929)	52,848	2,000	3,449	107,046
Profit for the year	-	-	-	19,101	-	1,024	20,125
Transactions with owners							
Share acquisitions less sales	-	-	654	(75)	-	-	579
Share-based payments	-	-	-	473	-	-	473
Deferred tax in relation to share-based payments	-	-	-	(102)	-	-	(102)
Dividends paid (note 7)	-	-	-	(14,006)	-	-	(14,006)
Other comprehensive income							
Currency translation differences	-	-	-	-	27	-	27
At 31 December 2016	633	51,045	(2,275)	58,239	2,027	4,473	114,142
Profit for the year	-	-	-	8,053	-	810	8,863
Transactions with owners							
Share acquisitions less sales	-	-	(18)	(12)	-	-	(30)
Share-based payments	-	-	-	550	-	-	550
Deferred tax in relation to share-based payments	-	-	-	(65)	-	-	(65)
Dividends paid (note 7)	-	-	-	(15,476)	-	-	(15,476)
Other comprehensive income							
Currency translation differences	-	-	-	-	30	-	30
At 31 December 2017	633	51,045	(2,293)	51,289	2,057	5,283	108,014

Notes to the preliminary announcement

for the year ended 31 December 2017

1. Basis of preparation

The financial information set out in this preliminary announcement does not constitute the company's statutory financial statements for the years ended 31 December 2017 or 2016 but is derived from those financial statements.

Statutory financial statements for 2016 have been delivered to the registrar of companies and those for 2017 will be delivered in due course. The auditors have reported on those financial statements; their reports were (i) unqualified (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The statutory financial statements for the year ended 31 December 2017 will be posted no later than 27 March 2018 to shareholders and, once approved, will be delivered to the Registrar of Companies following the Annual General Meeting on 1 May 2018.

Copies of the Annual Report and financial statements for the year ended 31 December 2017 will be available on the company's website (<https://www.emisgroupplc.com/investors>) from 27 March 2018 and from the Company Secretary, EMIS Group plc, Rawdon House, Green Lane, Yeadon, Leeds, LS19 7BY.

2. Segmental information

IFRS 8 Operating Segments provides for segmental information disclosure on the basis of information reported internally to the chief operating decision-maker for decision-making purposes. The Group considers that this role is performed by the main Board.

Since 2013 the Group has presented its results split into three segments: Primary & Community Care; Community Pharmacy; and Secondary & Specialist Care. The Primary & Community Care and Secondary (Acute) Care businesses are now under common leadership, and Patient has been established as a separate entity. Accordingly, the Directors have revised the segmental information in 2017 to better represent the Group's present structure, activities and the markets being served. The Group has four operating and reportable segments, all involved with the supply and support of connected healthcare software and services:

- Primary, Community & Acute Care;
- Community Pharmacy;
- Specialist & Care; and
- Patient.

Each operating segment is assessed by the Board based on a measure of adjusted operating profit. This measurement basis excludes exceptional items, the effect of capitalisation and amortisation of development costs, and the amortisation of acquired intangible assets. The Board considers this to provide the best measure of underlying performance as it excludes non-recurring costs, amortisation of acquired intangibles arising from business combinations and reflects the underlying in-year cost of development of software for external sale, as development is considered to be a core ongoing operating function of the business. Items are classified as exceptional due to either their nature or size. Exceptional items in 2017 relate to service level reporting charges and reorganisation costs. Group operating expenses, finance income and costs, cash and cash equivalents and bank loans and overdrafts are not allocated to segments, as group and financing activities are not segment specific.

