

Global Specialists in Integrated Security Systems



Synectics plc

Annual Report and Accounts for the year ended 30 November 2017

Synectics plc is a leader in the design, integration, control and management of advanced surveillance technology and networked security systems

With over 30 years of field-proven experience, Synectics has acquired intimate knowledge of the unique customer requirements and priorities in commercial, public and industrial environments where security is critical to their operations.

Meeting the needs of highly demanding clients for Oil & Gas, Gaming, Transport & Infrastructure, and High Security & Public Space applications, Synectics engineers sector-specific, tailored security solutions that its customers rely upon to safeguard their people, facilities and assets – across the world.

Great technology, a flexible attitude and deep sector expertise – from decades of experience – are what set Synectics apart.

The world's leading oil & gas plants, casinos, transport operators and public authorities select Synectics.



Oil & Gas

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Gaming

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Transport & Infrastructure

[Read more page 14](#)



High Security & Public Space

[Read more page 16](#)

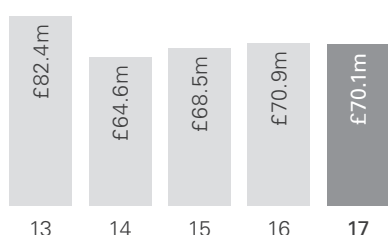
Headlines

- Revenue £70.1 million (2016: £70.9 million)
- Underlying profit¹ up 15% to £3.0 million (2016: £2.6 million)
- Profit before tax up 50% to £3.0 million (2016: £2.0 million)
- Underlying diluted EPS¹ 15.2p (2016: 12.4p)
- Diluted EPS 15.1p (2016: 8.8p)
- Return on capital employed 8.5% (2016: 7.6%)
- Net cash at 30 November 2017 £3.8 million (2016: £2.2 million)
- Year-end order book £24.4 million (2016: £26.2 million)
- Recommended final dividend increased to 3.0p per share (2016: 2.0p)

Financial overview

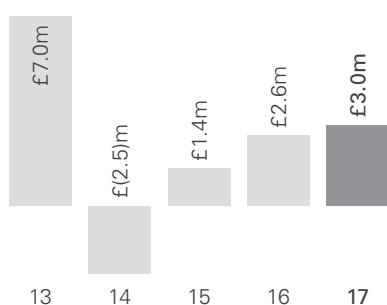
Revenue

-1%



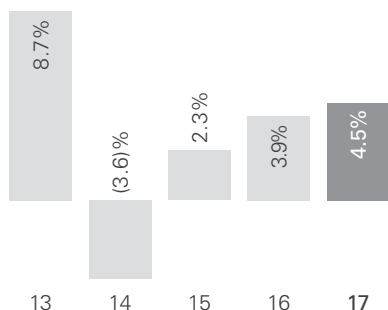
Underlying profit/(loss)¹ before tax

+15%



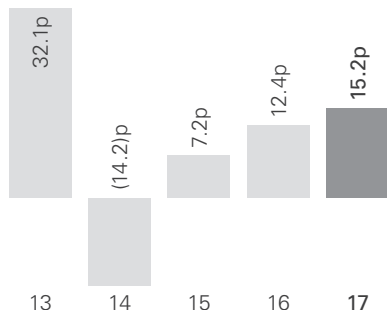
Underlying operating margin²

+0.6%



Underlying diluted EPS¹

+23%



1. Underlying profit represents profit before tax and non-underlying items (which comprise restructuring costs and amortisation of acquired intangibles). Underlying earnings per share are based on profit after tax but before non-underlying items. A reconciliation of 'alternative performance measures' to measures prescribed in financial standards is given on page 27.
2. Underlying operating margin represents underlying operating profit/(loss) as a percentage of revenue, where underlying operating profit/(loss) represents underlying profit/(loss) before tax before charging finance income and finance costs.

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➔ Visit our investor website for up-to-the-minute news and announcements:
synecticsplc.com

We safeguard over 5 billion passenger journeys every year worldwide.

Transport operators are recognising the potential for more powerful, integrated command and control systems which not only protect the public but help to deliver a better passenger experience, both in and around the stations and on the vehicles themselves.

30 years
of serving
customers
where it
matters most.



5 major hubs

We protect the world's largest Gas-To-Liquids plant, Shell Pearl in Qatar, with over 340 cameras across the site.

The complexity of the task facing our Oil & Gas customers is enormous: safeguarding on-site personnel; protecting offshore and onshore assets; and monitoring hazardous and explosive areas, often in remote locations under extreme temperatures.

We monitor the highest grossing casinos in Las Vegas, New York, and Singapore.

Gaming is one of the most technically demanding, highly regulated leisure industries in the world. Monitoring vast, crowded facilities in low-light conditions where massive amounts of cash constantly changes hands creates a distinctive and challenging surveillance environment for our clients.

We have a deep and unique understanding of our clients' issues and challenges.

And, we draw on this to create solutions they can rely on completely – giving them peace of mind by securing the people, assets, and livelihoods that they are responsible for protecting.

serving **55**
countries

We secure 60% of the UK's nuclear power stations.

Our commercial and public sector customers require sophisticated yet user-friendly solutions to protect critical infrastructure, often in large scale, operationally difficult environments, which present great technical complexity.



For 30 years, the core elements of Synectics' purpose and values have been value to customers and innovation. I believe these will remain the foundation for a sustainable and prosperous future for the Company."

David Coghlan
Chairman



Overview

Last year saw the 30th anniversary of the start-up of Synectics. This landmark provided the occasion not only to celebrate the achievements of all those who have helped to build Synectics into a successful technology business, from the founders to our current apprentices, but also to reflect on what has changed and what endures.

I am pleased to say that during my engagement across the various parts of the business in 2017 I found a high degree of alignment around the enduring purpose and values of Synectics; I won't repeat these, since they are set out in detail elsewhere, suffice it to say here that the core elements are, and have been for 30 years, value to customers and innovation. I believe these will remain the foundation for a sustainable and prosperous future for the Company.

During the 2016/17 financial year the Group's results continued to reflect the impact of the 2015 collapse in global oil & gas prices on one of our largest customer sectors. Management has taken action to maintain profitability in that area by reducing costs, and delivered a very creditable increase in operating margin in our oil & gas activities last year. The Board remains convinced that the right course is to preserve the critical capability that underlies our leading market position in the sector, and indeed to focus on positioning the business to gain market share once the recovery is underway. We believe the right balance has been struck in the interests of long-term value.

Other underlying factors that influenced our results include a global gaming market that remained buoyant, increased demand from infrastructure customers, such as utilities, data centres and transport hubs, and a sharp decline in new bus deliveries in the UK.

Against that background, the Board is pleased with the performance of the Company for 2016/17, which was in line with our expectations.

We expect the trend of growing profitability of our business operations to continue in the current financial year. In addition, opportunities have been identified for innovative development of our core product set, using emerging technology applications being introduced in other fields to expand Synectics' offerings to its current markets. Consistent with our growth strategy,

the Board has authorised a significant increase in research & development expense to capitalise on those opportunities. The increased expense for this investment means that the Board's current expectations are for reported profits in 2017/18 to be broadly flat compared to last year. Further detail is set out in the Outlook section below.

Results

For the year to 30 November 2017, Synectics' consolidated revenue was £70.1 million (2016: £70.9 million). This reflected a reduction in gaming sector revenue following the exceptionally high level achieved in 2016, lower than expected revenues in UK transport, offset with progress in infrastructure projects and integrated systems.

An improvement in operating margins across both of the Group's divisions led to a 15% increase in underlying profit before tax¹ to £3.0 million (2016: £2.6 million). There were no material non-underlying costs in the year, so statutory profit before tax was also £3.0 million (2016: £2.0 million). Underlying diluted earnings per share were 15.2p (2016: 12.4p) and diluted earnings per share were 15.1p (2016: 8.8p). On a constant currency basis², these results benefited directly by around £0.2 million from the impact of the depreciation of sterling across the year on the earnings of our foreign subsidiaries. However, this translation benefit was partially offset by corresponding increases in the sterling costs of US dollar-denominated components used in our systems sold in the UK.

The Group's balance sheet continued to strengthen, with net cash at 30 November 2017 of £3.8 million (2016: £2.2 million). The consolidated firm order book at year end was £24.4 million (2016: £26.2 million).

Dividend

The Board is recommending payment of an increased final dividend of 3.0p per share (2016: 2.0p), payable on 4 May 2018 to shareholders registered on 3 April 2018, for approval by shareholders at the Company's Annual General Meeting to be held on 26 April 2018.

People

I would like once again to pass on the Board's sincere thanks to Synectics' employees at all levels. This is an organisation with a culture of high expectations for commitment and performance, especially in delivering on our promises to customers. As such, the pressures on employees are often considerable and are consistently borne with fortitude and good humour. We recognise and are deeply grateful for their continuing contributions to the business.

Our annual employee opinion survey last summer demonstrated high and upward-trending results across most areas of the business. This reflected substantial efforts by management to increase communication and engagement throughout the Group. This effort, which is strongly supported by the Board, will continue.

Strategy

Synectics' strategy remains to create leadership positions within specialised sectors of the electronic security and surveillance industry, through the combination of expert, sector-specific market knowledge and, where appropriate, our own proprietary technologies. These proprietary technologies are based on open systems and built around Synectics' core command and control integration software; they are developed specifically for our chosen specialist market sectors and provide fundamental differentiation from the offerings of mainstream suppliers in the wider electronic security market.

As the volume of digital data generated by high-end, video-centric security systems continues to grow exponentially, the complexity of extracting meaningful and actionable intelligence from that data is opening up many opportunities for innovation. Throughout its 30-year history, Synectics has consistently demonstrated the combination of deep technical capability and practical, expertise-based sales approach needed to benefit from such opportunities. This is essentially an entrepreneurial skill.

A core element of our strategy is to ensure that the business keeps building the culture and processes necessary to maintain that entrepreneurial essence at larger scale as we continue to grow.

Outlook

The 2018 financial year has begun in line with the Board's expectations. The year will be marked by a number of positive and short-term negative countercurrents in our largest market sectors, and also by clear opportunities to invest organically in solidifying Synectics' position as a market leader in specialist high-end surveillance.

The Integration & Managed Services division continues to perform well, and we expect further growth in profits this year.

Within the larger Systems division, Synectics' revenue and profit trends over the remainder of this year are likely to be different in our three major end-user segments:

- The gaming sector, which has performed exceptionally well in the last two years and where Synectics continues to gain market share, will see a respite in major new resort developments coming on stream in the Far East and a likely slowdown in surveillance upgrade programmes in the United States. Despite entering the current financial year with an order book and qualified pipeline of new

business 50% higher than at the same time last year, we anticipate at this stage that the profit contribution from the sector in 2017/18, although still strong, is likely to be lower than last year's.

- The global oil & gas surveillance sector should continue to generate a stable positive contribution to profits in the current year. There is evidence of a recent pick-up in market activity, and Synectics is well placed to benefit as soon as new projects come on line. However, the normal gestation period of upstream oil & gas projects means that the upturn in our revenues in that sector should not be expected before 2019.
- Following further investment in sales resources, revenues from the transport & infrastructure sector, outside the UK bus market, are expected to grow at an increased rate in 2017/18.

Finally, after close evaluation the Board has authorised an increase of approximately £500,000 in this year's research & development expense to accelerate Synectics' development of our core software product base. We see an opportunity to provide sophisticated end users with real improvements in the capability, breadth and cost-effectiveness of their security systems. With its established customer base and trusted reputation for successful technical innovation, Synectics is ideally positioned to benefit from the increasing pace of developments in the wider information technology sphere, which we believe can now be profitably applied to our markets. Although this increased research & development is in one sense discretionary expenditure, the Board's judgement is that the long-term interests of the Company will best be served by ensuring that we invest sufficient resources now to capitalise fully on the capabilities and market positions that Synectics has successfully established and built over recent years.

Taken together, the above factors lead the Board to conclude that the Group's consolidated underlying profit before tax in our 2018 financial year is most likely to be broadly flat compared to last year, as the impact of growth in underlying current business is offset by increased investment in strengthening our position for the future.

We believe that Synectics continues to make good progress towards its objectives. The improvements made to management and operational structures over the past couple of years are working well, the Group is starting to behave much more like a single focussed business, and there is an apparent growing sense of confidence in most parts of our operations. The Board has recently reviewed the Group's latest medium-term plans. It remains our belief that, given normal economic conditions, Synectics is capable within its current business base of achieving its targets of significant revenue growth from current levels, and an operating profit margin of 8–10%.



David Coghlan
Chairman

20 February 2018

1. Underlying profit before tax represents profit before tax and non-underlying items (which comprise restructuring costs and amortisation of acquired intangibles).
2. Using average exchange rates for the year ended 30 November 2016.

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These results are pleasing in their own right, and especially satisfying because they are the outcome of the applied skills and enormous dedication of our people, and of our continuing ability to meet new challenges while remaining true to the values which inspired our Company's creation."

Paul Webb

Chief Executive



We are immensely proud of the Company's heritage, and the journey we have undertaken over the last 30 years.

The Company's origins lie in a piece of innovative research & development work designed to tackle a major customer challenge at that time: the need to find a more efficient way of controlling and switching images in large CCTV systems. The problem was solved, the original customer bought the solution, another client quickly followed, and Synectics was born.

In many ways, the Company has changed beyond all recognition from that initial, experimental breakthrough, but in other, very important respects, it has remained constant.

Synectics' first wave of success came primarily in the UK public sector, as we supported the government's implementation of systems to increase the safety of public spaces throughout the country. However, we increasingly discovered that there were other sectors and other geographical markets where customers were seeking the sophisticated and high-quality, but easy to use, solutions which were becoming our stock in trade.

Our strategy has always been to focus on a limited number of specific industry verticals for which security, surveillance, and control systems are absolutely critical, organisations where often the stakes could not be higher. We build deep specialist knowledge of each of these industries, and deploy our expert teams around the world in the places where they are most needed and can deliver the greatest value to those particular customers.

Today, we serve leading organisations in the transport, oil & gas, gaming, critical infrastructure, and retail sectors. We have major regional centres in the US, Singapore, the UAE, and Germany, as well as in our original homeland, the UK, and from these hubs we serve customers in dozens of countries. We are designing and deploying the security systems for the new Jakarta airport; we provide the command and control solutions deployed across

Berlin's integrated transport network; we monitor over 5,000 video channels for one of the largest casinos in Las Vegas; we serve vast energy facilities in the Middle East; and we continue to protect many of the most important buildings and facilities in the UK, from nuclear power stations to national heritage sites.

However, while the scale and geographical scope of our operations has expanded dramatically, the core values which underpin our business have remained exactly the same. Right from the start, we have always been an innovative, problem-solving, customer-driven company. As we have achieved the scale required to serve some of the world's largest organisations, and developed industry-leading technology such as our Synergy 3 platform, we have always retained the emphasis on technical expertise, high-quality solutions, customer service, and sheer human commitment which we believe make us distinctive.

The challenge for any business of course, and Synectics is no exception, is to continue to translate its inherent strengths and core values into products and services which meet the needs of a changing world.

In the security and surveillance business, change brings its own specific challenges. The priorities are the protection of people and assets, and in turn the people those assets serve. This is not an environment where it pays to take undue risks. The systems and solutions we provide must be absolutely robust, and rigorously proven to work under the most extreme conditions – and they are.

However, technology is now advancing at such speed, on so many fronts, that it is provoking us and our customers to rethink the way we tackle problems, and offering us many ways to do things better. At the same time, technology alters or expands the nature of the risks against which we protect. Our customers are constantly having to adapt to new types of potential threat.

The sheer breadth and pace of technological change is unprecedented. Artificial intelligence, driverless vehicles, the internet of things, cyber security, 3D printing, the platform economy, the cloud, and many other strands have become an increasing part not just of the technical dictionary but of everyday vocabulary, to say nothing of the potential of vast databases which still remain largely underutilised.

While the potential of new technologies is often identified quite early in their evolution, the way in which people adopt, combine, and apply them can be less easy to foresee. It is not surprising, therefore, that when we talk to our customers about how their world is changing and what they will need from us in the future, one word which keeps coming up is 'agility'. Our clients expect change to be rapid, dramatic and, above all, unpredictable, both in terms of new risks against which they may need to protect, and the opportunities to harness capabilities in innovative and practical ways to provide better solutions.

Another theme which comes through repeatedly is intuitiveness, the requirement for specialist systems to be easy and instinctive to use. Integration of data and openness of systems are also high on the list of requirements. Pre-emption, too, is another strong theme as our clients assess the potential applications of artificial intelligence for anticipating threats and responding proactively.

At Synectics, we see that the qualities our customers are seeking in this dynamic, unpredictable future are exactly those which characterised the birth of our Company 30 years ago.

These include the agility that comes when world-class technical expertise is combined with passionate human commitment; the ability to innovate in practical ways and apply emerging technologies to solve new problems; the willingness above all to see our customers and their customers as people, and to do our utmost to make them safer and enable them to prosper and enjoy their lives.

Our business has made further strides over the past year. As you will find documented elsewhere in this Annual Report, we are pleased to report a substantially improved profit performance and a solid balance sheet. These results are pleasing in their own right, and especially satisfying because they are the outcome of the applied skills and enormous dedication of our people, and of our continuing ability to meet new challenges while remaining true to the values which inspired our Company's creation.

We and our customers will face many new demands in the coming years as we seek to harness the potential of exciting technologies to provide new solutions in a profoundly uncertain world. I am confident that we have the capabilities, the expertise, and the culture to rise to these challenges.



Paul Webb
Chief Executive

20 February 2018



While the scale and geographical scope of our operations have expanded dramatically, the core values which underpin our business have remained exactly the same. Right from the start, we have always been an innovative, problem-solving, customer-driven company."

Paul Webb
Chief Executive

Our business model

We serve our customers through two business models.

Our Systems businesses, marketed under the Synectics brand, secure major contracts for the design, development, and deployment of security and surveillance solutions founded on our Synergy 3 platform. We identify future opportunities at an early stage, and work closely with customers to create solutions tailored to their needs.

Our Integration & Managed Services ('IMS') business, trading under the Quadrant Security Group ('Quadrant') and SSS Management Services ('SSS') brands, serves customers by designing security, surveillance, and facilities management solutions, and then implementing, maintaining, and supporting them over time.

By adhering closely to our principles, we benefit from high levels of contract renewal and recommendations to new clients.

We have already highlighted the technological changes impacting our customers and our own business. The transformations we are witnessing on many fronts will inevitably influence the way that we, and other players in our industry, operate in the future.

For example, hardware costs will continue to fall over time, as even the most specialist equipment benefits from new technologies and efficiencies. In our view, the real value differentiators in our industry already reside in the expertise to design and deliver lasting solutions to complex problems and in the delivery of consistently excellent service. These will continue to grow in importance in all areas of our business.

Offering two complementary service models allows us the flexibility to work with each of our customers in the way that best suits them. It also creates benefits from a commercial standpoint. Although the Systems business is built around long-term client relationships, much of the activity itself is project based, affording the opportunity to secure large new streams of work and drive growth. The IMS business includes a significant proportion of continuous contractual commitments, with the advantages these bring for resource planning and financial forecasting.

This combination of commercial stability and excellent growth potential makes Synectics plc an attractive proposition for investors. It also represents a powerful proposition for our customers, who value the agility and problem solving we provide alongside our reputation for consistency and durability. It allows us to offer our employees exciting opportunities, short and long term, within a culture which values and rewards their commitment.



In both models, our emphasis is on building deep and lasting relationships with customers. This is integral to every aspect of the way we go about our business, and is founded on some simple principles.

■ UNDERSTAND

Our solutions must deliver exactly what the customer needs.

■ EASE

The systems must be easy to use.

■ RELIABILITY

Our products and services must guarantee absolute reliability, even under the most testing circumstances.

■ SERVICE

We must provide excellent customer service at every stage.



Oil & Gas

Monitoring onshore and offshore sites across the globe

Synectics is a major global player in the oil & gas sector, and in the marine markets, which share many of the same needs. We have built deep specialist knowledge of the industry, and of the particular challenges associated with protecting its infrastructure and people, often in remote locations under extreme conditions.

In this most global of industries, Synectics has built an enviable worldwide reputation. We work with customers and partners throughout Europe and the Middle East. In the APAC region, we have been active in Australia, Singapore, Vietnam, Malaysia, Indonesia and Thailand for many years, and we are continuing to expand in South Korea, Japan, and China. To the west, we are undertaking major projects in the US and Mexico.

The industry itself is in transition and we are successfully navigating our way through what continues to be an extremely tough market. It is not clear how quickly trading conditions will improve, although we are starting to see some initial signs of a return to investment in long-term projects. This is encouraging, but it is too early to be sure that this marks the beginning of a sustained recovery.

The agility at the heart of Synectics' DNA gives us a significant competitive advantage in the oil & gas market. We restructured our operations last year and this has given us an excellent platform from which to serve the needs our customers are likely to have in the immediate future. Alongside this, we are investing to ensure that we keep our product range at the cutting edge of the industry and anticipate our clients' ambitions when the market returns.

Our customers face extraordinarily complex challenges in ensuring the security of their sites: safeguarding on-site personnel; protecting offshore and onshore pipeline locations; and monitoring hazardous and explosive areas. Consequently, they demand solutions that are rigorously proven under these circumstances, and which also satisfy the constantly changing requirements of compliance legislation.

The Synectics proposition is based around turnkey solutions, long-standing industry expertise, and a specialist product range (COEX and Synergy) with an exceptional track record of reliability in the uniquely demanding conditions our customers face.

By definition, many of the facilities we protect are in remote locations. The systems and products we deploy must be faultless.

They must also facilitate remote monitoring and analysis, often thousands of miles away from the site itself. Conditions are often extreme. One site we protect experiences temperatures which oscillate between 40°C in summer and -40°C in winter. We have demonstrated time and again that we can enable our clients to meet the exceptional challenges they face.

The oil & gas industry is founded on team work, with many different sources of specialist expertise combining to overcome some of the most fearsome challenges on Earth. Our projects frequently involve working in partnership not only with our end clients, the companies which own and operate the oil & gas installations, but with the engineers, construction firms, telecommunications providers, and other specialist security and surveillance firms with whom our customers also have relationships. We succeed by building strong, enduring relationships at every level. The collective and individual reputations of our people create a foundation of trust and mutual commitment which allows us to interact successfully with other stakeholders throughout every stage of a project.



Case study

Protecting major offshore installations in the most challenging conditions

In oil & gas, taking the long-term view is crucial. We engage with our end customers and their partners from the very earliest stages of a new installation or upgrade, providing input and advice from the start. This personal commitment, an understanding second to none of every nuance of the industry's complexities, and a technology platform and product perfectly suited to our customers' needs lie at the heart of our success.

- We monitor the world's largest gas-to-liquids plant, Shell Pearl in Qatar, with over 340 cameras across the site.
- We have delivered over 10,000 COEX camera stations in the last ten years to oil & gas and marine installations across the globe.
- We protect the largest, most expensive floating structure ever built (Shell Prelude Floating Liquefied Natural Gas Facility).



Their people are well versed; they're very familiar with our business and our operating environment."

Customer comment

Synectics has built an enviable reputation as one of the world's leading providers of solutions in some of the most challenging environments of all, those hosting offshore oil & gas installations.

Our COEX camera stations are widely used in the industry to ensure continuous, reliable image capture in all lighting, weather, and operational conditions.

In the past year, we have delivered a series of high-profile offshore oil & gas projects, including a solution for a major US deep-water floating platform in the Gulf of Mexico.

The system incorporates full HD Class 1, Division 1 COEX™ C3000 camera stations to monitor both hazardous and safe area zones.

Explosion proof and certified to the highest international standards, the camera stations deployed on the floating platform will utilise Synectics' recently launched integrated power base technology.

This technology is particularly suited to offshore and marine applications where cost-efficient, practical use of space is essential. The self-contained base can house fibre optics and provides integral power conversion, allowing mains connectivity and eliminating any need for a separate junction box.

Darren Alder, Synectics' Divisional Director for Oil & Gas, says: "To suggest it has been a challenging few years for the oil & gas industry would be an understatement, yet during this time we have continued to secure key contracts by offering tailored end-to-end solutions which meet precise needs, based upon our specialist technology.

"The uniquely demanding requirements of offshore security and surveillance have always played to our strengths. This particular project provides an excellent demonstration of our ability to add distinctive value for our customers in areas like security, safety, and situational awareness."





Gaming

Enterprise-class recording and monitoring

Synectics is a global leader in the gaming sector, with a strong presence in both North America and APAC. We have enjoyed great success in this industry in recent years, successfully delivering a series of large-scale projects and expanding what was originally a North American-based business into a truly worldwide operation.

The underlying dynamics of the gaming sector remain strong. We anticipate that investment in large new casino builds in Asia and the US may slow in 2018, but will rebound thereafter. This should create further growth opportunities in the many Asian markets we already serve, including Macau, Singapore, Malaysia, the Philippines, Korea, Vietnam and, potentially, Taiwan, Japan, and Thailand. We continue to be a major player in the US market and we are also active in Canada and Europe, and with global cruise lines.

In many respects, the need for security and surveillance in the gaming industry is very different from that in other sectors. Safeguarding people is always the first priority, but our customers here also

face other challenges. They must be able to monitor activity within each casino constantly, analyse suspicious behaviour in real time, and respond appropriately and swiftly when necessary.

First and foremost, an effective gaming surveillance solution empowers users to work smarter, giving them the information they need to mitigate the risk of player scams, fraudulent claims, staff collusion, and other security infringements. Meeting the industry's demanding regulatory requirements is a 'must have' – no casino can operate without fulfilling these responsibilities. However, the solutions we design and deliver go far beyond this to give our customers access to high-quality video with a speed and flexibility which enables a real-time response to any challenge.

We place great emphasis on customising the user experience we provide for staff within each of our clients. Our systems create the ability to combine data events from multiple sources, for example alarm, transactional, and analytical systems, to facilitate rapid evaluation of an evolving situation.

Casino operators value Synectics for our ability to deliver ultra-reliable, scalable, end-to-end solutions, backed up by proven experience, industry knowledge, and technically expert staff who respond fast. Today, we offer a turnkey approach that includes hardware, software, cameras and the integration of all these into one solution. Our solutions are built using the unique features and capabilities of the Synergy 3 software platform, and offer the flexibility to work with customers' existing hardware and their preferred integrator partners as required. Our software continues to evolve, embracing command and control platforms, integration of multiple applications into one user interface, and more sophisticated reporting and data analytics.

While the gaming industry has many unique characteristics, the fundamentals of our business here have much in common with other sectors. Our success is founded on deep specialist knowledge of the sector, and the ability of our expert technical and service teams to tailor our systems to meet the specific challenges these customers face.

Case study

Supporting the largest resorts in the world

Synectics has established an enviable position as a leading global specialist in providing solutions for the unique requirements of the gaming and leisure industries.

The multi-phase project we are undertaking with a major Korean mega resort is our third major casino project in South Korea and offers further evidence of our capabilities for supporting the world's largest mega resorts.

The first phase of the programme will see our Synergy 3 platform deployed to allow centralised control and management of 2,300 third-party and proprietary cameras spread across the casino, the nearby theme park, and one of the resort's five-star hotels.

The end-to-end solution designed and deployed by Synectics will also integrate with key security and management systems, including access control, point of sale, and the resort's radio frequency identification solution. This gives operatives in the central control room complete visual and data-driven situational awareness of people, assets, and movements across the resort.

The solution also includes a customised training package for the company, enabling the organisation to upskill its operators and to ensure that the potential of Synergy 3's extensive range of powerful features is fully realised.

Adam Heisler, Sales Director for International Gaming, said: "This latest Asian project again demonstrates our continued success and our reputation as the leader in the region for delivering complex surveillance solutions for large-scale mega resorts. The challenges that these specific types of estate face in terms of regulations, channel count, and redundancy and resilience are unparalleled."

Our solutions are utilised by the world's largest, most demanding, and tightly regulated gaming facilities. The majority of our customers are large, single property or multi-casino gaming corporations who value the close long-term relationships, technical ingenuity, and absolute reliability that Synectics offers.

- We record and monitor over 100,000 video channels in over 100 casinos across three continents.
- We have over 15,000 cameras recording on 15 gaming cruise ships.
- At one site, a single Synectics system records over 20,000 channels.

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Easy to get hold of, always return calls or emails and always listen to the needs of the customer in both a product offering and technical support perspective."

■ Customer comment





Transport & Infrastructure

Integrated solutions for transportation and infrastructure

Synectics works extensively across the mass transportation sectors – buses, trams, subway/underground networks, and trains. Our customers include the operators of many different forms of transport, as well as the manufacturers of the vehicles themselves. We also have deep experience of working with the organisations which create and run the transport infrastructure – the stations, city transport systems, airports, and ports.

Each of these diverse clients has its own specific needs; running a city bus company presents very different challenges to operating an international airport. Our approach, as always, is to work closely with each individual customer, and where relevant their other partners, and tailor our underlying technologies and capabilities to address their particular requirements.

However, in broader terms, we are increasingly witnessing some convergence in the overarching issues these organisations are seeking to tackle. To a significant degree, this is being driven by the rapid advances in technological possibilities and the resulting step changes in the service that transport organisations are able to offer their own customers.

When we first worked with bus, tram, and train operators, the main priority was to provide effective onboard surveillance systems which could protect staff and passengers and deliver regulatory compliance. Now, this is a given. Many customers are now looking for integrated systems and sophisticated applications whose capabilities go way beyond the minimum requirements. Organisations responsible for transport infrastructures, whether urban mass transit networks or international airports, are engaging with many of the same issues.

The solutions are expanding to deliver far-reaching benefits, from up-to-the-minute information for customers through to powerful control systems which allow operators and transport authorities to respond to incidents in real time, or even anticipate them.

These developments play to our strengths. We know from our conversations with customers that they are looking more than ever for suppliers and partners who can provide the integration of systems, intuitiveness of applications, pre-emptive solutions, and agility of service response which will deliver the control they seek.

However, not all customers require complex solutions. We are able to offer great flexibility, addressing the entry level needs efficiently whilst anticipating and delivering against the more ambitious requirements.

Underpinning all this are the decades of experience we have built up across the full spectrum of transport operations – from London buses to Jakarta Soekarno-Hatta International Airport.

Synectics plays a unique role. We offer smart, flexible, user-friendly solutions, founded on our Synergy 3 software, to customers who have complex needs and face challenges which justify serious investment. We have the scale and experience to deliver large-scale projects, but retain the agility of a high-value challenger brand, where expertise, flexibility, desire, and a strong personal service ethic can be brought to bear.

We deploy our solutions around the world, including Europe, the Middle East, and Southeast Asia.

Case study

Deploying integrated systems to provide better customer service and improve safety

We have a deep and unique understanding of the challenges these customers face, and we draw on this to create solutions they can rely on completely – giving them peace of mind by securing the assets, people and livelihoods that they are responsible for protecting.

- We protect the busiest airport in the Southern Hemisphere.
- We provide and support command and control systems for the fourth busiest metro system in Europe, covering 170 stations and serving 1 billion passengers each year.
- Our solutions support 27,000 vehicles worldwide.

“Always very professional, well managed and coordinated support provided by Synectics’ staff.”

Customer comment

‘Integration’ is a word which is constantly on the lips of our transport clients. They are looking to connect much wider functionality into conventional security and surveillance systems in order to provide a better service to their customers. They also want to be able to integrate information seamlessly between their vehicles – trains, trams, and buses – and their control centres, so that they can address evolving situations in real time.

The flexibility and openness of our systems and our ability to solve multi-dimensional problems make Synectics a natural partner for transport operators. In Germany, for example, Synectics is developing and implementing a new train-to-ground solution that will enable a major rapid transit operator to respond more effectively to passenger requests for assistance.

Following a year-long competitive tender process, which identified Synectics as the most suitable provider to deliver against the complex technical requirements involved, we were chosen to design and deploy the tailored solution across 680 trains servicing the capital every day.

Synectics has developed an audio gateway hardware solution which interfaces with the passenger help system onboard the trains. Using Synectics’ Synergy command and control platform to integrate the communications data, authorised personnel based at a central command centre will be alerted when an on-vehicle help button is triggered. The operative can talk directly with the passenger and take the appropriate action to address a problem or provide urgent help. The new solution will replace the client’s previous system, which required all passenger help requests to be directed via the driver.

David Aindow, Synectics’ Business Strategy Director, explains: “This new system will ensure passengers who need help are immediately connected with someone who has an overarching view of the network. This provides a better service for the customer, and avoids distracting the drivers from their ultimate responsibility, which is to ensure that passengers arrive at their destination safely.”





High Security & Public Space

Integrated, turnkey solutions for urban environments

Our very first clients, 30 years ago, came from these sectors. We quickly established a strong track record of delivering turnkey, end-to-end solutions, and have maintained and extended our reputation ever since.

Synectics' Systems division serves these customers globally, while our IMS teams at Quadrant and SSS operate primarily in the UK market. Our strength in solution design, integration, outsourced management, and processes has allowed us to take an ever-widening role in the protection of critical and high-security sites, infrastructure, and employees.

Within this overall marketplace, Synectics and Quadrant support a series of more specific customer groups, each with distinct needs.

- In commercial high security, organisations such as major utilities providers and financial institutions seek sophisticated, value-added solutions from partners with the credentials and proven track record to support their high-profile operations. There is a growing demand for greater integration of security systems with other operational and building management systems, and we are exceptionally well placed to deliver this.

- In the public sector, our involvement is centred primarily on clients who have both the requirement for more complex, value-adding solutions and the wherewithal to fund major projects. These are more prevalent in sectors such as energy (including nuclear), defence, borders, custodial, heritage buildings, and universities.

In both the public and private sectors, customers are being impacted by some of the wider trends we refer to elsewhere in this year's Annual Report. We are at the forefront of helping our clients to harness smart analytics which can anticipate and pre-empt potential threats, utilise large-scale databases to help protect stadia, shopping centres and other public spaces, and develop and deploy the integrated solutions enabled by new generations of IP networks and a secure cloud.

Our SSS business excels in providing security and facilities management services to UK clients with complex multi-site estates, particularly in the retail and leisure sectors. We help these customers protect and maintain their facilities around the clock, while managing the 24/7 on-call support this entails in the most cost-efficient way.

We have remained at the forefront of developing new generation computer aided facilities management systems which provide tailored reporting to allow our clients to monitor activity and ensure they achieve their goals.

One of the factors in SSS's success is that, like our business as a whole, it combines the scale, resources, and experience required to handle large, continuous programmes, with the kind of dedicated and tailored customer service more commonly associated with a smaller firm.

The FM market remains buoyant, sustained by the ongoing need among many types of businesses to outsource facilities management services and to integrate these with robust security and surveillance capabilities.

Case study

Enabling real-time response across a vast estate of critical assets

Synectics has been closely associated with protecting critical infrastructure since the inception of the Company, but the scale and sophistication of our solutions is constantly evolving.

We are currently working with one of Europe's largest utilities operators to boost the reach and capability of its alarm receiving centre ('ARC'). The customer is using Synergy 3 command and control software to enable centralised security monitoring and management of its national network of sites and assets.

The integrated solution developed and deployed by Synectics will allow the organisation to monitor and control security and safety systems at over 60 sites. These will include manned facilities, unmanned substations, and sites critical to national infrastructure and requiring the highest levels of protection.

Utilising Synergy 3's open architecture, the advanced solution will integrate data inputs from emergency alarms, sensors, analytics, perimeter detection and audio call points, and access control with video footage – from Synectics' COEX and third-party cameras – and GIS mapping. All of this will provide operatives with a real-time view of any anomalous event and its precise location, the means with which to investigate immediately, and the ability to take rapid action. The system also enables staff in the control centre to speak directly with colleagues at the site via audio point systems.

Greg Alcorn, Synectics' Divisional Director for Transport & Infrastructure, emphasises that the whole solution has been designed with both efficiency and operator support in mind: "For any customer of this scale, providing immediate understanding of an incident is essential, but this solution goes much further to give operators at the ARC the support they need to protect such a vast number of sites."

We have an outstanding track record of delivering both the responsive support these customers require and the substantial savings they need to achieve by outsourcing. We are well placed to capture the significant further growth opportunities which are available in sectors where we already have distinctive expertise and an excellent track record.

- We have the UK's largest dedicated high-security service team.
- We have provided security and surveillance to over 100 town and city centres in the UK.
- We protect and manage over 16,000 sites, £50 million of customer spend, and handle 500,000 operational transactions each year.

// **Quadrant offers bespoke solutions to support our technical needs. Engineers are a pleasure to work with."**

■ Customer comment



Technology which brings the best out of people



It all started with three people working after hours in a research & development lab. They were trying to crack a problem which had defeated the rest of the industry and was causing great frustration to customers who were looking to deploy CCTV systems more flexibly and on a much larger scale than previously. A solution was found, customers signed up, and Synectics was born.

Our Company was founded, then, on applying human ingenuity and emerging technologies to create practical solutions. Crucially, they were solutions built by security and surveillance professionals for security and surveillance professionals.

It has been that way ever since. We understand intimately the world in which our clients operate; the small details which can make the difference between success and failure; and the design touches which make an interface easier to use.

We have stayed focussed. As the Company evolved, we identified industries where we believed we could add the most value and where security challenges are mission critical and have a scale and complexity which leverage the full value of the capabilities we provide.

Today, our core technologies are applied primarily in four main sectors: oil & gas, gaming, transport & infrastructure, and high security & public space. Offshore oil rigs, casinos, buses and power stations – the working environments really could not be more different. In each case, our specialists have decades of experience in adapting and tailoring our capabilities to meet the needs of professionals in each of these industries, down to the finest detail.

We have constantly developed and refreshed our own core technology, especially our software. Today, the heartbeat of our solutions is Synergy 3, an innovative, highly flexible platform which marks us as a technical leader in our industry. The first generation of Synergy was launched in 2001 as a revolutionary command and control system. Successive waves of innovation have consistently kept us ahead of the curve.

Today's Synergy 3 is extraordinarily powerful. It provides the foundations for solutions which can be configured specifically for each customer. We can design applications to follow the workflow of each user, so that it feels like 'my' system and does what 'I' need it to do.

Smart graphical interfaces and all round user-friendliness are critical to this experience. Our view has always been that security experts deserve technologies which mould easily and intuitively around their requirements. So that is what we provide.

The technological advances all around us will have a profound impact on our industry. Artificial intelligence will play a major role in making surveillance systems smarter, better able to anticipate and pre-empt threats, and hence more effective in protecting us all. 'Big data' can be harnessed to deliver not only smarter control systems but a better experience for the customers of the clients we serve. The flexibility and interoperability of systems, always central to our thinking, is improving all the time.

New capabilities also bring new threats. We, and our clients, need to ensure that we are prepared to address new challenges and to respond rapidly and with great agility in a fast-changing and unpredictable world.

We are already investing in the next generation of solutions. Synectics will always be an innovator. Even more importantly, we are constantly exploring with our customers how their requirements are evolving so that our innovation is focussed, as it always has been, on solving practical problems.

Our technical development is targeted at the areas where real specialism pays dividends, especially in the software tools and underlying platform which are fundamental to creating the applications and user experience we offer. We also develop the proprietary specialist hardware needed in environments for which generic products are simply not sufficient, for example in the oil & gas and marine industries where our COEX camera stations are widely deployed.

However, many of the individual components in a security and surveillance solution are relatively generic. Much of the hardware can often be obtained on the open market at highly competitive prices. Where industry standard components are perfectly suited to the job in hand, we use what is already available and integrate it into our systems.