	2017					2016				
	Primary, Community & Acute Care £'000	Community Pharmacy £'000	Specialist & Care £'000	Patient £'000	Total £'000	Primary, Community & Acute Care £'000	Community Pharmacy £'000	Specialist & Care £'000	Patient £'000	Total £'000
Revenue	117,583	21,895	17,993	2,883	160,354	120,565	21,425	14,163	2,559	158,712
Segmental operating profit/(loss) as reported internally	34,896	5,627	139	(1,870)	38,792	33,792	4,876	213	1,489	40,370
Development costs capitalised	3,843	-	-	583	4,426	3,757	1,927	-	-	5,684
Amortisation of development costs	(7,324)	(163)	-	-	(7,487)	(6,013)	-	-	-	(6,013)
Amortisation of acquired intangible assets	(5,483)	(576)	(658)	-	(6,717)	(5,405)	(576)	(658)	-	(6,639)
Reorganisation/cost reduction programme costs	(5,267)	(133)	(216)	(184)	(5,800)	(2,707)	(140)	(783)	-	(3,630)
Service level reporting charges	(11,188)	-	-	-	(11,188)	-	-	-	-	-
Impairment of goodwill	-	-	-	-	-	-	-	(4,616)	-	(4,616)
Segmental operating profit/(loss)	9,477	4,755	(735)	(1,471)	12,026	23,424	6,087	(5,844)	1,489	25,156
Group operating expenses					(1,386)					(1,617)
Operating profit					10,640					23,539
Net finance costs					(299)					(237)
Share of result of joint venture					596					499
Gain on sale of associate					-					1,532
Profit before taxation					10,937					25,333

Revenue excludes intra-group transactions on normal commercial terms from the Primary, Community & Acute Care segment to the Community Pharmacy segment totalling £4,545,000 (2016: £4,254,000), and from the Primary, Community & Acute Care segment to the Specialist & Care segment totalling £211,000 (2016: £97,000).

Revenue of £114,749,000 (2016: £112,396,000) is derived from the NHS and related bodies.

Revenue of £8,801,000 (2016: £7,270,000) is derived from customers outside the UK.

3. Revenue analysis

	2017 £'000	2016 £'000
Licences	55,117	54,762
Maintenance and software support	41,404	38,654
Other support services	32,462	29,340
Training, consultancy and implementation	12,411	14,572
Hosting	11,609	13,120
Hardware	7,351	8,264
	160,354	158,712

4. Exceptional items

	2017 £'000	2016 £'000
Reorganisation/cost reduction programme costs	(5,800)	(3,630)
Service level reporting charges	(11,188)	-
Impairment of goodwill	-	(4,616)
Gain on sale of associate	-	1,532
	(16,988)	(6,714)

The reorganisation costs in 2017 and cost reduction programme costs in 2016 relate to redundancy and restructuring costs.

The service level reporting charges relate to the NHS Digital reporting issue and reflect the estimated cost of settling the issue with NHS Digital and the cost of remediating the software code to address the problem backlog present at the year end, together with associated professional fees. The charges are fully provided at 31 December 2017.

The impairment of goodwill in 2016 relates to the Specialist & Care cash-generating unit (CGU).

The gain on sale of associate in 2016 relates to the disposal of the Group's minority investment in Pharmacy2U.

5. Income tax expense

	2017 £'000	2016 £'000
Income tax:		
- UK current year tax charge	3,589	7,178
- overseas current year tax charge	167	129
- adjustment in respect of prior years	730	(422)
Total current tax	4,486	6,885
Deferred tax:		
- UK current year	(1,713)	(1,677)
- adjustment in respect of prior years	(699)	-
Total deferred tax	(2,412)	(1,677)
Total tax charge in Group statement of comprehensive income	2,074	5,208
Factors affecting the tax charge for the year		
Profit before taxation	10,937	25,333
Taxation at the average UK corporation tax rate of 19.25% (2016: 20%)	2,105	5,067
Tax effects of:		
- expenses/income not allowable/taxable in determining taxable profit	44	707
- adjustment in respect of prior years	31	(422)
- joint venture reported net of tax	(115)	(100)
- effect of overseas tax rates	(21)	-
- deferred tax rate change	30	(44)
Tax charge for the year	2,074	5,208

The total current year tax charge includes a credit of £3,270,000 (2016: £726,000) in respect of exceptional items. The adjustments in respect of prior years principally relate to revisions made to claims for research and development expenditure.

The main rate of UK corporation tax reduced to 19% from 1 April 2017 and will further reduce to 17% from 1 April 2020.