Integration and interoperability – multiple systems truly working together – are becoming more and more important for our customers. When organisations upgrade their capabilities, they often want to be able to build on what they already have and enhance it. Increasingly, customers want to be able to connect multiple systems together. For example, in the transport industry, security and surveillance tools can form part of wider command and control systems which support a wide range of functionality, from fast response to any incident to improved information and service for the passenger.

We are at the forefront of these developments. We build open systems, and apply technology with an agility of mind and practicality of purpose which have characterised our work from the start, and which will be crucial to our future success, and that of our clients.



"I love the new EX300 keypad."

■ Customer comment

■ Technology highlight

Real-time business intelligence and management information dashboards

In today's world of big data, obtaining the relevant information to inform or drive actions at the right time, along with presenting the results in an easy to understand format, is a highly time-consuming task for system managers.

Synergy 3's business intelligence engine, Dataveillance, extrapolates data from multiple sources to deliver real-time or historical statistics and trend analysis. Using selectable filters and rules, dynamic management dashboards can be easily created and consist of multiple display formats which can be tailored to present specifically selected data sets or real-time statistical analysis. The ability to access and review relevant data at a glance is crucial in times of pressure, delivering comprehensive situational awareness to enable informed operational or commercial decisions.



"Agility of business decisions is crucial, particularly as incidents develop, to ensure consistent and cohesive responses. Our management dashboards enable immediate access to critical data-driven insight."

■ David Aindow
Business Strategy Director



A technology leader with a human culture



As Synectics has grown from our humble beginnings into a truly global force, we have always sought to remain true to the human values we have held from the very start.

As with any successful formula, the principles are simple:

- Everything we do is founded on a deep understanding of our customers, the environments they work in, and the challenges they need to solve.
- We innovate constantly, finding new answers to tough, previously unresolved problems.
- Our relationships, inside the Company and beyond, are built upon mutual respect for the expertise we each bring to the team in order to create solutions.
- And above all, we care, passionately, about doing the right thing, and about delivering the very best for our customers, and for the people they serve and protect.

We have always understood that our business is about more than technology. Paradoxically perhaps, in an era of unprecedented technical change our people are more important than ever.

Our success in retaining our ‘human touch’, even though the scale of our operations has expanded greatly, is one of the achievements of which we are most proud. In our regular customer surveys, our clients consistently rate us highly for our “excellent understanding of their needs” and “really caring about doing a great job”. There are frequent references in their feedback to our people “going the extra mile” and being a pleasure to work with.

Of course commitment can only take you so far unless it is backed up by world-class expertise. A vital aspect of our Company is that we are, and have always been, security and surveillance specialists, not technology generalists.

Our teams have decades of experience of working in the industry. We understand intuitively what our customers need, from the big picture – the sheer scale and complexity of what has to be accomplished – to the minute detail of how a user interface must be designed to make the operator’s job as straightforward as possible and save vital seconds at a crucial moment.

To safeguard these deep-rooted cultural strengths, and ensure they are passed on to new generations of experts, we invest heavily in training, at all levels and in all the disciplines which are relevant to our business, from technical skills to leadership capabilities.

We place great emphasis on recruiting the right people. We have strengthened our team significantly by hiring experienced professionals who share our values, and by building an excellent group of talented young professionals who bring the technical skills and passion for innovation we need to constantly refresh our gene pool.

Retaining and developing our best people is critical to our success. We are delighted that we have been able to fill a series of senior positions in recent years through internal succession planning, including the Chief Executive, the Finance Director, and three key leadership roles.

Our reputation is built on trust, reliability, and lasting client relationships. We are in this for the long haul – we always have been – and we are immensely proud of the people, young and less young, who sustain the principles upon which our business was founded.

In 2017, Synectics supported over 20 local and national charities with corporate donations to the British Heart Foundation and UNICEF, and support of individual staff members’ personal charity challenges.

Our values underpin everything we do. We are totally customer focussed, we...

■ UNDERSTAND

We listen, advise, respond and add value to all our internal and external customers.

■ INNOVATE

We are flexible, creative, proactive people and we deliver expert solutions using innovative technologies.

■ RESPECT

We embrace diversity and care, trust and thank each other. We are inclusive and we communicate openly and honestly.

■ DO THE RIGHT THING

We act with integrity and we collaborate to deliver on our commitments. We challenge each other to improve.

The Nigel Poultney Memorial Award

Nigel Poultney, who for many years was Synectics plc's Finance Director, sadly passed away in 2016. Nigel was a very talented colleague and a tremendous professional who contributed enormously to the growth and success of the Company. Above all, he was a lovely man, universally liked and very greatly missed.

In Nigel's honour, we created the Nigel Poultney Memorial Award. This is presented annually to an employee, at any level of the organisation, who embodies the essence of the values which Nigel embodied personally and which we all feel lie at the heart of our Company.

The recipient of the inaugural award in 2017 was Greg Rogan, Engineering Manager of our gaming team in Asia.

In presenting Greg with the award, Synectics plc Vice President of Global Gaming, John Katnic, highlighted some of the qualities which made him such a deserving winner.

"Greg oversees a nine-person engineering team in Asia and is the key contact for our major Gaming customers in the region. Greg agreed to a six-month trial in Asia nearly five years ago. He has been there ever since and has dedicated himself to developing a team to support the Company's largest and fastest growing market segment.

"He has overseen breakneck expansion and successfully delivered a series of massive projects across the region. Greg, his team, our customers, and the business have thrived largely because he exemplifies and lives Nigel's character qualities.

"He handles even the most technically challenging, emotionally charged, and time sensitive situations with a calm, professional demeanour.

"He can always be trusted to do what he says, and displays impeccable integrity. He is patient, thoughtful, respectful, fair, clear and empathetic.

"Greg has built a young, talented, and dedicated team that reflects his leadership style. They stick around, work hard, support one another, put the customer first, and enjoy their jobs."

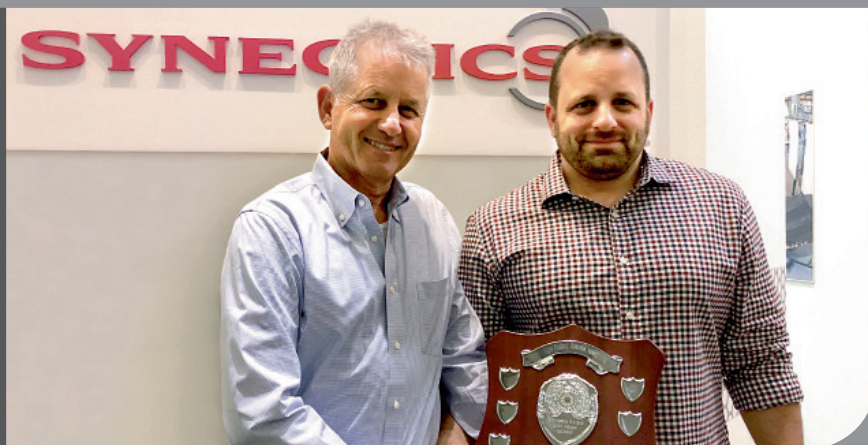


The engineer who is allocated to our contract is extremely knowledgeable, helpful, polite, and a credit to your Company."

■ Customer comment



"Greg leads by example. Like Nigel, he is an inherently good man who enjoys his work, the people around him, and life in general. It's genuine and comes from the heart."





The Group continued to perform well in 2017 with total profit from operations of £3.1 million.”

Mike Stilwell
Finance Director



Keeping track of Group performance

Group results for the year

The Group continued to perform well in 2017.

Total revenue for the year decreased marginally by 1% from £70.9 million to £70.1 million, generating an improved underlying operating profit of £3.1 million compared to a profit of £2.8 million in 2016. Total profit from operations was also £3.1 million (2016: £2.1 million) as no restructuring costs were incurred during the year.

Despite the slight reduction in revenue, close control of the cost base, together with improvements in the sales mix and operational efficiency, have contributed to the Group’s continued profitable performance.

Our revenues in the higher-margin gaming surveillance sector enjoyed another very strong year, ahead of expectations as increasing inroads were made with major casino customers in the US.

As expected, the oil & gas sector remained subdued and, despite an encouraging first half of the year, demand for surveillance systems from the UK bus market declined in the second half on the back of a reduction in new bus registrations.

Overall cash inflow in the period was £0.4 million. The Group finished the year with net cash of £3.8 million compared with net cash at 30 November 2016 of £2.2 million. The net movement of £1.6 million comprised an increase in cash and cash equivalents of £0.4 million and a £1.2 million reduction in term debt.

Other key performance indicators are discussed in more detail on the following pages.

Income Statement

Overall Group revenue for the year to 30 November 2017 amounted to £70.1 million compared with £70.9 million in the previous year, a decrease of £0.8 million (1.1%).

Revenue split between our two business segments was as follows:

Revenue	2017 £000	2016 £000	Inc/(dec) £000	Inc/(dec)
Systems	46,062	48,281	(2,219)	(4.6)%
Integration & Managed Services	25,139	23,290	1,849	7.9%
Intra-Group sales	(1,099)	(658)	(441)	
Total revenue	70,102	70,913	(811)	(1.1)%

Revenues in the Systems division decreased by £2.2 million (4.6%) to £46.1 million. Although revenues from the gaming sector continued to be strong, as expected these were lower than those of the previous year where sales were exceptional and included two major new casino projects in the Far East. Revenues from the oil & gas sector were broadly flat but activity in our core UK bus and coach market was impacted by an unexpected decline in new registrations.

Revenues in the IMS division increased by £1.8 million (7.9%) to £25.1 million. The majority of this growth was seen in the UK integration business, which continues to make encouraging progress.

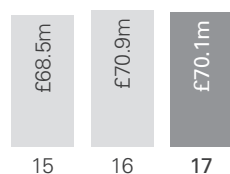
Recurring revenue decreased slightly year on year to £15.7 million (2016: £15.9 million), representing approximately 22% of sales (2016: 22%).

The proportion of sales arising outside the UK (measured by the geographical location of the contract) decreased slightly during the year to 40%, compared with 45% in the previous year.

Sales by geographical location of contract	2017 £000	2016 £000	Inc/(dec) £000	Inc/(dec)
UK	42,070	60% 39,318	55%	2,752
Rest of Europe	4,864	7% 4,648	7%	216
UK and Europe – total	46,934	67% 43,966	62%	2,968
North America	5,206	8% 4,800	7%	406
Middle East	3,046	4% 4,330	6%	(1,284)
Asia-Pacific	14,193	20% 17,058	24%	(2,865)
Africa	723	1% 759	1%	(36)
Total revenue	70,102	100% 70,913	100%	(811)

Revenue

-1%



KPI definition

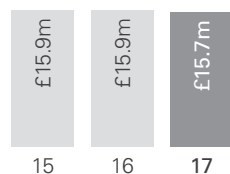
Income earned from the delivery of goods and services.

Why we measure

Revenue is a key indicator of the performance, growth and market share of the business.

Recurring revenue

-1%



KPI definition

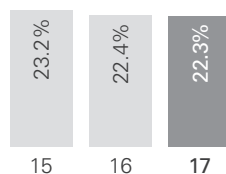
Contracted sales where a service is delivered over a future time period and revenues are recognised in the relevant future accounting period.

Why we measure

Recurring revenue provides an indication of quality of earnings as contracted income reduces dependence on winning new business.

Recurring revenue as % of total revenue

-0.1%



KPI definition

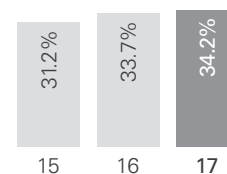
Recurring revenue as % of total revenue.

Why we measure

Recurring revenue as % of total revenue helps us understand how much of the Group's total revenue is made up of contracted income. Higher recurring revenue relative to total revenue reduces the risk and uncertainty of achieving a forecast result.

Gross margin

+0.5%



KPI definition

Ratio of gross profit to revenue.

Why we measure

Gross margin is an important measure of profit available to cover the overheads necessary to generate that profit.

Consolidated gross margins for 2017 increased by 0.5% overall. Tight cost control, improved operational efficiencies and a favourable sales mix saw increases in margins of 0.9% across the Systems division and 0.3% across the IMS division.

The full segmental analysis is as follows:

Gross margin %	2017	2016	Inc/(dec)
Systems	39.8%	38.9%	0.9%
Integration & Managed Services	22.3%	22.0%	0.3%
Total Group	34.2%	33.7%	0.5%

Underlying operating expenses in the year decreased by 1.6% to £20.8 million due largely to increased capitalisation of development costs, reduced amortisation charges of those development costs previously capitalised, and the non-recurrence of the prior year provision for the future costs of a Group property vacated during 2016.

Operating expenses	2017 £000	2016 £000	Inc/(dec) £000	Inc/(dec)
Underlying operating expenses	20,800	21,142	(342)	(1.6)%
Non-underlying items:				
Restructuring costs	-	585	(585)	
Amortisation of acquired intangibles	23	81	(58)	
	23	666	(643)	
Total operating expenses	20,823	21,808	(985)	(4.5)%

Non-underlying operating expenses amounted to £23,000 (2016: £0.7 million) and comprised a charge for the amortisation of intangible assets acquired in previous years. The prior year included restructuring costs of £0.6 million as we further integrated our product portfolio, development and sales activities across our Transportation & Infrastructure businesses, and reduced capacity in Oil & Gas to reflect market conditions.

Net finance costs in 2017 reduced by £6,000 to £130,000 as the cost and utilisation of borrowing facilities was broadly consistent between years.

Finance income/(costs)	2017 £000	2016 £000	Inc/(dec) £000	Fav/(adv)
Finance income	183	215	(32)	(14.9)%
Finance costs	(313)	(351)	38	10.8%
Net finance costs	(130)	(136)	6	4.4%

Consolidated underlying profit before tax was £3.0 million in 2017 compared with a profit of £2.6 million in the year to 30 November 2016. Similarly profit before tax increased to £3.0 million (2016: £2.0 million) as no non-underlying restructuring costs were incurred during the year.

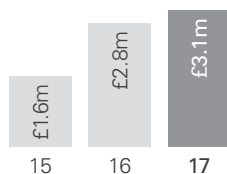
Despite a reduction in revenue, underlying profits from the Systems division remained constant at £4.2 million as a result of an improved mix of higher-margin work and increased efficiencies from a right-sized cost base. On a constant currency basis these results benefited by around £0.2 million from the impact of the depreciation of sterling across the year on the earnings of our foreign subsidiaries, although this was partially offset by increases in the sterling costs of US dollar-denominated components used in our systems sold in the UK. In IMS, the growth in revenue together with improved operational efficiencies generated a significant increase in underlying profit to £1.0 million. Central costs increased by £0.1 million to £2.1 million.

Performance review

Group financial results continued

Underlying operating profit

+14%



KPI definition

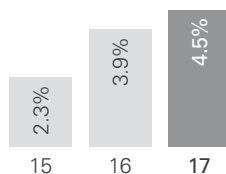
Operating profit before non-underlying items¹.

Why we measure

Underlying operating profit is a key indicator of trends in baseline performance excluding the impact of items which by their nature do not reflect core results.

Underlying operating margin

+0.6%



KPI definition

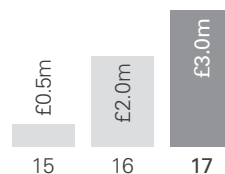
Ratio of underlying operating profit to revenue.

Why we measure

To assess trends in the underlying returns generated by the business to better manage current and future performance.

Profit before tax

+53%



KPI definition

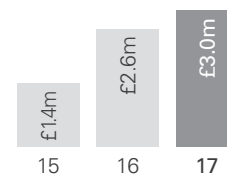
Profit before tax.

Why we measure

Profit before tax helps us understand our absolute performance including those costs considered non-underlying.

Underlying profit before tax

+15%



KPI definition

Profit before tax and non-underlying items¹.

Why we measure

Profit before tax and non-underlying items helps us understand our performance excluding those items considered non-underlying to assess the baseline nature of profit or loss.

Income Statement continued

	2017 £000	2016 £000	Inc/(dec) £000	Fav/(adv)
Underlying profit				
Systems	4,238	4,211	27	0.6%
Integration & Managed Services	994	522	472	90.4%
Central costs	(2,083)	(1,976)	(107)	(5.4)%
Underlying operating profit	3,149	2,757	392	14.2%
Net finance costs	(130)	(136)	6	4.4%
Underlying profit before tax	3,019	2,621	398	15.2%

A reconciliation of operating profit by division to profit before tax is as follows:

	2017 £000	2016 £000	Inc/(dec) £000	Fav/(adv)
Operating profit				
Systems	4,238	3,699	539	14.6%
Integration & Managed Services	994	449	545	121.4%
Central costs	(2,106)	(2,057)	(49)	(2.4)%
Operating profit	3,126	2,091	1,035	49.5%
Net finance costs	(130)	(136)	6	4.4%
Profit before tax	2,996	1,955	1,041	53.2%

Research & development costs are charged to the division benefiting from the service provided by the Synectics Technology Centre, principally the Systems division. In 2017 £2.6 million was spent on research & development with £2.1 million charged to the Income Statement after capitalisation of £0.5 million of development costs. This compares with total expenditure of £2.2 million in 2016, of which £0.3 million was capitalised.

Due to improved profitability across both divisions the Group underlying operating margin was 4.5% compared with 3.9% in 2016.

Underlying operating margins	2017	2016	Inc/(dec)
Systems	9.2%	8.7%	0.5%
Integration & Managed Services	4.0%	2.2%	1.8%
Total Group	4.5%	3.9%	0.6%

The Group operating margin was 4.5% (2016: 2.9%) split by division as follows:

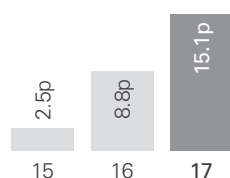
Operating margins	2017	2016	Inc/(dec)
Systems	9.2%	7.7%	1.5%
Integration & Managed Services	4.0%	1.9%	2.1%
Total Group	4.5%	2.9%	1.6%

The tax charge for 2017 was £0.4 million compared with £0.5 million in 2016. The underlying tax rate (being the percentage ratio of the tax charge for the period to underlying profit before tax, after adding back the tax effect of non-underlying items) was 15%. The favourable impact of lower tax rates applicable to the Group's subsidiaries in Singapore and Macau was offset by tax losses elsewhere, the benefit of which has not yet been recognised.

1. Non-underlying items comprise restructuring costs and amortisation of acquired intangibles charges.

Diluted earnings per share

+72%



KPI definition

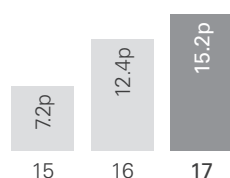
Ratio of profit after tax to weighted number of ordinary shares in issue and dilutive potential ordinary shares arising from share options.

Why we measure

To enable us to track, assess and compare the return for investors and to provide them with a measure of return to compare with other investment opportunities.

Underlying diluted earnings per share

+23%



KPI definition

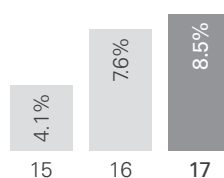
Ratio of underlying profit after tax to weighted number of ordinary shares in issue and dilutive potential ordinary shares arising from share options.

Why we measure

To enable us to track, assess and compare the return for investors and to provide them with a measure of return to compare with other investment opportunities, using a measure that is more representative of our baseline performance.

Return on capital employed

+0.9%



KPI definition

Ratio of underlying operating profit as % of average operating capital employed (being net assets excluding the pension asset, cash, tax and loan balances).

Why we measure

To enable us to track, assess and compare the return for investors and to provide them with a measure of return to compare with other investment opportunities, using a measure that is more representative of our baseline performance.

At 30 November 2017 the Group recognised a deferred tax asset of £0.3 million (2016: £0.4 million) in relation to tax losses which are expected to be offset against future taxable profits. Further tax losses of £4.8 million (30 November 2016: £4.0 million) exist and may be capable of offset against the future taxable profits of certain Group companies, but have not yet been recognised in the financial statements due to uncertainty of recoverability at this point.

Diluted earnings per share for 2017 were 15.1p compared with 8.8p in the year ended 30 November 2016. However, the Directors believe that a better measure of performance is the underlying diluted earnings per share, which are calculated on the underlying profit before tax as defined above. Underlying diluted earnings per share were 15.2p compared with 12.4p in 2016.

Earnings per share	2017 p	2016 p	Inc/(dec) p	Inc/(dec)
Diluted earnings per share	15.1	8.8	6.3	72%
Underlying diluted earnings per share	15.2	12.4	2.8	23%

Due to improved profitability, return on capital employed (based on total profit from operations) for 2017 was 8.4% compared with 5.7% in the year ended 30 November 2016. However, the Directors believe that a better measure of performance is the return based on underlying operating profit. Return on capital employed (based on underlying operating profit) was 8.5% compared with 7.6% in 2016.

Return on capital employed	2017	2016	Inc/(dec)
Based on total profit from operations	8.4%	5.7%	2.7%
Based on underlying operating profit	8.5%	7.6%	0.9%

Statement of Financial Position

The net assets of the Group amounted to £40.8 million at 30 November 2017 (2016: £39.6 million) and can be summarised as follows:

	2017 £000	2016 £000
Property, plant and equipment	2,796	3,076
Intangibles	21,749	22,115
Retirement benefit asset	289	720
Non-current assets (excluding deferred tax assets)	24,834	25,911
Net cash balances	4,721	4,322
Loans and borrowings	(900)	(2,152)
Net cash	3,821	2,170
Other net current assets	12,664	12,691
Net tax liabilities (including deferred tax assets)	(314)	(537)
Provisions	(251)	(654)
Net assets	40,754	39,581

Non-current assets (excluding deferred tax assets) at 30 November 2017 were £24.8 million compared with £25.9 million at 30 November 2016.

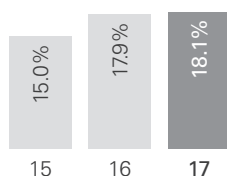
Total capital expenditure in the year increased to £1.0 million compared to £0.7 million in 2016. During 2017 £0.5 million was capitalised in respect of technology development projects. The Group continues to invest significant amounts in the development and enhancement of its product portfolio. However, accounting rules for capitalisation of development spend dictate that it is not appropriate to capitalise ongoing work on enhancements for products which have been launched in the market. In addition £0.3 million and £0.2 million was spent on property, plant and equipment, and software respectively. Exchange rate movements in the year increased the retranslated value of goodwill on overseas acquisitions by £0.1 million.

Performance review

Group financial results continued

Working capital

-0.2%



KPI definition

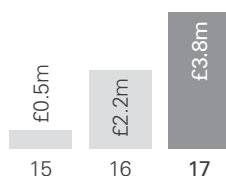
Working capital as % of revenue, where working capital is the sum of inventories, trade and other receivables and trade and other payables.

Why we measure

To understand the extent to which resources have been tied up in the generation of sales to assess the risk of having insufficient liquid resources to meet day-to-day cash requirements as they fall due.

Net cash

+76%



KPI definition

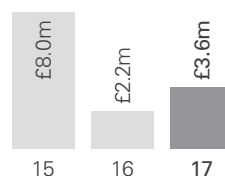
Cash balances net of loans.

Why we measure

Net cash provides an indicator of the strength of the balance sheet measured through the liquid resources available to the business to meet future cash requirements.

Free cash flow

+63%



KPI definition

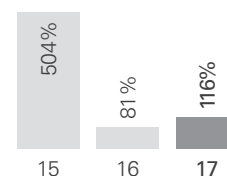
Cash flow from operations less capital expenditure, but before any payments in respect of non-underlying items.

Why we measure

To understand the extent to which the business has generated cash from its trading activities, after replacing the capital assets integral in generating that cash flow, in order to decide whether to invest further in the business or return cash to shareholders.

Cash conversion

+35%



KPI definition

Ratio of free cash flow to underlying operating profit.

Why we measure

Cash conversion indicates how successful the business has been in generating cash (after replacing the capital assets used in generating that cash) from the baseline profit earned in the period.

Statement of Financial Position continued

This capital expenditure of £1.0 million (2016: £0.7 million) compares with depreciation and amortisation charges of £1.7 million in the year (2016: £2.0 million).

The surplus on the Group's closed defined benefit pension scheme was £0.3 million at 30 November 2017 compared to £0.7 million at 30 November 2016. This reduction is due largely to the truing up of accounting estimates to the latest triennial valuation of the scheme. Substantially all of this experience movement has been posted to reserves through the Statement of Comprehensive Income.

Working capital levels were broadly in line with the prior year at £12.7 million at 30 November 2017 and increased slightly as a percentage of annual revenues from 17.9% in 2016 to 18.1% at 30 November 2017, within the normal range we expect to see.

Net tax liabilities at 30 November 2017 amounted to £0.3 million (2016: £0.5 million) and comprised a current tax asset of £16,000 (2016: £72,000), a current tax liability of £0.3 million (2016: £0.6 million), deferred tax assets of £0.2 million (2016: £0.2 million) and deferred tax liabilities of £0.2 million (2016: £0.2 million).

Provisions at 30 November 2017 amounted to £0.3 million (2016: £0.7 million). This is held to cover future property costs, largely for a building vacated during 2016.

Cash

The Group ended the year with net cash of £3.8 million at 30 November 2017 (2016: £2.2 million). This included a term loan of £0.9 million (2016: £1.1 million) to purchase the property in Scunthorpe in 2013. This is fully repayable in 2018. A term loan drawn to finance the acquisition of Synectics Systems GmbH (formerly Indanet GmbH) was fully repaid during the year (2016: €1.3 million).

The movement in net cash during the year is reflected in the Statement of Financial Position as follows:

	£000
Decrease in cash balances	(1,127)
Decrease in bank overdrafts	1,526
Net cash inflow	399
Loan repayments during the year	1,259
Effect of exchange rate changes on retranslation of euro term loan	(7)
Increase in net cash	1,651

The net cash inflow of £0.4 million in the year is summarised in the table below. Major non-operating cash flow items include taxation payments of £0.7 million, capital expenditure of £1.0 million as described above, scheduled loan repayments of £1.3 million and dividends of £0.5 million. In addition cash balances decreased by £0.4 million as a result of adverse exchange rate movements during the year.

	2017 £000	2016 £000
Underlying operating profit	3,149	2,757
Depreciation and amortisation charges and profit/loss on disposal of non-current assets	1,633	1,979
Share-based payment charge	111	131
Increase in working capital	(357)	(1,631)
Unrealised currency translation losses/(gains)	70	(275)
Cash from operations before non-underlying payments	4,606	2,961
Restructuring costs	(275)	(365)
Cash generated by operations	4,331	2,596
Interest paid (net)	(149)	(156)
Taxation (paid)/received	(653)	15
Capital expenditure	(964)	(731)
Loan repayments	(1,259)	(786)
Share scheme interests realised in the year	5	-
Dividends paid	(498)	(163)
Effect of exchange rate changes on cash	(414)	323
Net cash flow	399	1,098

Use of non-GAAP financial performance measures

Certain disclosures and analyses set out in this Annual Report and Accounts include measures which are not defined by generally accepted accounting principles ('GAAP') such as IFRS. We believe this information, along with comparable GAAP measurements, is useful to investors. Management uses these financial measures, along with the most directly comparable GAAP financial measures, in evaluating our operating performance. Non-GAAP measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP. The primary non-GAAP financial measure we use is underlying profit.

In the following table we provide a reconciliation of this and other non-GAAP measures, as defined in the Performance Review on pages 28 to 31, to relevant GAAP measures:

Underlying profit measures

	2017 £000	2016 £000
Underlying operating profit	3,126	2,091
Reported operating profit	3,126	2,091
Restructuring costs	-	585
Amortisation of acquired intangible assets	23	81
Underlying operating profit	3,149	2,757
Underlying profit before tax	2,996	1,955
Reported profit before tax	2,996	1,955
Restructuring costs	-	585
Amortisation of acquired intangible assets	23	81
Underlying profit before tax	3,019	2,621

A reconciliation of reported operating profit to non-underlying profit for Systems and IMS is as follows:

GAAP reconciliation – Systems

Systems	2017 £000	2016 £000
Underlying operating profit	4,238	3,699
Reported operating profit	4,238	3,699
Restructuring costs	-	512
Underlying operating profit	4,238	4,211

GAAP reconciliation – IMS

IMS	2017 £000	2016 £000
Underlying operating profit	994	449
Reported operating profit	994	449
Restructuring costs	-	73
Underlying operating profit	994	522

Underlying diluted EPS

The Group monitors underlying diluted EPS. In calculating earnings for underlying diluted EPS, net profit is adjusted to eliminate the post-tax impact of non-underlying items. Note 12 includes a reconciliation of earnings used for underlying EPS.

Underlying return on capital employed

Underlying return on capital employed is based on underlying operating profit (see reconciliation of underlying operating profit in the previous table).

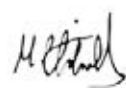
Free cash flow

The Group measures free cash flow in considering the underlying cash generated from its operations. A reconciliation of reported cash generated from operations to free cash flow is as follows:

	2017 £000	2016 £000
Free cash flow	3,642	2,230
Reported cash generated from operations	4,331	2,596
Capital expenditure	(964)	(731)
Payments in respect of restructuring costs	275	365
Free cash flow	3,642	2,230

Net cash

Net cash is considered to be a non-GAAP measure as it is not defined in IFRS. The most directly comparable IFRS measure is the aggregate of loans and other borrowings (current and non-current) and cash and cash equivalents. This is the calculation used by the Group to measure net cash.



Mike Stilwell
Finance Director

20 February 2018

Systems



Oil & Gas



Gaming



Transport & Infrastructure



High Security & Public Space



Synectics' Systems division provides specialist electronic surveillance systems, based on its own proprietary technology, to global end customers with large-scale highly complex security requirements, particularly for oil & gas operations, gaming, transport & infrastructure protection, and high security & public space applications.

Revenue	£46.1 million (2016: £48.3 million)
Gross margin	39.8% (2016: 38.9%)
Underlying operating profit ¹	£4.2 million (2016: £4.2 million)
Operating profit	£4.2 million (2016: £3.7 million)
Underlying operating margin ¹	9.2% (2016: 8.7%)
Operating margin	9.2% (2016: 7.7%)

1. Before non-underlying items and Group central costs.

Synectics' business is to provide integrated electronic security systems and services to specialist high-end markets. Our systems are based on core proprietary technology, in particular systems integration and command and control software. This technology is adapted for the specific needs of our target customer sectors, and provides fundamental differentiation from mainstream suppliers in the wider electronic security market.

Gaming

After exceptionally strong results in 2016, the Group's gaming activities recorded another very good performance in 2017. During this period, Synectics' Synergy 3 command and control system consolidated its leadership position in both of the major global market regions: the Far East and North America.

Important new systems and upgrades were delivered in the Philippines, Macau, Singapore, Korea, Las Vegas and other casino locations in North America and Europe, as well as substantial sales to several major cruise lines for shipboard gaming. Much of this was repeat business for established customers, in either existing or new locations.

Gaming premises operate in sensitive regulatory environments, where quality and performance standards for surveillance technology are extremely demanding, and where failure can be not only costly, but potentially threatening to the customer's business itself. They are also environments where surveillance technology can be adapted and developed to bring meaningful business benefits as well as satisfying security requirements. These characteristics continue to play to Synectics' strengths in reliability, technical innovation and dedicated customer support.

The global market for casino-based gaming continues to grow, especially for integrated resorts that combine casinos with other attractions, such as theme parks. The size of individual new projects means that revenue can be lumpy in given years, but the long-term trend remains positive, and the barriers to entry for general market competitors are quite considerable.

Project highlight: Philippines casino

A major gaming and leisure resort in the Philippines chose Synectics to upgrade its incumbent surveillance solution to Synergy 3. As well as enabling centralised and local/remote monitoring and control of 5,450 cameras, the system will integrate with the operator's proprietary casino management system, point of sale system and access control solution.

Oil & Gas

Revenue from Synectics' oil & gas activities stabilised and produced an improved profit contribution last year, in a period of continuing difficult conditions in the underlying market. Oil prices have now roughly doubled from their lows of 2015/16 and early-cycle businesses in the sector are already experiencing significantly increased activity. Nevertheless, a proportion of Synectics' revenue has traditionally derived from large-scale upstream projects, and these will take longer to ramp up.

Particular successes during last year included a large involvement in Petronas' RAPID project in Malaysia, and new customer wins in offshore infrastructure being built in the Far East. The Group also received an initial major order for its new design of explosion-rated camera stations adapted for the US market – in this case, for a significant new field in the Gulf of Mexico being developed by a major international oil company.

Transport & Infrastructure

The market for sophisticated surveillance systems in transport & infrastructure is growing, and is an area of increased focus for the Group.

Synectics' presence in protecting the UK's national and public infrastructure was further strengthened during the year. We won major new business from established and new clients operating a nationwide utility network, power stations, financial services data and cash centres, universities and large-scale shopping and leisure malls. One such new contract provided the opportunity for the first deployment of our Synergy 3 surveillance in a cloud-based environment, an area in which we will be making substantial investment in the future.

During last year, Synectics won and delivered a significant expansion to its integrated surveillance management system at Jakarta's main international airport, the busiest in the Southern Hemisphere, as it continues to grow.

The Group continues to expand its operations in Europe, through co-operation between our German and UK-based teams, establishing partnerships with major transport system operators and suppliers, including BVG (the government operator of Europe's largest integrated transport hub, in Berlin), Deutsche Bahn and Siemens Mobility. We continue to expect growth from our European transport activities over coming years.

Our UK mobile systems business won a further three-year extension of its long-term partnership with Stagecoach, the UK's largest bus operator, for surveillance systems on its nationwide fleet. The UK bus and coach market itself, as noted above, was characterised in 2017 by an unexpectedly large fall in new bus deliveries, which was mirrored by a decline in Synectics' revenues from that sector. By contrast, light rail and tram services grew in the UK last year, and Synectics was pleased to win significant orders from London and North East train operators.

Project highlight: Irish transport authority

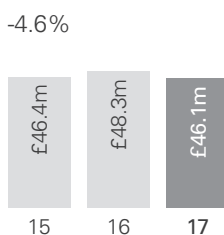
Synectics has been awarded the contract to develop and install surveillance solutions on over 100 vehicles for Ireland's largest public transport provider based in Dublin. The system specified incorporated Synectics' proprietary technology (the T1600 DVR) and cameras for each of the single deck and double-decker buses and will be rolled out during 2018.

Research & development

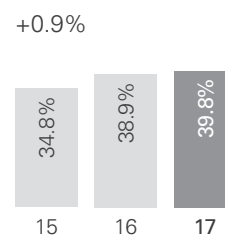
Continued investment in our proprietary technology base remains an important priority for Synectics. During 2017, the Group spent a total of £2.6 million on technology development (2016: £2.2 million). Of this total, £0.5 million was capitalised and the remainder expensed to the Income Statement. £0.8 million of previously capitalised development costs were amortised in the year.

The year saw significant work developing functionality for specific customer projects, which in turn has allowed Synectics to add features to the core capabilities of our Synergy 3 command and control software platform. A large amount of effort was also expended in unifying and developing our transport solutions, where we see an increasing appetite from customers for more technically complex solutions. We will be investing further in this area this year.

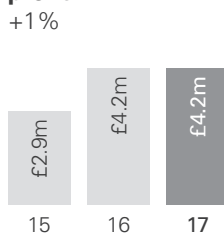
Revenue



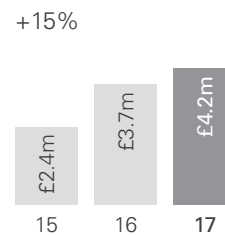
Gross margin



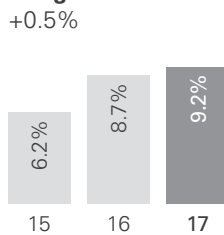
Underlying operating profit¹



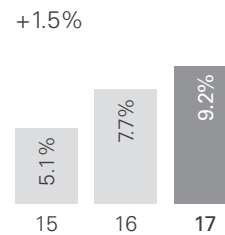
Operating profit



Underlying operating margin¹



Operating margin



1. Before non-underlying items and Group central costs.

Integration & Managed Services



Transport & Infrastructure



High Security & Public Space



Synectics' Integration & Managed Services ('IMS') division is one of the leading UK providers of design, integration, turnkey supply, monitoring and management of large-scale electronic security systems. Its main markets are in critical infrastructure, public space and multi-site systems. Its capabilities include a nationwide network of service engineers, UK government security-cleared personnel and facilities, and an in-house 24-hour monitoring centre and helpdesk. The IMS division supplies proprietary products and technology from Synectics' Systems division as well as from third parties.

Revenue	£25.1 million (2016: £23.3 million)
Gross margin	22.3% (2016: 22.0%)
Underlying operating profit ¹	£1.0 million (2016: £0.5 million)
Operating profit	£1.0 million (2016: £0.4 million)
Underlying operating margin ¹	4.0% (2016: 2.2%)
Operating margin	4.0% (2016: 1.9%)

1. Before non-underlying items and Group central costs.

Integrated Systems

The IMS division as a whole produced solid gains in revenue and profit during 2017, driven particularly by operational improvements, and consequent higher margins, in our high-security systems support activities.

Among notable new business wins in 2017 were surveillance systems and support for Newcastle and York mainline rail stations; Goldsmiths University of London; the Royal National Orthopaedic Hospital; the British Museum; Westminster Abbey; and the Highways Agency.

Our position as one of the leading accredited high-security providers in the UK means that we continue to win significant ongoing work for government agencies.

The UK market for sophisticated, high-quality security systems integration and support is growing. Technology is advancing at an increasing pace and Synectics' activities in this area are increasingly focussed on customers who need and value expertise, and are prepared to invest in a longer-term relationship rather than rely on one-off lowest-price tenders. Given that, having access to the resources of a parent company at the forefront of surveillance technology development is a clear advantage.

Managed Services

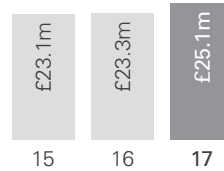
The focus of the division's Managed Services activities continues to be on delivering security and facilities management services for clients with large and complex multi-site estates. Significant investment in a new operating system has allowed us to focus on providing actionable management information rather than just large quantities of data. The Group is well placed to lead this trend and meet customers' expanding expectations. This in turn is providing opportunities to increase the scope and value of the services Synectics offers.

Project highlight: UK transport agency

Continued success in the transport sector with a contract win for the design, supply, installation and commissioning of a comprehensive security upgrade including CCTV, access control, and lighting for 20 transport depots across the south west of England.

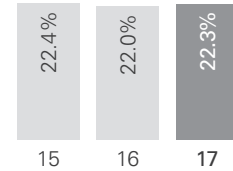
Revenue

+7.9%



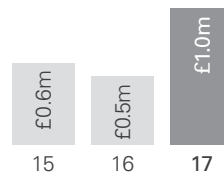
Gross margin

+0.3%



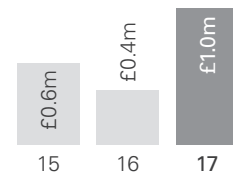
Underlying operating profit¹

+90%



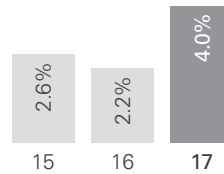
Operating profit

+121%



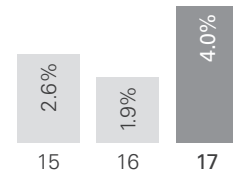
Underlying operating margin¹

+1.8%



Operating margin

+2.1%



1. Before non-underlying items and Group central costs.

The Board of Directors

Board composition

The Board of Synectics comprises, in addition to the Chairman, four Independent Non-Executive Directors and two Executive Directors. Membership of each of the Audit Committee and Remuneration Committee is made up solely of the Independent Non-Executive Directors. This structure follows the UK Corporate Governance Code provisions for listed companies of any size.