6. Earnings per share (EPS)

The calculation of basic and diluted EPS is based on the following earnings and numbers of shares:

Earnings	2017 £'000	2016 £'000
Basic earnings attributable to equity holders	8,053	19,101
Reorganisation/cost reduction programme costs	5,800	3,630
Service level reporting charges	11,188	-
Impairment of goodwill	-	4,616
Gain on sale of associate	-	(1,532)
Development costs capitalised	(4,426)	(5,684)
Amortisation of development costs and acquired intangible assets	14,204	12,652
Tax and non-controlling interest effect of above items	(5,129)	(1,776)
Adjusted earnings attributable to equity holders	29,690	31,007

Weighted average number of ordinary shares	2017 Number '000	2016 Number '000
Total shares in issue	63,311	63,311
Shares held by Employee Benefit Trust	(396)	(502)
For basic EPS calculations	62,915	62,809
Effect of potentially dilutive share options	203	215
For diluted EPS calculations	63,118	63,024

EPS	2017 Pence	2016 Pence
Basic	12.8	30.4
Adjusted	47.2	49.4
Basic diluted	12.8	30.3
Adjusted diluted	47.0	49.2

7. Dividends

	2017 £'000	2016 £'000
Final dividend for the year ended 31 December 2015 of 10.6p	-	6,656
Interim dividend for the year ended 31 December 2016 of 11.7p	-	7,350
Final dividend for the year ended 31 December 2016 of 11.7p	7,355	-
Interim dividend for the year ended 31 December 2017 of 12.9p	8,121	-
	15,476	14,006

A final dividend for the year ended 31 December 2017 of 12.9p amounting to approximately £8,124,000 will be proposed at the Annual General Meeting on 1 May 2018. If approved, this dividend will be paid on 4 May 2018 to shareholders on the register on 3 April 2018. The dividend is not accounted for as a liability in these financial statements and will be accounted for as an appropriation of distributable reserves in the year ending 31 December 2018.

8. Other intangible assets

	Computer software used internally £'000	Computer software developed for external sale £'000	Computer software acquired on business combinations £'000	Customer relationships £'000	Total £'000
Cost					
At 1 January 2016	4,540	34,843	36,061	36,041	111,485
Additions	987	5,684	-	-	6,671
Acquisition of business	-	-	259	263	522
At 31 December 2016	5,527	40,527	36,320	36,304	118,678
Additions	718	4,426	-	-	5,144
At 31 December 2017	6,245	44,953	36,320	36,304	123,822
Accumulated amortisation and impairment					
At 1 January 2016	1,369	13,597	16,471	13,053	44,490
Charged in year	919	6,013	3,553	3,086	13,571
At 31 December 2016	2,288	19,610	20,024	16,139	58,061
Charged in year	1,049	7,487	3,605	3,112	15,253
At 31 December 2017	3,337	27,097	23,629	19,251	73,314
Net book value					
At 31 December 2017	2,908	17,856	12,691	17,053	50,508
At 31 December 2016	3,239	20,917	16,296	20,165	60,617
At 1 January 2016	3,171	21,246	19,590	22,988	66,995

9. Cash generated from operations

	2017 £'000	2016 £'000
Profit before taxation	10,937	25,333
Finance income	(3)	(188)
Finance costs	302	425
Share of result of joint venture	(596)	(499)
Gain on sale of associate	-	(1,532)
Operating profit	10,640	23,539
Adjustment for non-cash items:		
Amortisation of intangible assets	15,253	13,571
Depreciation of property, plant and equipment	5,791	6,459
Impairment of goodwill	-	4,616
Profit on disposal of property, plant and equipment	(193)	(229)
Share-based payments	550	473
Operating cash flow before changes in working capital	32,041	48,429
Changes in working capital:		
Decrease/(increase) in inventory	182	(609)
Decrease/(increase) in trade and other receivables	581	(6,369)
(Decrease)/increase in trade and other payables	(466)	1,915
Increase in deferred income	5,308	291
Increase in provision	11,188	-
Cash generated from operations	48,834	43,657

10. Change in net (debt)/cash

	2016 £'000	Cash flow £'000	Finance costs £'000	2017 £'000
Cash and cash equivalents	4,303	9,688	-	13,991
Bank overdraft	(2,782)	2,782	-	-
Bank loans due within one year	(1,951)	2,000	(49)	-
Net (debt)/cash	(430)	14,470	(49)	13,991