David Coghlan
Chairman



has degrees in Law and in Finance from the University of New South Wales in Sydney and an MBA from Wharton in Philadelphia. He was formerly a partner at strategy consultants Bain & Company. He is currently a director, and audit committee chairman, of AIM-quoted SCISYS plc, non-executive director of AIM-quoted Eckoh plc and chairman and/or a director of several other companies, mainly in the electronics technology field.

Paul Webb
Chief Executive



joined the Group in 2004. Since then Paul has overseen the rapid growth of the Group's industrial systems activities and, more latterly, led the consolidation of all of Synectics' proprietary technology systems activities into a single operation. He has a degree in Physics from Imperial College London.

Mike Stilwell
Finance Director



joined Synectics in 2012 as Group Financial Controller, after finance roles with the Saint-Gobain Group, Coventry Building Society and the Caparo Group. He qualified as a Chartered Accountant with KPMG and has a degree in Accounting and Financial Analysis from the University of Warwick.

Peter Rae
Senior Independent
Non-Executive Director



is the Senior Independent Non-Executive Director and is a graduate of Cambridge University, and has served on several quoted company boards. He has current interests in a wide range of engineering and other businesses.

Dennis Bate CBE
Independent
Non-Executive Director



has over 50 years' experience in the construction industry, of which 38 years were spent with Bovis, most latterly as board director responsible for Bovis' operations in the UK and Eastern Europe. Following retirement from Bovis, Dennis has held a number of non-executive roles and currently provides a wide range of consultancy services. He was awarded the CBE for his services within the construction industry.

Michael Butler
Independent
Non-Executive Director



has held various senior roles in general management, sales and marketing in telecommunications businesses, including president and chief operating officer and an executive board director of Inmarsat plc. He is currently a director of several other companies, including non-executive chairman of Broadband Satellite Services Limited and non-executive director of The People's Operator plc, an AIM-listed mobile virtual network operator.

Steve Coggins
Independent
Non-Executive Director



has held various senior roles in both sales and marketing and general management in the information technology arena including senior vice president at both Amdahl (now part of Fujitsu) and Silicon Graphics. Earlier he spent time at IBM and also in engineering computing in the aircraft industry.

//

I have no doubt the efforts by management and the Board to reinforce the Company's culture are having an increasingly positive impact on financial performance and on our goal of building a truly sustainable business."

David Coghlan
Chairman



For some time now Synectics has been including in its Annual Reports a specific section collating the Board's reports on the various elements of corporate governance. The formal reports on these matters are contained in the following pages. The purpose of this regular introduction is to provide a more detailed narrative account of particular aspects of Synectics' governance.

Over each of the past five years I have provided an annual progress report on the Board's evolving collective view on governance in general, as well as a detailed explanation of the rationale behind our approach at Synectics to a now quite extensive list of relevant issues:

- values and leadership;
- the composition, independence and effectiveness of the Board;
- the Group's share-based long-term remuneration plans;
- diversity;
- risk management;
- corporate culture;
- employee training and development; and
- the Board's role in setting Synectics' strategic direction.

Those comments remain largely up to date and represent an accurate reflection of core aspects of Synectics' governance. Anyone wanting a full picture will find the detail in the Company's 2012–2016 Annual Reports, available on our corporate website.

This year's introduction will be slightly different, set as it is against the backdrop of recently published proposals for a substantial revision of the UK Corporate Governance Code (the 'Code'). The changes proposed by the Financial Reporting Council are focussed on supporting long-term sustainability (i) through alignment of a company's purpose, values and culture; and (ii) through engagement with a wider group of stakeholders. These are not new issues but their profile and ambit have clearly risen in recent years, for reasons we all understand.

In the interests of looking forward as best practice moves on, here is where Synectics and its Board sit today in relation to these increasingly critical matters.

(i) Alignment of purpose, values and culture

I last wrote specifically about the important role of culture at Synectics in this section of our Annual Report three years ago. At that time, the Company was reviewing the salutary experience of its only loss-making financial year since taking its current form and coming on to AIM in 2002. In that report of our 2014 results, I outlined the steps that the Board had taken to reinforce the Company's strong historical culture, after the dilution it had suffered in certain areas that we felt had contributed to the poor result. To quote, these were:

- the maintenance of our culture throughout the organisation is now an explicit personal objective for the Chief Executive;
- the Board has input into, and reviews the results of, an annual independently administered and anonymous employee survey;
- from now on corporate culture will form part of the risk review agenda item at each Board meeting;
- the Chairman and Non-Executive Directors have been given the task of explicitly promoting and testing Synectics' culture in contact with staff at all levels; and
- employee recognition awards will be linked more closely to achievements that demonstrate the Company's culture in action.

These steps have since been consistently and enthusiastically acted on, led by our Chief Executive, and have become part of the regular fabric of life at Synectics. Our core values were set down in 2015 in a concise and memorable formula that appears regularly in all relevant communications across and about the Group (for example in this Annual Report on page 20). Regular employee recognition awards are made twice a year and the citations circulated to the whole Company, in each case tied in to the demonstration of Synectics' culture and values in action. A new annual award was instituted in 2017, in memory of our late former Finance Director, to the single outstanding employee chosen by senior management as most exemplifying Synectics' core values. As another example, the central theme of the Chairman's 30th anniversary address to Synectics' Systems staff last year was precisely the Company's enduring purpose and values.

I am completely confident that each employee in the Group is now aware of what Synectics' values are and what behaviours the organisation expects from its people to fit in with them. This is not to say we are trying to produce clones, quite the contrary – individuality, and quirkiness are valued, as are diversity of personalities and of every other sort, provided the Company's core values are respected.

At the Board level, we can monitor the effectiveness of this consistent and cumulative emphasis on the Company's culture by the measure of employee engagement from the annual employee opinion survey, on which there is more below.

The positive impact from the efforts applied in these areas over recent years is quite apparent in discussions with employees around the Group, in commendations from customers and, more quantitatively, from significant improvement in the Group's overall measure of customer satisfaction. I have no doubt the efforts by management and the Board to reinforce the Company's culture are having an increasingly positive impact on financial performance and on our goal of building a truly sustainable business.

(ii) Engagement with a wider group of stakeholders

The wider group of stakeholders the FRC is referring to includes shareholders, employees, customers, suppliers and the wider community.

Synectics has always maintained regular communication with shareholders through our Annual Report and Accounts, investor website, market updates, Annual General Meeting and biannual meetings with large holders.

Non-Executive Board members engage with employees on an ad hoc basis through site visits and more comprehensively via the annual employee opinion survey, which is anonymous and independently administered. Whistleblower policies and protections are in place and well publicised. The Board pays significant attention to output

from the opinion survey, not just the tabulated data but also the more nuanced information coming from specific comments given in answer to many of the questions. The information allows the Board to monitor both emerging trends and also particular areas or locations where issues may need further probing.

Although by no means universally glowing, the results from the most recent surveys show a marked improving trend in levels of engagement and work satisfaction. With its emphasis on high levels of commitment and an ethos of never letting customers down, the work environment in the Group is demanding, and can be sometimes unwittingly harsh on very good, uncomplaining people who always want to help. One of the issues the Board looks for is the balance between high commitment and systematic undue stress – and we probe the Executives on how well that issue is managed down through the organisation.

Synectics also engages independent experts to conduct an annual survey of our customers, named or anonymous at their option. This is a rich source of data and anecdote on how well the Company is doing. The attention paid to the results within each business area also helps to reinforce the employees' focus on customers, which is at the heart of what Synectics does well. The customer survey also produces a regular single metric, the net promoter score, which provides a yardstick for the Board to judge our progress in that area. We were pleased that the 2017 survey showed results on that measure that were both significantly improved on the prior year and very positive in absolute terms.

So far as suppliers are concerned, the Board has established the principles that we should deal fairly and honour our commitments, and that we should avoid single point of failure dependencies wherever possible. In a number of cases there are advantages in creating a higher-level partnership-type arrangement with particular critical suppliers. We see the importance of those sorts of relationships increasing and are willing to invest in creating them and making them work. To monitor compliance, data is collected, and regularly looked at by the Board, on the average days Synectics takes to pay its supplier invoices.

Synectics also encourages and supports its employees in participating in local community and charity projects. Examples of such activities are shown on page 20 of this report.

To return to the proposed changes to the Code, the FRC is now emphasising a new primary concept: sustainability. This is in fact a word that has appeared for some time in our articulation of Synectics' enduring purpose. It drives the Board's thinking on a number of issues, including maintaining a conservative balance sheet, being prepared to invest for the long term and making sure common sense has a key role in our decision-making processes.

As previously, I confirm that the Board continues to support wholeheartedly the letter and spirit of the UK Corporate Governance Code, including the proposals for a revised Code issued last December, and it remains our intent to follow Code provisions wherever we sensibly can within the constraints of the Group's size and resources.



David Coghlan
Chairman

20 February 2018

The corporate governance disclosures include the Chairman's Introduction, the Corporate Governance Statement, the Audit Committee Report and the Remuneration Committee Report.

The Board

The Board comprises a Non-Executive Chairman, four Non-Executive Directors and two Executive Directors. The Group believes the size and composition of the Board give it sufficient independence, balance and broad experience to provide effective oversight of Synectics' strategy, performance, resources and standards of conduct. The strong representation of Non-Executive Directors on the Board demonstrates its independence, provides a greater depth of experience and facilitates challenge.

The roles of the Chairman and the Chief Executive are undertaken by separate individuals. The Chairman, David Coghlan, is responsible for leadership of the Board and ensuring that there is effective communication with shareholders. The day-to-day leadership and management of the business are undertaken by the Chief Executive, Paul Webb, assisted by senior management.

Peter Rae fulfils the role of the Senior Independent Non-Executive Director of the Group. He was appointed based on his ability to perform the role and his deep knowledge and experience of the Group. He supports and deputises for the Chairman on matters relating to Directors and engagement with shareholders.

The Company Secretary, in conjunction with the Chairman, ensures that accurate, timely and clear information is provided to the Board in order for informed decisions and discussions to take place. The Company Secretary is responsible for advising the Board on governance matters and regulatory requirements. The appointment and removal of the Company Secretary are matters reserved for the Board. All Directors have direct access to the Company Secretary and to independent professional advice at the Group's expense as required.

The Group purchases and maintains Directors' and Officers' liability insurance in respect of the Group, the Company and its Directors throughout each financial year.

Role of the Board

Great importance is placed on a well informed and decisive Board. Board meetings are held regularly throughout the year. In the 2017 financial year, six scheduled Board meetings and nine Board Committee meetings were held. In addition, as it does each year, the Board convened and participated in a separate two-day session on the Group's strategy and three-year plan.

The Board has adopted a schedule of matters reserved for its consideration and those delegated to Board Committees. The Board's responsibilities include setting the Group's overall business and commercial strategy; setting and monitoring business objectives to achieve the strategy; setting and monitoring annual budgets and financial and capital plans; and considering Group policies and any major investments or organisational changes.

Agenda items scheduled for every Board meeting include strategy, business performance, operations, human resources, finance and governance. The agenda is reviewed and agreed by the Chairman to ensure that the Board addresses the right issues at the right times and that sufficient time is allowed for appropriate consideration and debate.

Following Board Committee meetings, the Board receives copies of the Committees' minutes at the next Board meeting and can raise any queries or concerns with the Committee Chairmen.

Board meetings

Board meetings are scheduled in different Group offices to give the Board the opportunity to meet local management and employees, and to develop greater business knowledge and depth of awareness of business-specific opportunities and threats. All Directors receive papers sufficiently in advance of meetings to enable due consideration.

During the 2017 financial year, matters dealt with by the Board included:

- review and monitoring of Group strategy and progress against business objectives;
- operational and financial performance of the Group;
- Group budgets and three-year plan;
- approval of financial statements and dividend policy;
- risk management oversight, review of internal controls and monitoring of the Group's risk registers;
- Board and senior management succession planning;

- approval of large contracts and bids;
- approval of large capital expenditure projects;
- Committee reports and recommendations;
- review of corporate governance reporting;
- Board and Committee evaluation, reviewing progress of actions from the 2016 evaluation and setting actions for 2017/18;
- the possible impacts of the result of the UK's EU referendum;
- considering the risk registers and the outcome of the risk review, as reviewed in detail by the Audit Committee;
- the re-appointment of KPMG LLP as external auditor, upon the recommendation of the Audit Committee, following a competitive tender of the audit services contract;
- reviewing the findings of the 2017 employee opinion survey;
- reviewing corporate governance matters including: the review and approval of the annual update to the Group's approach to meeting the requirements of the Modern Slavery Act 2015; and monitoring the programme of work to ensure compliance with the EU General Data Protection Regulation;
- monitoring the progress of the Customer Excellence Programme and the Market Development Programme; and
- reviewing the Group's product development roadmap and technological developments in the industry.

Details of attendance at Board and Board Committee meetings during the 2017 financial year are as follows:

	Total number of meetings		
	Board	Audit Committee	Remuneration Committee
DJ Coghlan Chairman	6	–	–
D Bate	6	3	6
MJ Butler	6	3	6
SW Coggins Chairman of Audit Committee	6	3	6
PM Rae Chairman of Remuneration Committee	6	3	6
MJ Stilwell	6	–	–
PA Webb	6	–	–

Directors' conflicts of interest

A Conflicts Register is maintained by the Company Secretary to monitor and manage any potential conflicts of interest. Training on the Companies Act 2006 has been given to all Directors on the provisions within, and Directors are reminded of their duties at each Board meeting. Any conflicts are declared at the first Board meeting at which the Director becomes aware of a potential conflict and then recorded in the Conflicts Register. The Board considers all conflicts in line with the provisions set out in the Articles and non-conflicted Directors can authorise conflicts with or without limits and conditions. The Directors are required to review their interests recorded in the Conflicts Register on an annual basis.

Board Committees

The Group has two standing Board Committees: an Audit Committee and a Remuneration Committee. The roles and activities of those Committees are included in the respective Committee reports on pages 39 to 45.

The functions of a nominations committee are undertaken by the Group Board as a whole. Where necessary and appropriate, a nominations sub-committee is appointed temporarily to fulfil specific tasks. Given the size of the Group, and the size and composition of its Board, the Directors believe it is both practical and beneficial for matters of Board composition and recruitment, Board performance evaluation, Executive and Non-Executive succession planning, and training and development to be undertaken by the Board as a whole. All such matters are regularly scheduled on the Board's agenda and are discussed thoroughly and robustly, incorporating the detailed perspectives and experience of all Directors.

Board appointments

All Non-Executive Directors are provided with a letter of appointment on acceptance of the appointment, which includes the terms and conditions of their role. The letters of appointment are updated as appropriate from time to time and are available on request from the Company Secretary.

Diversity

The Group recognises the benefits of having a diverse Board, senior management team and workforce in general and seeks to recruit and develop the best-qualified candidates to support and achieve the Group's long-term strategic and business objectives. The Group monitors and encourages diversity across the whole workforce in terms of gender, skills, culture, disability and ethnicity and believes such diversity contributes to the success of the Group.

Board performance and effectiveness

Induction

The Group's policy is for all new Directors to undertake a formal and comprehensive induction to the Group upon joining the Board. The induction process is undertaken by the Company Secretarial department. On acceptance of appointment all Directors are provided with an induction pack, which includes: their appointment letter and terms; latest accounts and constitutional documents; the business plan; investor presentations; protocol for conflicts of interest; Directors' duties; Group Share Dealing Code and Group policies; Board meeting procedures and matters reserved; Board minutes and papers from previous meetings; and meeting dates and contact details. Substantive induction to the Group's businesses is provided through meetings with senior management and site visits to the Group's operations.

Performance evaluation

The Board carries out an annual self-assessment of its performance. This includes evaluation of the performance and effectiveness of the Board, of its Committees and of each Director. The process is led by the Chairman and involves detailed questionnaires and one-to-one reviews of the collective and individual performance of Directors. The results of the Board and Committee evaluations are the subject of a full, robust and open debate in a Board meeting and actions for improvements are agreed. Progress against these actions arising from performance evaluations is then monitored and reported on throughout the following year.

As a result of the evaluation process during 2017, the Board identified and agreed five action steps for 2017/18 focussed on:

- widening the scope of the annual Board strategy review to include a more in-depth review of potential future industry scenarios based on emerging technology applications;
- extending the Board's access to expert views on technology developments in the wider industry;
- building on the recent progress in Board-level risk assessment and management processes;
- further refining the content and use of the template developed for effective monitoring of progress against the Company's strategic objectives across all business areas; and
- increasing the number and frequency of attendance of senior managers at Board meetings.

Independence

As part of the appraisal of each Director, the independence of all Non-Executive Board members is reviewed and evaluated annually. Peter Rae, Steve Coggins and Dennis Bate have served on the Board for 20, 13 and twelve years respectively and Michael Butler has served for two years. Each brings different and complementary high-level experience relevant to the current business and future development of the Group. During 2017, and at all times previously, each has addressed all issues facing the Board with a high level of candour, robustness and insight. Their in-depth knowledge of the Group and the electronic surveillance industry, gained from their tenure, combined with their different and complementary skills and knowledge developed from other directorships, provide valuable independent perspectives that contribute to the success of the Group and to the performance and effectiveness of the Board. For these reasons, each of these four Non-Executive Directors is considered by the Board to be independent.

Shareholder engagement

The Board welcomes dialogue with shareholders and actively engages with them through face-to-face meetings and written queries, and at the Company's Annual General Meeting. Individual meetings are conducted with those substantial shareholders who so request following the announcement of final and half-year results. The Group's brokers are requested to collate all responses from such investor meetings and to pass these to the Board. In addition, the Chairman apprises all Board members of any other significant shareholder feedback or discussions. As part of the continued review of the Group's governance reporting, the Annual Report and Accounts includes expanded narrative governance disclosures that take into account the views of shareholders expressed through the engagement process.

The Audit Committee comprises:

- Steve Coggins, Chairman of the Committee, Independent Non-Executive Director;
- Dennis Bate, Independent Non-Executive Director;
- Michael Butler, Independent Non-Executive Director; and
- Peter Rae, Senior Independent Non-Executive Director.

All of the Committee members are Independent Non-Executive Directors and have no personal or financial interests, other than as shareholders, in the matters considered by the Committee.

The Audit Committee has formal terms of reference which set out its duties delegated by the Board. A copy of the terms of reference can be obtained from the Company Secretary or from the Governance section of the Company's website (www.synecticsplc.com).

During the last financial year the Committee met three times. Neither the Executive Directors nor the Chairman attend meetings other than by invitation of the Committee members. The Committee invites the auditor to attend certain meetings.

The Committee is authorised by the Board to obtain external professional advice at the Group's expense in order to perform its duties.

The main function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities for the integrity of the Company's financial statements and matters relating to the Group's system of internal controls and risk management. Its principal duties are to:

- make recommendations to the Board on the appointment, re-appointment or removal of the external auditor and the amount of its remuneration;
- discuss and agree the scope of the audit and review the auditor's management letter and the Group's response;
- review and agree the scope and work of the Group's internal audit activities;
- review half-year and annual financial statements and formal announcements relating to financial performance;
- review the adequacy and effectiveness of the Group's internal financial controls, and internal control and risk management systems;
- consider compliance with relevant laws and regulations;
- consider findings of internal investigations and management's response; and
- review the Committee's terms of reference and recommend any proposed changes to the Board for approval.

During the financial year the Audit Committee considered the following matters:

- the suitability of the Group's accounting policies and practices;
- the half-year and full-year financial results;
- the scope and cost of the external audit;
- the auditor's full-year report for 2016;
- the evaluation of the performance and independence of KPMG LLP as the Group's external auditor;
- the implementation of the approved process and action plan for the tender of the external audit and tax compliance services (explained in more detail below);
- the review and approval of the external auditor's plan for 2017, which detailed the proposed audit scope and risk and governance assessment;
- the review and approval of the external auditor's fees for 2017;
- the internal control environment across the Group;
- the arrangements in respect of internal audit, including its resourcing and the scope of the annual internal audit plan for 2017/18;
- reports on the internal audit activity carried out during the year, including: the audit of internal control questionnaires from across the Group; an audit of the Group's transfer pricing process; and an audit of the Group's working capital management;
- detailed reviews of strategic and operational risks facing the Group, the risk registers and the mitigating actions to minimise risk;
- the annual review of the whistleblowing policy;
- the review of the Audit Committee terms of reference and recommendation of the updated terms of reference to the Board for approval;
- the assessment of the internal finance organisation;
- the results of the internally conducted assessment of the Audit Committee's performance and effectiveness in 2017;
- the approval of the Audit Committee plan for 2017;
- the review of a cyber security report, prepared by the provider of the Company's outsourced IT services, which reviewed the Group's IT security and resilience;
- the review of the current status and future roadmap of the Company's IT infrastructure;
- the training requirements of the Audit Committee members; and
- a technical update detailing accounting standards that would impact the Group over the next few years.

Significant financial statement reporting issues

The Audit Committee looks carefully at those aspects of the financial statements which require significant accounting judgements or where there is estimation uncertainty. The Audit Committee also reviews the draft of the external Auditor’s Report on the financial statements, with particular reference to those matters reported as carrying risks of material misstatement. The Audit Committee discusses the range of possible treatments both with management and with the external auditor and satisfies itself that the judgements made by management are robust and should be supported. The significant issues that the Audit Committee considered in the year were:

Issue	How the issue was addressed by the Audit Committee
Revenue recognition and contract accounting	The Audit Committee reviewed the controls in place to ensure the appropriateness of the estimates used in assessing contract stage of completion, anticipated profitability and the amounts recognised in the financial statements.
Carrying value of goodwill	The Audit Committee reviewed the appropriateness of the assumptions used in the value-in-use model to support the carrying value of goodwill. It also considered the impact of reasonably possible changes in the key assumptions on which the recoverable amounts are based.
Recoverability of Parent Company’s investment in subsidiaries	The Audit Committee reviewed the assessment of the carrying value of the Parent Company’s investment in subsidiaries using the value-in-use model used in supporting the carrying value of goodwill.

For all the matters described above the Audit Committee concluded that the treatment adopted in the Group’s financial statements was appropriate.

Internal controls

The Board of Directors, advised by the Audit Committee, has overall responsibility for the Group’s system of internal control and for reviewing its effectiveness. Details of the system of internal control, the principal risks facing the Group, and the strategies put in place to mitigate them, are set out in the Risk and Risk Management section on pages 50 and 51.

Auditor tender

Following the completion of the audit for the year ended 30 November 2016, KPMG LLP had provided external audit and tax compliance services to the Group for ten years. Having regard to the provisions of the UK Corporate Governance Code and relevant regulations regarding the tendering of external audit services, the Board, on the recommendation of the Audit Committee, tendered external audit and tax compliance services during 2017. It was considered appropriate to tender audit and tax compliance services as two separate parts of the process. The Audit Committee approved the objectives and process for the audit tender, which was designed to be efficient, open, transparent, fair and effective.

Five firms responded to the invitation to tender, including the incumbent auditor, KPMG LLP, which was first appointed as auditor for the year ended 31 May 2007. Each of the firms attended background meetings with key finance personnel and site visits. Presentations were made to a panel comprising the Finance Director and Head of Finance. Two firms were then selected to present to the Audit Committee’s tender sub-committee, which comprised the Chairman of the Audit Committee and also the Chairman of the Company, who then made a recommendation to the Audit Committee. The proposals received were assessed against predetermined criteria including audit quality, cultural fit and experience. Following careful consideration, the Audit Committee agreed that, across the criteria as a whole, KPMG LLP had delivered the best proposal and therefore the Audit Committee recommended to the Board that KPMG LLP be re-appointed as auditor. The Board is proposing a Resolution to the Annual General Meeting to re-appoint KPMG LLP as auditor.

As stated above, the tender process extended to consideration of the award of tax compliance services. The evaluation process was similarly comprehensive to the audit tender process. It was concluded that the Audit Committee recommend to the Board that Deloitte LLP provide tax compliance services for the year ended 30 November 2017.

Audit independence

The Audit Committee and the Board place great emphasis on the objectivity of the external auditor in its reporting to shareholders.

The Audit Director is present at Audit Committee meetings as required to ensure full communication of matters relating to the audit. The overall performance of the auditor is reviewed annually by the Audit Committee, taking into account the views of management, and feedback is provided when necessary to senior members of the audit firm unrelated to the audit. The Audit Committee also has discussions with the auditor, without management being present, on the adequacy of controls and on any judgemental areas. The scope of the forthcoming year's audit is discussed in advance by the Audit Committee. Audit fees are approved by the Audit Committee.

In accordance with best practice and professional standards, external auditors are required to adhere to a rotation policy whereby the Audit Director is rotated after five years. The most recent Audit Director rotation was in 2017 when the Audit Director rotated off the Group audit following the completion of the 2016 audit.

Assignments of non-audit work have been and are subject to controls by management that have been agreed by the Audit Committee so that audit independence is not compromised.

Other than the audit, the Audit Committee is required to give prior approval of work carried out by the auditor and its associates with a value in excess of £50,000. Part of this review is to determine that other potential providers of the services have been adequately considered. These controls provide the Audit Committee with confidence in the independence of the auditor in its reporting on the audit of the Group.

Non-audit services

KPMG LLP provides non-audit services to the Group, which are governed, so as to safeguard its independence and objectivity, by the Group's non-audit services policy. Compliance with the policy is actively managed and an analysis of non-audit services is reviewed throughout the year. During the year ended 30 November 2017 10% of services provided to the Group were non-audit services and related predominantly to corporate tax compliance (see note 5 to the financial statements).

By Order of the Board



Steve Coggins

Chairman of the Audit Committee

20 February 2018

This report provides information about the Remuneration Committee, the remuneration policies approved and applied by the Board, and the actual remuneration of Directors for the year ended 30 November 2017. This report does not constitute a directors' remuneration report in compliance with the requirements of the Code, as the Group is exempt from such requirements.

Unaudited information

Remuneration Committee

The Group's Remuneration Committee comprises:

- Peter Rae, Chairman of the Committee, Senior Independent Non-Executive Director;
- Dennis Bate, Independent Non-Executive Director;
- Michael Butler, Independent Non-Executive Director; and
- Steve Coggins, Independent Non-Executive Director.

The Committee members are Independent Non-Executive Directors and have no personal or financial interests, other than as shareholders, in the matters considered by the Committee.

The Remuneration Committee operates within the remit delegated by the Board, which is set out in formal terms of reference. The remuneration of Non-Executive Directors is a matter for the Chairman and the Executive members of the Board. No Director or manager is involved in any decision regarding their own remuneration. A copy of the terms of reference can be obtained from the Company Secretary or from the Governance section of the Company's website (www.synecticsplc.com).

Neither the Executive Directors nor the Chairman attend other than by invitation of the Remuneration Committee and are not present at any discussion of their own remuneration.

The principal duties of the Remuneration Committee are to:

- recommend to the Board for approval overall Group remuneration policies, and the specific remuneration each year for all Directors and senior management, including bonuses, incentive payments and share options and awards;

- ensure Executive Directors and senior executive management are provided with appropriate incentives to encourage enhanced performance in a fair and reasonable manner;
- approve the design of, and determine targets for, any performance-related pay schemes;
- review the design of all share incentive plans for approval by the Board and, where appropriate, shareholders;
- determine whether awards will be made under any share incentive plans, including the size of the award and the performance targets to be used;
- determine the policy for pension arrangements for Executive Directors and certain senior managers;
- ensure that contractual terms on termination and any payments made are fair, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- consider applicable legislation, regulation, best practice guidance and recommendations, and developments on remuneration policy and remuneration reporting;
- review remuneration trends at individual subsidiaries and the Group as a whole, and oversee any major changes in employee benefit structures across the Group;
- select and appoint any remuneration consultants to advise the Committee, if required; and
- review the Committee's performance, constitution and terms of reference to ensure it operates effectively and to recommend any changes to the Board for approval.

The Committee Chairman reports formally to the Board on the Committee's proceedings after each meeting; ensures that an annual report of the Group's remuneration policy and practices is published in the Group's Annual Report and Accounts; and ensures each year that the Remuneration Committee Report, which contains the Directors' remuneration, is put to shareholders for approval at the Annual General Meeting.

The Committee is authorised by the Board to seek any information it requires from any employee of the Group in order to perform its duties and to obtain external professional advice at the Group's expense.

During the year the Remuneration Committee met six times. Matters dealt with by the Remuneration Committee included the:

- approval of the 2016 bonus awards and salary increases for the Executive Directors and certain senior managers;
- approval of the discretionary executive bonus scheme to take effect in the financial year 2017 for Executive Directors. For the 2017 financial year, the upper limits on bonuses were set at 75% of base salary for the Chief Executive and 50% for the Finance Director;
- approval of an award of options under the Performance Share Plan on 1 March 2017 for the Executive Directors and certain senior managers;
- approval of exercises of options over shares, and sales of shares, in respect of the Group's various incentive plans during the year;
- determination of the appropriate treatment of Performance Share Plan and Executive Shared Ownership Plan awards held by participants who had left the Group;
- review of the outturn of the 2014 Performance Share Plan awards and the determination that no proportion of the awards had vested and therefore that the awards had lapsed;
- approval of a gift of shares by the Company's employee benefit trust to recognise the exceptional performance of John Katnic, Vice President of Global Gaming, during the year ended 30 November 2016; and
- approval of changes to Synectics' policy for the provision of company cars and cash alternatives and to Paul Webb's remuneration to replace his entitlement to a company-supplied car with an annual allowance of £12,000.

Remuneration policy for Executive Directors

Executive Directors are employed by the Group and are required to devote substantially the whole of their time to its affairs. The policy of the Board is to provide competitive packages reflective of the industry in which it operates to attract, retain and motivate high-calibre individuals as Executive Directors and to ensure that their remuneration packages (consisting of basic salary, performance-related bonuses, pension arrangements and other benefits including interests in share schemes) reflect their responsibilities, performance and experience, and encourage and reward superior performance. The policy also seeks to ensure that Executive Directors are rewarded fairly for their individual contributions to the Group's performance and to encourage appropriate behaviours in line with the Group's attitude to risk.

The principal elements of the Executive Directors' remuneration packages are as follows:

- Basic salary – the Group aims to pay competitive market salaries and to recognise individual development and progression through the annual salary and personal review processes. Salaries are reviewed annually.
- Annual performance-related bonuses – in line with the scheme covering other senior members of staff, performance-related bonuses for the Executive Directors are based on the achievement of specific financial targets for the Group and agreed personal objectives.
- Pension arrangements – the Group makes contributions into money purchase schemes on behalf of the Executive Directors. Pension payments are based only on basic salary.
- Other benefits – these principally comprise car benefits, life assurance and membership of the Group's healthcare scheme.
- Long-term incentive arrangements – the Group operates various share plans in which the Executive Directors participate. Details of the share plans are given in note 22 to the financial statements. Directors' interests in the shares of the Group are detailed in the shareholdings disclosure on page 47.

Executive Directors are not automatically entitled to compensation payments for loss of office, other than payment in lieu of their contractual notice period, if legally required.

Executive Directors do not hold directorships in other companies unrelated to the Group and, accordingly, no remuneration is due to the Group.

Remuneration policy for Non-Executive Directors

Non-Executive Directors are independent of the Group and are expected to spend an average of approximately two days a month on the Group's business. They are not restricted from undertaking additional directorships, subject to avoiding any conflicts of interest.

After considering recommendations from the Chairman, the Board determines the remuneration of the Non-Executive Directors excluding the Chairman. The remuneration of the Chairman is determined by the Remuneration Committee. Non-Executive Directors receive fees which are reviewed annually in light of their responsibilities, experience and contribution to the Group's affairs, as well as market rates. Non-Executive Directors do not receive any performance-related pay or rewards, and the Group does not deduct for, or contribute to, a pension.

Audited information

Details of the Directors' emoluments are given below.

a) Remuneration

	Salary and fees £000	Bonuses ¹ £000	Benefits £000	2017 Total (excl pension) £000	2016 Total (excl pension) £000	2017 Pension £000	2016 Pension £000
Executive Directors							
MJ Stilwell	127	36	11	174	156	9	6
PA Webb	232	90	39	361	315	13	27
Non-Executive Directors							
D Bate	30	–	–	30	30	–	–
MJ Butler (appointed 23 February 2016)	30	–	–	30	23	–	–
SW Coggins	30	–	–	30	30	–	–
DJ Coghlan	75	–	11	86	88	–	–
PM Rae	30	–	–	30	30	–	–
Total	554	126	61	741	672	22	33

1. Bonuses are paid or accrued based on the achievement of agreed personal objectives and corporate performance metrics.

Pension contributions shown above reflect pension payments into money purchase arrangements. There were no other pension payments or accrued pension benefits arising under money purchase schemes in respect of Directors.

b) Share schemes

The Directors' interests in the Company's share schemes are presented below. No new options were granted to, or exercised by, any Director between 1 December 2017 and 20 February 2018.

Performance Share Plan

The following Executive Directors held an interest in the Company's shares at 30 November 2017 through awards made under the Synectics Performance Share Plan ('PSP'), which was established on 9 October 2012, as set out below and in note 22.

Under the rules of the PSP, selected employees are awarded an interest over a certain number of Company shares which only vest after a three-year period, at nil cost to the employees. The number of shares that vest at the end of the three-year period is dependent on the Company meeting certain performance thresholds linked to the FTSE AIM All Share Total Return Index. The performance conditions are identical to those that applied under the Executive Shared Ownership Plan, details of which are presented below.

No rights under this scheme were exercised by Directors during the year.

Date awarded	30 March 2015		1 March 2016		1 March 2017	
	Number of shares	Issue price (p)	Number of shares	Issue price (p)	Number of shares	Issue price (p)
MJ Stilwell	25,000	125.0	15,000	117.5	7,500	225.0
PA Webb	50,000	125.0	30,000	117.5	15,000	225.0

Executive Shared Ownership Plan

The following Directors held an interest in the Company's shares at 30 November 2017 through participation in the Quadnetics Executive Shared Ownership Plan ('ExSOP'), which was established on 7 July 2009, having superseded an earlier scheme established in 2005, as set out in note 22. The last awards under the ExSOP were made in March 2011.

Date awarded	7 July 2009 ¹		7 March 2011	
	Number of shares	Issue price (p)	Number of shares	Issue price (p)
PA Webb	100,000	147.5	100,000	178.0
DJ Coghlan	93,243	147.5	–	–

1. Share awards issued on this date were rolled over from share awards held under a previous version of the ExSOP.

Under the provisions of the ExSOP, shares are jointly owned by nominated senior employees and by an employees' share trust on terms, similar to a share option scheme, whereby the value of appreciation in the Company's share price over a minimum three-year period accrues to the relevant employee, provided the Company meets certain performance thresholds linked to the FTSE AIM All Share Total Return Index. No rights under this scheme were exercised by Directors during the year.

Employees' Share Acquisition Plan

The Executive Directors also participate in the Quadnetics Employees' Share Acquisition Plan ('ESAP'), which was adopted on 23 April 2010. Deductions from salary are used to buy partnership shares in Synectics plc at the end of each six-month accumulation period. The Trustee of the ESAP will use any dividend income paid on these shares to buy further shares to be held in the scheme as dividend shares.

Partnership shares can be withdrawn from the scheme by the employee at any time, but withdrawals before the fifth anniversary after purchase are subject to income tax; withdrawals after the fifth anniversary of their purchase date can be made in full and are not subject to income tax. Dividend shares are required to be held in trust for a period of three years following the purchase date. Employees who leave the Group are required to withdraw all of their shares in the scheme and are subject to the same rules.

The Executive Directors had the following interests over Company shares held in the ESAP at 30 November 2017:

	Purchase price (p)	PA Webb Number of shares	MJ Stilwell Number of shares
Partnership shares			
14 October 2010	147.5	338	–
7 April 2011	177.5	422	–
2 November 2011	185.5	405	–
20 April 2012	200.0	375	–
9 October 2012	272.5	275	–
3 April 2013	282.5	266	–
14 October 2013	393.0	190	–
4 April 2014	404.0	186	–
2 October 2014	350.0	214	257
17 April 2015	153.0	492	588
22 October 2015	123.5	607	729
29 April 2016	162.0	463	555
20 October 2016	154.0	552	585
27 April 2017	212.5	423	423
27 October 2017	210.0	429	429
		5,637	3,566
Dividend shares			
25 July 2011	200.0	7	–
2 November 2011	205.0	9	–
17 May 2012	289.0	19	–
9 October 2012	272.5	14	–
8 May 2013	445.0	21	–
4 October 2013	488.0	13	–
7 May 2014	430.0	30	–
6 May 2016	154.0	26	10
24 May 2017	223.0	44	24
13 October 2017	285.0	19	11
		202	45
		5,839	3,611

The mid-market prices of the Company's shares at the beginning and end of the financial year were as follows:

	Ordinary shares of 20p each
At 1 December 2016	190.5p
At 30 November 2017	217.5p

The maximum and minimum share prices during the financial year were as follows:

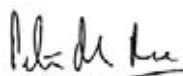
	Ordinary shares of 20p each
Maximum	287.5p
Minimum	177.5p

c) Service contracts

There are no Directors' service contracts with notice periods in excess of one year. The notice periods under the service agreements for Executive Directors and letters of appointment for Non-Executive Directors are as follows:

	Notice period
D Bate	3 months
MJ Butler	3 months
SW Coggins	6 months
DJ Coghlan	12 months
PM Rae	1 month
MJ Stilwell	6 months
PA Webb	12 months

By Order of the Board



Peter Rae

Chairman of the Remuneration Committee

20 February 2018

The following matters are reported by the Directors in accordance with the Companies Act 2006 requirements in force at the date of this Annual Report and Accounts.

Principal activities

The principal activities of Synectics plc (the 'Company') and its subsidiary companies (the 'Group') are set out within the Strategic Report, which comprises the Chairman's Statement, the Strategic Review, the Performance Review and the Risks and Risk Management section, on pages 4 to 31, and pages 50 and 51.

Review of business and future developments

The Consolidated Income Statement for the year ended 30 November 2017 is set out on page 56.

A review of the Group's business activities during the year and its prospects for the future can be found in the Chairman's Statement, the Strategic Review and the Performance Review on pages 4 to 31. These reports, together with the Chairman's Introduction, the Corporate Governance Statement, the Audit Committee Report and the Remuneration Committee Report, are incorporated into this report by reference and should be read as part of this report.

Key performance indicators

The Directors measure the Group's performance principally using the following financial indicators (as reflected in this Annual Report):

- revenue;
- gross margin %;
- underlying operating profit and underlying profit before tax;
- underlying operating margin %, being the ratio of underlying operating profit to revenue;
- operating profit;
- profit before tax;
- diluted earnings per share;
- underlying diluted earnings per share (based on underlying profit after tax);
- order book;
- recurring revenue (being contracted sales where a service is delivered over a future time period and revenues are recognised in the relevant future accounting period);
- recurring revenue as a % of total revenue;
- net cash balance;
- working capital %;
- return on capital employed %;
- free cash flow; and
- cash conversion %.

Principal risks and uncertainties

Details of the principal risks and uncertainties considered by the Board to affect the Group, and the related risk mitigation actions, are given on pages 50 and 51.

Group results and dividends

The consolidated profit after tax for the year was £2,553,000 (2016: £1,471,000).

The Directors recommend the payment of a final dividend of 3.0p per share (2016: 2.0p per share), totalling around £506,000. Subject to approval, this is expected to be paid on 4 May 2018 to shareholders registered on 3 April 2018. An interim dividend of 1.0p per share was paid during the year (2016: nil per share).

Financial instruments

Details of financial instruments to which the Group is a party are shown in note 29 to the financial statements.

Fixed assets

In the opinion of the Directors, there is no material difference between the book value and the current open market value of the Group's interest in land and buildings.

Research & development expenditure

The Group has continued to invest in research & development of both software and hardware products for surveillance applications during the year incurring total costs of £2.6 million (2016: £2.2 million), of which £2.1 million (2016: £1.9 million) has been written off to the income statement.

Share capital

The Company's issued ordinary share capital comprises a single class of ordinary shares of 20p each, with 17,794,439 shares in issue and listed on AIM of the London Stock Exchange as at 30 November 2017. No shares were held in treasury and 1,263,351 shares were held by the Company's employee share trusts. Details of movements in the issued share capital can be found in note 21 to the financial statements. No securities were issued in connection with a rights issue during the year.

Each share carries the right to one vote at general meetings of the Company. All issued shares are fully paid up and carry no additional obligations or special rights. There are no restrictions on transfers of shares in the Company, or on the exercise of voting rights attached to them, other than those which may from time to time be applicable under existing laws and regulations.

Employee share plans

During the year, the Company has remained within its headroom limits for the issue of new shares for share plans as set out in the rules of the plans. The Company uses an employee benefit trust to acquire partnership shares (at the end of each accumulation period) and dividend shares in the market, when permitted. A total of 16,774 shares in the Company were purchased by the employee benefit trust during the 2017 financial year.

Directors' interests

Interests of the Directors and their connected persons in the issued share capital of the Company as at 30 November 2017 were as follows:

	2017 Number of shares held	2017 Interests in share schemes	2017 Total interests in shares	2016 Total interests in shares
D Bate	196,000	–	196,000	196,000
MJ Butler	40,000	–	40,000	25,000
SW Coggins	13,080	–	13,080	13,080
DJ Coghlan	1,521,303	93,243	1,614,546	1,614,546
PM Rae	232,302	–	232,302	232,302
MJ Stilwell	6,910	51,111	58,021	49,634
PA Webb	10,000	300,839	310,839	294,924
	2,019,595	445,193	2,464,788	2,425,486

There has been no change in the interests of the Directors and their connected persons in the issued share capital of the Company from those set out in the table above to 20 February 2018.

Significant shareholdings

As at the close of the market on 6 February 2018, the Company was aware of the following holdings, excluding Directors' holdings, of 3% or more of the Company's total issued share capital:

	Number of shares	% of total voting rights	Nature of interest
Whitehall Associated SA	3,000,000	16.86	Direct
Downing LLP	2,337,618	13.14	Direct
Hargreave Hale Limited	1,327,346	7.46	Indirect
Quadnetics Employee Benefit Trust	1,263,351	7.10	Direct
Seguro Nominees Limited	777,975	4.37	Indirect
Charles Stanley Group Plc	664,956	3.74	Indirect
Cavendish Asset Management	588,250	3.31	Direct

Board of Directors

All Directors were in office throughout the financial year ended 30 November 2017. Details and biographies of the current Directors are shown on pages 32 and 33.

The powers of the Company's Directors and rules that apply to changes in the Directors are set out in the Company's Articles of Association (the 'Articles'). Any changes to the Articles would require the consent of the Company's shareholders.

In accordance with the Articles, one-third of the Directors are required to retire by rotation at each Annual General Meeting. The Directors retiring by rotation at the 2018 Annual General Meeting are Dennis Bate and Paul Webb.

Directors' indemnity

As permitted by the Articles, each of the Directors has the benefit of an indemnity which is a qualifying third-party indemnity as defined by section 234 of the Companies Act 2006. The indemnity was in force throughout the financial year and is currently in force.

No indemnity is provided for the Group's auditor.

Conflicts of interest

The Articles permit the Board to consider and, if it sees fit, authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Group ('Situational Conflicts'). The Board operates an effective formal system for Directors to declare Situational Conflicts and for them to be authorised by the non-conflicted Directors if thought appropriate and subject to limits or conditions.

Related party transactions

Internal controls are in place to ensure that any related party transactions involving Directors or their connected persons are carried out on an arm's length basis and are properly recorded. Details of any related party transactions are given in note 25 to the financial statements.

Essential contracts or arrangements

The Group has a number of contractual agreements with suppliers in support of its business activities. Whilst the loss of certain of these arrangements may cause temporary disruption, there are none, for which mitigation plans have not been put in place, which are individually considered to be essential to the Group's business.

Change of control provisions

There are no significant agreements which contain provisions entitling other parties to exercise termination or other rights in the event of a change of control of the Group, and no provisions in the Directors' service agreements or employees' contracts that provide for compensation for loss of office or employment occurring because of a takeover.

Employment policies

The Group employed an average of 465 people in 2017 (2016: 517).

The Group has established employment policies that comply with current legislation and codes of practice, including in the areas of health and safety and equal opportunities. The Group consults employees on developments and changes to take account of their views when making decisions that may impact their interests.

The Group has in place a Diversity and Equality Policy which sets out Synectics' approach to equal opportunities and avoidance of discrimination at work. This policy confirms the Group's commitment to treating employees fairly and inclusively, ensuring that all decisions on recruitment, selection, training, promotion, career opportunities, pay and other terms and conditions are based solely on objective and job-related criteria. The Group is committed to offering employment to suitably qualified people with disabilities and making reasonable adjustments to the working environment to accommodate their needs. Where a role has an intrinsic occupational characteristic which may prevent the employment of a disabled applicant Synectics will make this clear during the recruitment process. The Group also makes every effort to continue the employment, training and promotion of disabled employees who develop disabilities during the course of their employment by making reasonable adjustments and providing appropriate support.

Employee engagement

The Group engages with its employees regularly through various media: email alerts, focus groups, monthly bulletins, team briefings, a biannual senior management conference and an annual staff survey. Details of the performance of the Group are shared with all employees at the appropriate time using the methods above.

The Group operates an HMRC-approved share incentive plan to encourage employees to take a greater interest in the Group's performance through share ownership. Details are set out in the Remuneration Committee Report on pages 42 to 45.

Policy on payment of suppliers

The Group's policy during the year was to pay suppliers in accordance with agreed terms. At 30 November 2017 the Group had 52 days' purchases outstanding in trade payables (2016: 61 days').

Charitable donations and activity

The Group made donations amounting to £1,764 (2016: £3,057) to charitable causes during the year.

Political donations

The Group made no political donations during the year. Its policy is not to make such donations.

Going concern

The financial statements have been prepared on a going concern basis. The Directors have reviewed the Group's objectives, policies and processes for managing its capital, financial risk management, financial instruments, exposure to credit and liquidity risk, and financial forecasts. As a result of this review the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements. Further details regarding the adoption of the going concern basis can be found in note 1 to the financial statements.

Annual General Meeting

The notice convening the Annual General Meeting is distributed separately to shareholders at least 20 working days before the meeting. Separate Resolutions are proposed on each substantially separate issue. The poll results from the 2018 Annual General Meeting will be made available on the Company's website after the meeting.

Auditor

As detailed in the Audit Committee Report, a tender of the external audit services contract was completed during the year and KPMG LLP was re-appointed by the Board, upon the recommendation of the Audit Committee. Accordingly, a Resolution for the re-appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Post-balance sheet events

There are no post-balance sheet events to report.

Disclosure of information to auditor

Having made the required enquiries, so far as the Directors are aware, there is no relevant audit information (as defined by section 418(3) of the Companies Act 2006) of which the Company's auditor is unaware and each Director has taken all steps that ought to have been taken to make himself aware of any relevant audit information and to ensure that the Company's auditor is aware of that information.

Directors' Responsibility Statement

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK

Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or Parent Company or cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Forward-looking statements

This report may contain certain statements about the future outlook for Synectics plc. Although the Directors believe their expectations are based on reasonable assumptions, any statements about future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

The Strategic Report and the Directors' Report have been approved by the Board.

By Order of the Board



Richard Brierley
Company Secretary

20 February 2018

Understanding and managing key risks to the Group

Synectics plc seeks to understand and manage the various risks that arise from its operations. The Group is subject to a variety of risks which may have an adverse impact on the business, results of operations, cash flow, turnover, profitability, assets, liquidity and capital reserves.

The principal risks facing the Group, and the strategies put in place to mitigate them, are described here.

The Board of Directors, advised by the Audit Committee, has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Responsibility for implementing sound and effective systems of internal control has been delegated by the Board to senior management. The purpose of the system of internal control is to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Directors have established an organisational structure with clear operating procedures, lines of responsibility and delegated authority. In particular there are clear procedures for capital investment appraisal and approval, contract risk appraisal and financial reporting within a comprehensive financial planning and accounting framework. The Directors believe the internal control environment is adequate and appropriate given the size and complexity of the Group.

A robust risk reporting framework has been adopted by the Board. As part of this framework, the divisional management teams submit a report to monthly business review meetings setting out their top five business risks, mitigation plans and associated timescales. The Executive Directors review and challenge this risk analysis with the divisional management teams at each business review meeting. The Executive Directors then review the individual divisional submissions, consider the broader strategic threats facing the Group and present their assessment of the most significant risks facing the Group to the Audit Committee and then the Board twice a year for detailed review and discussion. The Audit Committee and Board also receive the detailed risk reviews prepared by the divisional teams and these business risk registers are used when setting the Group's internal audit strategy.

In order to give additional assurance on controls, and to supplement the work undertaken by the external auditor, the Group uses the experience of its central accounting team to undertake a programme of internal audit approved by the Group's Audit Committee.

Read more about how the Group manages risk in the Corporate Governance Statement from page 36.

The Audit Committee advises the Board of Directors on matters of risk management. It has its own report, which can be read on pages 39 to 41.

Expansion into the international transport & infrastructure sector

People skills and dependency

Reputational risk

Project delivery risk and contractual liabilities

Technological risk

Product failure risk

Bad debt and non-recovery of costs risk

Price and margin pressure

Declining global energy prices impacting project awards and timescales

Exchange rate risk and Brexit

Risk

Factors that may impact the business

With the oil & gas market still depressed, expansion into the international transport & infrastructure sector is the key growth opportunity for the Group. There is a risk that the Group may fail to take full advantage of the opportunity presented by this sector due to a poor understanding of the markets or poor delivery of Synectics' proposition.

As with most businesses, particularly those operating in a technical field, we are dependent on our employees with key managerial, engineering and technical skills.

The nature of the Group's business and its customer base means that Synectics is dependent for future business on its reputation in the marketplace, particularly for the quality and reliability of its products and services, and the overall integrity of its people.

Where the Group's service offering fails to meet agreed standards or timescales there is a risk that the Group will be exposed to cost overruns and claims for contractual liabilities as a result of this failure.

As the industry becomes increasingly technical and transitions to digital technology, there is a risk that products become obsolete or irrelevant.

Where the Group's product offering fails to meet agreed standards there is a risk that the Group will be exposed to replacement or rework costs as a result of this failure, and the associated reputational impact on new business.

The Group is exposed to the risk of non-payment for work performed. This may be due to the inability of the customer to pay as a result of financial difficulty, or unwillingness to pay due to dissatisfaction with the work performed or dispute over the obligation to pay, particularly where extension of time and contract variations are claimed.

The electronic security industry in general is competitive with continued pressure on sales and margins.

Declining returns for companies investing in large energy-related infrastructure ventures may lead to projects being delayed or cancelled altogether. This could reduce demand for the Group's specialist products designed predominantly for the oil & gas sector, and hence negatively impact performance. These delays could also detrimentally impact the Group's working capital position.

The Group operates internationally giving rise to exposure from changes in foreign currency exchange rates.

Mitigation

What we are doing to minimise the risk

The Group has in place a transport & infrastructure sector lead to develop and deliver the strategy for these markets and drive the business forward. Synectics has a proven and current track record of delivering large-scale, integrated solutions for transport & infrastructure environments and the core Synectics infrastructure offer, which combines smart technology and human capability, is readily deployable in these growing markets.

In addition, the allocation of development resource is kept under review to ensure the Group's technical thinking is sufficiently agile and forward looking to successfully serve these markets.

The Group aims to offer appropriate remuneration packages and incentive arrangements, together with an agile environment which encourages and rewards excellent performance, in order to mitigate this risk. In addition the Group actively reviews its succession planning objectives and, in recent years, has increased its focus on personal development reviews and the provision of relevant training for all members of staff.

The Board recognises the importance of maintaining Synectics' strong culture and promoting its core values. The Board, and all levels of management, consistently emphasise the need to embed these attributes in the culture of the Group, and test this by regularly seeking feedback from customers and employees.

Project and service delivery are closely monitored and reviewed across Synectics on a regular and frequent basis. The Group maintains rigorous quality standards in all its operations, undertakes comprehensive risk assessments and carefully assesses the terms on which it agrees to enter into contractual relationships at appropriate levels of responsibility.

Synectics seeks to counter this risk through its investment in research & development resources and a continued focus on customer-led development to ensure that the most appropriate product development paths are followed.

Product quality is closely monitored and reviewed across Synectics with comprehensive product testing and customer support in place. The Group maintains rigorous quality standards in all its operations and expects the same standards of its supplier base. Where possible product liability is mitigated through contractual arrangements within the supply chain.

Credit evaluations are performed on all customers requiring credit using information supplied by independent rating agencies where available. The Group also uses other publicly available information and its own trading records to rate major customers.

Where possible credit risk is mitigated through deposit and milestone payment requirements which at least cover the cost of work performed. In addition financial instruments such as letters of credit are utilised where appropriate.

Robust reporting of outstanding positions, customer payment issues and projects experiencing delays is in place to the monthly business review meetings with the Executive Directors and exceptionally to the Board.

Synectics will continue to focus on customer sectors where electronic security systems have a critical cost of failure, or an extreme environmental requirement, rather than the mass volume markets. In addition Synectics will maintain a core of increasingly software-based proprietary technology giving higher-margin opportunities, and focus on developing recurring revenues.

The Group mitigates this risk by addressing a number of sectors, other than oil & gas, which are less heavily influenced by oil prices, in particular by seeking to secure opportunities in the transport & infrastructure sector. In addition, overhead costs are kept under constant review to ensure that they are appropriate to activity levels within the business.

The Group manages this risk through the matching of foreign currency receipts and payments, where possible, or alternatively through forward exchange contracts. The Board is closely monitoring any risks or opportunities that may emerge as a result of any potential change in the UK's relationship with the EU. We do not currently see any direct risks to the Group as a result of any change, although, as noted in the Chairman's Statement, the Group's results this year benefited again from favourable exchange rate movements in the translation of profits earned overseas.

Financial statements

Independent auditor's report
To the members of Synectics plc

1 Our opinion is unmodified

We have audited the financial statements of Synectics plc ('the Company') for the year ended 30 November 2017 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Company Statement of Comprehensive Income, the Company Statement of Changes in Equity, the Company Statement of Financial Position and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 November 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities

under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Materiality:	£650,000 (2016: £650,000)
Group financial statements as a whole	0.9% (2016: 0.9%) of revenue
Coverage	100% (2016: 100%) of revenue
Risks of material misstatement vs 2016	
Recurring risks	Revenue recognition and contract accounting ◀▶
	Carrying value of goodwill ◀▶
	Recoverability of Parent Company's investment in subsidiaries ◀▶

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2016):

The risk	Our response
<p>Revenue recognition</p> <p>(£70.1 million; 2016: £70.9 million)</p> <p>Refer to page 40 (Audit Committee Report), page 62 (accounting policy) and page 67 (financial disclosures).</p>	<p>Subjective estimate</p> <p>The Group recognises a majority of its revenue and profit based on the stage of completion either by reference to the proportion of contract costs incurred to the statement of financial position date compared with the estimated final costs of the contract at completion or by reference to the physical stage of completion of the contract.</p> <p>The recognition of revenue and profit relies on estimates in relation to the forecast total costs or stage of physical completion of each contract. Changes to these estimates could give rise to material variances in the amount of revenue and profit recognised.</p> <p>The revenue on contracts may also include variations and claims which are recognised on a contract-by-contract basis where the Group believes the rights and obligations exist and amounts can be measured reliably.</p>
	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Control design: we evaluated the controls designed and implemented by the Group in assessing the forecast total costs or stage of completion of each contract by testing the operating effectiveness of controls. • Test of detail: using a variety of quantitative and qualitative criteria we selected a sample of contracts to assess and challenge the most complex contract estimates. • Test of detail: we evaluated the appropriateness of manual adjustments to revenue through discussion with the Group and corroboration to supporting documentation. • Historical comparisons: we considered the financial performance of the selected sample of contracts against budget and historical trends by assessing the historical accuracy of judgement of the forecast total costs or final out-turn on contracts made in previous financial years.

2 Key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
<p>Revenue recognition continued</p>	<p>Therefore there is a high degree of risk and associated management judgement in estimating the amount of revenue and associated profit to be recognised by the Group up to the year end and changes to these estimates could give rise to material variances.</p>	<ul style="list-style-type: none"> • Test of detail: we inspected the contracts for key clauses, identifying relevant contractual mechanisms and assessing whether these key clauses have been appropriately reflected in the amounts recognised in the financial statements. • Customer correspondence scrutiny: we assessed correspondence with customers around variations and claims and considered whether this information was consistent with the estimates made by the Group. • Test of detail: we assessed the profile of accrued income with a focus on the likely recoverability of that balance and agreed the above to correspondence and meeting minutes with customers around variations, corroborating with assessments of these positions from the Group's legal or technical experts, if applicable.
<p>Carrying value of goodwill (£20.0 million; 2016: £19.9 million) Refer to page 40 (Audit Committee Report), page 61 (accounting policy) and page 74 (financial disclosures).</p>	<p>Forecast-based valuation</p> <p>The Group's Consolidated Statement of Financial Position includes goodwill, principally arising from historical acquisitions in the UK. The risk is that the goodwill allocated to cash-generating units ('CGUs') is not recoverable and should be impaired. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgemental areas for our audit.</p> <p>The Group annually carries out an impairment assessment of goodwill using a value-in-use model which is based on the net present value of the forecast earnings of the CGU. This is calculated using certain assumptions around discount rates, growth rates and cash flow forecasts.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Critical assessment of key assumptions: We critically assessed the key assumptions applied by the Group in determining the recoverable amounts of each CGU. In particular, we: <ul style="list-style-type: none"> • considered the consistency and appropriateness of the allocation of businesses and related goodwill balances into CGUs in light of our knowledge of the Group; • considered the underlying assumptions in determining the cash flows and growth assumptions applied with reference to historical forecasting accuracy and wider macro environment conditions; • challenged the assumptions used in the calculation of the discount rates used by the Group, including comparisons with external data sources; and • performed our own sensitivity analysis, including a reasonably possible reduction in assumed growth rates and cash flows to identify areas to focus our procedures on, and sensitised the total discounted cash flows of the Group against the notional enterprise value of the Group. • Assessing transparency: We assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions appropriately reflected the risks inherent in the valuation of goodwill.

Financial statements

Independent auditor’s report continued
To the members of Synectics plc

2 Key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
<p>Recoverability of Parent Company’s investment in subsidiaries (£19.6 million; 2016: £19.5 million)</p> <p>Refer to page 40 (Audit Committee Report), page 89 (accounting policy) and page 91 (financial disclosures).</p>	<p>High value</p> <p>The carrying amount of the Parent Company’s investments in subsidiaries represents 38% (2016: 38%) of the Company’s total assets.</p> <p>Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the Parent Company financial statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Carrying value comparison: We compared the carrying amount of the total investment balance for all subsidiaries with the relevant subsidiaries’ draft statements of financial position to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount. • Consideration of subsidiary audit findings: We critically assessed the work performed by the subsidiary audit teams on that sample of those subsidiaries and considered the results of that work on those subsidiaries’ profits and net assets.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £650,000 (2016: £650,000), determined with reference to a benchmark of revenue of £70.1 million (2016: £70.9 million), of which it represents 0.9% (2016: 0.9%). Revenue was deemed to be an appropriate benchmark because using a profit based benchmark would result in an inappropriately low benchmark that would not be a useful basis for determining materiality.

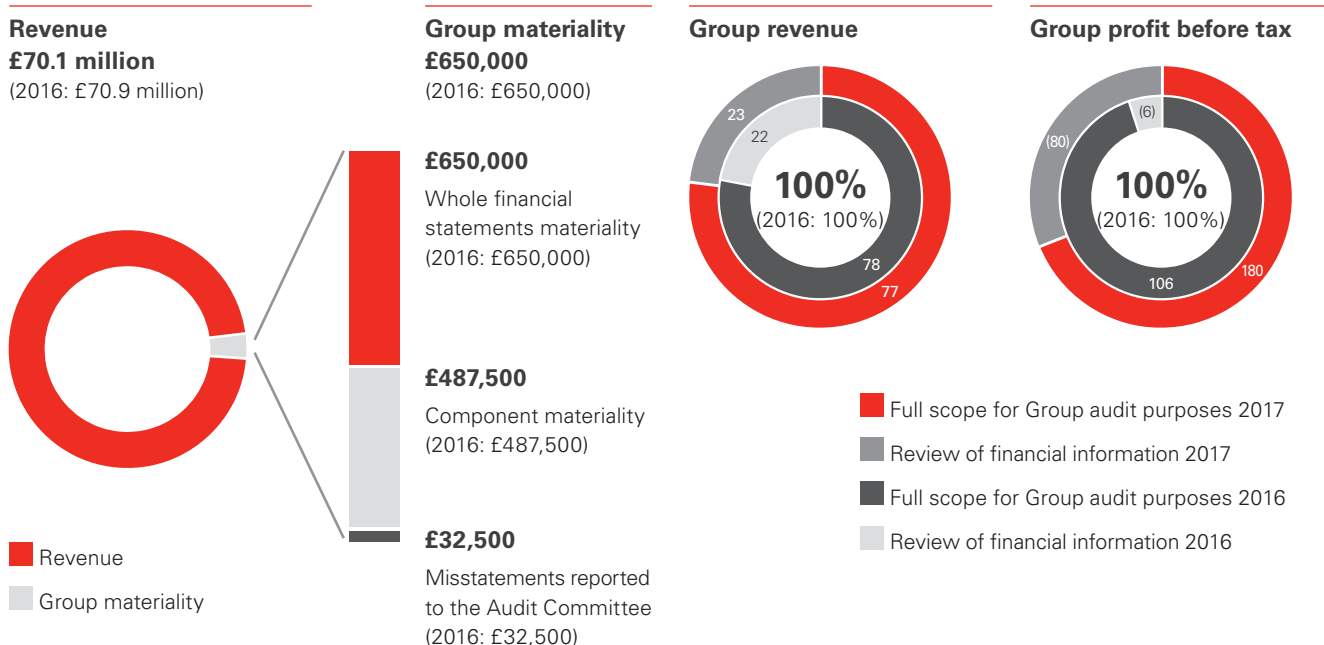
Materiality for the Parent Company financial statements as a whole was set at £460,000 (2016: £460,000), determined with reference to a benchmark of total assets, of which it represents 0.9% (2016: 0.9%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £32,500 (2016: £32,500), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Audit scoping covered 100% of Group revenue and profit before tax (2016: 100%).

Of the Group’s nine reporting components, we subjected six components (2016: six) to full scope audits for Group purposes and three non-significant components (2016: three) to reviews of financial information (including enquiry).

The components within the scope of our work accounted for the percentages illustrated below.



3 Our application of materiality and an overview of the scope of our audit continued

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materiality of £487,500 (2016: £487,500), having regard to the mix of size and risk profile of the components across the Group.

The work on the overseas components was performed by component auditors (as in prior year) and the rest, including the audit of the Parent Company, was performed by the Group team.

Telephone conference meetings were held with these component auditors as they were not physically visited. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4 We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5 We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 48 and 49, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



James Tracey (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

20 February 2018

Financial statements

Consolidated income statement

For the year ended 30 November 2017

	Note	2017 £000	2016 £000
Revenue	2	70,102	70,913
Cost of sales		(46,153)	(47,014)
Gross profit		23,949	23,899
Operating expenses	3	(20,823)	(21,808)
Profit from operations			
– Excluding non-underlying items	6	3,149	2,757
– Non-underlying items	4	(23)	(666)
Total profit from operations		3,126	2,091
Finance income	8	183	215
Finance costs	9	(313)	(351)
Profit before tax			
– Excluding non-underlying items		3,019	2,621
– Non-underlying items	4	(23)	(666)
Total profit before tax		2,996	1,955
Income tax expense	10	(443)	(484)
Profit for the year attributable to equity holders of the Parent		2,553	1,471
Basic earnings per share	12	15.5p	9.0p
Diluted earnings per share	12	15.1p	8.8p
Underlying basic earnings per share	12	15.6p	12.7p
Underlying diluted earnings per share	12	15.2p	12.4p

Consolidated statement of comprehensive income

For the year ended 30 November 2017

	2017 £000	2016 £000
Profit for the year	2,553	1,471
Items that will not be reclassified subsequently to profit or loss		
Remeasurement (loss)/gain on defined benefit pension scheme, net of tax	(363)	151
	(363)	151
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(760)	614
Gains on a hedge of a net investment taken to equity	125	535
	(635)	1,149
Total comprehensive income for the year attributable to equity holders of the Parent	1,555	2,771

Financial statements

Consolidated statement of financial position

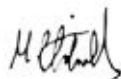
As at 30 November 2017

	Note	2017 £000	2016 £000
Non-current assets			
Property, plant and equipment	13	2,796	3,076
Intangible assets	14	21,749	22,115
Retirement benefit asset	28	289	720
Deferred tax assets	10	159	216
		24,993	26,127
Current assets			
Inventories	15	10,739	9,997
Trade and other receivables	16	24,418	24,771
Tax assets		16	72
Cash and cash equivalents	17	4,721	5,848
		39,894	40,688
Total assets		64,887	66,815
Current liabilities			
Loans and borrowings	19	(900)	(2,778)
Trade and other payables	18	(22,493)	(22,077)
Tax liabilities		(328)	(623)
Current provisions	20	(149)	(439)
		(23,870)	(25,917)
Non-current liabilities			
Loans and borrowings	19	–	(900)
Provisions	20	(102)	(215)
Deferred tax liabilities	10	(161)	(202)
		(263)	(1,317)
Total liabilities		(24,133)	(27,234)
Net assets		40,754	39,581
Equity attributable to equity holders of the Parent Company			
Called up share capital	21	3,559	3,559
Share premium account		16,043	16,043
Merger reserve		9,971	9,971
Other reserves		(2,185)	(2,341)
Currency translation reserve		754	1,389
Retained earnings		12,612	10,960
Total equity		40,754	39,581

The financial statements on pages 56 to 85 were approved and authorised for issue by the Board of Directors on 20 February 2018 and were signed on its behalf by:



Paul Webb
Chief Executive



Mike Stilwell
Finance Director

Company number: 1740011

Financial statements

Consolidated statement of changes in equity

For the year ended 30 November 2017

	Called up share capital £000	Share premium account £000	Merger reserve £000	Other reserves £000	Currency translation reserve £000	Retained earnings £000	Total £000
At 1 December 2015	3,559	16,043	9,971	(2,639)	240	9,668	36,842
Profit for the year	-	-	-	-	-	1,471	1,471
Other comprehensive income							
Currency translation adjustment	-	-	-	-	1,149	-	1,149
Remeasurement gain on defined benefit pension scheme, net of tax	-	-	-	-	-	151	151
Total other comprehensive income	-	-	-	-	1,149	151	1,300
Total comprehensive income for the year	-	-	-	-	1,149	1,622	2,771
Dividends paid (note 11)	-	-	-	-	-	(163)	(163)
Credit in relation to share-based payments (note 23)	-	-	-	-	-	131	131
Share scheme interests realised in the year	-	-	-	298	-	(298)	-
At 30 November 2016	3,559	16,043	9,971	(2,341)	1,389	10,960	39,581
Profit for the year	-	-	-	-	-	2,553	2,553
Other comprehensive loss							
Currency translation adjustment	-	-	-	-	(635)	-	(635)
Remeasurement loss on defined benefit pension scheme, net of tax	-	-	-	-	-	(363)	(363)
Total other comprehensive loss	-	-	-	-	(635)	(363)	(998)
Total comprehensive income for the year	-	-	-	-	(635)	2,190	1,555
Dividends paid (note 11)	-	-	-	-	-	(498)	(498)
Credit in relation to share-based payments (note 23)	-	-	-	-	-	111	111
Share scheme interests realised in the year	-	-	-	156	-	(151)	5
At 30 November 2017	3,559	16,043	9,971	(2,185)	754	12,612	40,754

Financial statements

Consolidated cash flow statement For the year ended 30 November 2017

	Note	2017 £000	2016 £000
Cash flows from operating activities			
Profit for the year		2,553	1,471
Income tax expense	10	443	484
Finance income	8	(183)	(215)
Finance costs	9	313	351
Depreciation and amortisation charge		1,654	1,980
Loss on disposal of non-current assets		2	80
Unrealised currency translation losses/(gains)		70	(275)
Share-based payment charge		111	131
Operating cash flows before movement in working capital		4,963	4,007
(Increase)/decrease in inventories		(857)	642
Increase in receivables		(105)	(2,291)
Increase in payables and provisions		330	238
Cash generated from operations		4,331	2,596
Tax (paid)/received		(653)	15
Net cash from operating activities		3,678	2,611
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(309)	(350)
Capitalised development costs	14	(462)	(337)
Purchased software	14	(193)	(44)
Net cash used in investing activities		(964)	(731)
Cash flows from financing activities			
Repayment of borrowings		(1,259)	(786)
Share scheme interests realised in the year		5	-
Interest paid		(149)	(156)
Dividends paid	11	(498)	(163)
Net cash used in financing activities		(1,901)	(1,105)
Effect of exchange rate changes on cash and cash equivalents		(414)	323
Net increase in cash and cash equivalents		399	1,098
Cash and cash equivalents at the beginning of the year		4,322	3,224
Cash and cash equivalents at the end of the year	17	4,721	4,322

Financial statements

Notes to the consolidated financial statements

For the year ended 30 November 2017

1 Principal accounting policies

Synectics plc is a public limited company incorporated in England and Wales and domiciled in the UK.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the periods presented unless otherwise stated.

Basis of preparation

These financial statements have been prepared in accordance with IFRS as endorsed by the EU ('adopted IFRS'), and with those parts of the Companies Act 2006 applicable to companies reporting under adopted IFRS. The Company has elected to prepare its Parent Company financial statements in accordance with Financial Reporting Standard ('FRS') 101 'Reduced Disclosure Framework'; these are presented on pages 86 to 95. The consolidated financial statements of the Company as at and for the year ended 30 November 2017 comprise the Company and its subsidiaries.

These financial statements have been prepared using the historical cost convention except where the measurement of balances at fair value is required as set out below. The following policies are those that the Group considers to be its principal accounting policies in respect of its consolidated results.

New standards and interpretations not yet adopted

As at 30 November 2017 there are a number of standards, amendments and interpretations in issue (some of which have not yet been adopted by the EU) with an effective date for financial years beginning on or after the dates disclosed below and which have not been early adopted by the Group.

Endorsed		Effective for periods beginning on or after:
IAS 7	Statement of Cash Flows Disclosure initiative – amendments to IAS 7	1 January 2017
IAS 12	Income Taxes Recognition of deferred tax assets for unrealised losses – amendments to IAS 12	1 January 2017
IFRS 2	Share-based Payments Classification and measurement of share-based payment transactions – amendments to IFRS 2	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019

The Directors anticipate that all of the above standards, interpretations and amendments will be adopted in the Group's financial statements for the accounting periods commencing on or after 1 December 2017 as appropriate.

IFRS 15 should be applied for annual reporting periods beginning on or after 1 January 2018 and is therefore applicable to the Group's financial statements for the accounting period commencing on 1 December 2018. The standard should be applied in full for the year of adoption, including retrospective application to all contracts that were not yet complete at the beginning of that period. During the year the Group has continued to assess the impact of adoption of IFRS 15 with the key commercial and accounting issues being identified. An implementation plan is well advanced and communicated to senior management.

IFRS 16 should be applied for annual reporting periods beginning on or after 1 January 2019. It can be adopted earlier, as long as IFRS 15 has also been adopted. The standard can be applied with full retrospective effect or the cumulative impact of initially applying IFRS 16 can be adjusted into opening equity at the date of initial application. During the year the Group commenced an impact assessment.

The Group is presently unable to quantify any potential impact of the adoption of IFRS 15 and IFRS 16 on the financial statements. Any impact will be calculated during the year ended 30 November 2018.

All other new standards and amendments are not expected to have a material impact on the financial statements.

1 Principal accounting policies continued

Basis of preparation continued

Going concern

The Group's business activities, together with factors likely to affect its future development, performance and position, and information on the financial position of the Group, its cash flows and liquidity position, are described in the reports which together make up the Strategic Report on pages 4 to 31 and on pages 50 and 51.

As detailed in note 19, the Group has secured banking facilities in place which are used to meet the day-to-day working capital requirements. There are various covenants attached to these facilities. The Directors have considered the financial position of the Group at 30 November 2017 and the projected cash flows and financial performance of the Group for at least twelve months from the date of approval of these financial statements.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group would be able to operate within the terms of its current facilities.

As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully and have adequate resources to continue in operation as a going concern for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Change in subsidiary ownership and loss of control

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Where the Group loses control of a subsidiary, the assets and liabilities are derecognised along with any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated.

Goodwill

Goodwill is recorded at cost, being the excess of the cost of acquisition over the fair value at the date of acquisition of the Group's share of identifiable assets, liabilities and contingent liabilities, less accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ('CGUs') expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill would not be reversed in a subsequent period.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Financial statements

Notes to the consolidated financial statements continued

For the year ended 30 November 2017

1 Principal accounting policies continued

Revenue

Revenue, which excludes value-added tax, is measured at the fair value of the consideration received or receivable. Revenue is reduced for rebates and other similar allowances.

Installation contract income

Revenue and profits attributable to contracts are included in the Consolidated Income Statement as the contracts proceed in proportions relevant to their stage of completion. This is either based on costs incurred as a proportion of estimated total contract costs or physical proportion of contract work completed in relation to the total, less amounts recognised in previous years.

Contract balances

When contract costs incurred to date plus recognised profits less recognised losses exceed payments on account, the surplus is shown as amounts recoverable on contracts. For contracts where payments on account exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the Consolidated Statement of Financial Position, as a liability. Amounts billed for work performed but not yet paid by the customer are included in the Consolidated Statement of Financial Position under trade and other receivables.

The Group sells certain products bundled with maintenance or other services to be delivered over a predetermined period of time. Where the commercial substance is that the individual components operate independently of each other such that each component represents a separable good or service that can be provided to customers, either on a stand-alone basis or as an optional extra or, alternatively, where one or more of the components may be capable of being provided by another supplier, these are considered as identifiable and separate components to which general revenue recognition criteria can be applied separately. Once the separate components have been identified, the amount received or receivable from the customer is allocated based on the individual component's fair value.

Maintenance contracts

Income receivable from maintenance contracts is recognised in revenue on a straight-line basis over the contract term. Income from maintenance contracts which relates to periods subsequent to the year end is included in current liabilities as deferred income.

Sale of goods

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, which primarily takes place on delivery of the goods.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Payments made under operating leases are recognised in the Consolidated Income Statement on a straight-line basis over the term of the lease.

Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the Consolidated Income Statement on a straight-line basis over the lease term.

Foreign currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in sterling ('£'), which is the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary items denominated in foreign currencies are retranslated at the prevailing rates. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the Consolidated Income Statement in the period in which they arise.

Exchange differences arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the translation reserve. Foreign currency differences arising on the retranslation of a hedge of a net investment in a foreign operation are recognised directly in equity, in the translation reserve, to the extent that the hedge is effective. When the hedged part of a net investment is disposed of, the associated cumulative amount in equity is recycled to profit or loss as an adjustment to the profit or loss on disposal.

1 Principal accounting policies continued

Foreign currency continued

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in sterling using exchange rates prevailing at the statement of financial position date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and recognised in the Group's foreign currency translation reserve. Such exchange differences are recognised in the Consolidated Income Statement in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rates prevailing at the statement of financial position date.

Retirement benefit costs

Group employees are members of various pension schemes, all of which operate on a money purchase basis. Contributions to these schemes are charged to the Consolidated Income Statement as an expense when employees have rendered service entitling them to the contributions.

The Group also operates a retirement benefit scheme, which has deferred defined benefit members. The expected return on the scheme's assets and the expected increase in the present value of the scheme's liabilities during the period are included in the Consolidated Income Statement as other finance income and charges as appropriate. Actuarial gains and losses are recognised in the Consolidated Statement of Comprehensive Income. Pension scheme liabilities and, to the extent that they are recoverable, pension scheme assets are recognised in the Consolidated Statement of Financial Position and represent the difference between the market value of the scheme's assets and the present value of the scheme's liabilities.

Pension scheme liabilities are determined on an actuarial basis using the projected unit credit method and are discounted at a rate using the current rate of return on a high-quality corporate bond of equivalent term and currency to the liability. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

Share-based payments

In accordance with IFRS 2, equity-settled share-based payments are measured at fair value at the date of grant. The fair value is recognised as an employee expense on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest. The fair value of the options granted is calculated using an option pricing model which is based on the Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

Transactions of the Company-sponsored Executive Shared Ownership Plan are treated as being those of the Company and are therefore reflected in the Parent Company and Group financial statements. In particular the scheme's purchases of shares in the Company are debited directly to equity, within 'Other reserves'.

Taxation

The income tax expense is the sum of current tax and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Consolidated Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Financial statements

Notes to the consolidated financial statements continued
For the year ended 30 November 2017

1 Principal accounting policies continued

Taxation continued

Deferred tax continued

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority, and the Group intends to settle its tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in the Consolidated Income Statement, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

Non-underlying items

The Group discloses certain financial information both including and excluding non-underlying items. The presentation of information excluding non-underlying items allows a better understanding of the underlying trading performance of the Group and provides consistency with the Group's internal management reporting. Non-underlying items are identified by virtue of their size, nature or incidence and the Directors consider that these items should be separately identified.

Dividends

Dividends proposed by the Directors and unpaid at the end of the year are not recognised in the financial statements until they have been approved by shareholders at a general meeting of the Company. Interim dividends are recognised when they are paid.

Property, plant and equipment

All property, plant and equipment assets are stated at cost less accumulated depreciation.

Depreciation is calculated so as to write off the cost of property, plant and equipment, other than freehold land which is not depreciated, less their estimated residual values, on a straight-line basis over the estimated useful life, commencing on the first day of the month after being brought into use. The principal annual rates used for this purpose are:

- Freehold buildings – 2%
- Short leasehold improvements – over the term of the lease
- Plant, equipment and motor vehicles – 10% to 33%

Residual values, remaining useful lives and depreciation methods are reviewed annually and adjusted if appropriate.

Gains or losses on disposal are included in the Consolidated Income Statement.

Research & development costs

Research costs are written off to the Consolidated Income Statement as incurred.

Development costs are capitalised and held as 'Intangible assets' in the Consolidated Statement of Financial Position when the costs relate to a clearly defined project; the costs are separately identifiable; the outcome of such a project has been assessed with reasonable certainty as to its technical feasibility and its ultimate commercial viability; the aggregate of the deferred costs plus all future expected costs in bringing the product to market is exceeded by the future expected sales revenue; and adequate resources are expected to exist to enable the project to be completed. Amortisation is charged over the useful life of the product, from the commencement of commercial sales, which is usually over a period of three to five years.

Amortisation periods and methods are reviewed annually and adjusted if appropriate.

This policy includes judgements regarding the initial recognition of the asset based upon market research and expected future net revenues. It also includes estimations regarding the period of amortisation.

Development costs that do not meet these criteria are written off to the Consolidated Income Statement as incurred.

1 Principal accounting policies continued

Other intangible assets

Other intangible assets, such as purchased computer software, are shown at historical cost less accumulated amortisation and impairment losses.

Amortisation is charged to the Consolidated Income Statement on a straight-line basis from the date the assets are available for use over the estimated useful lives of the intangible asset. The useful life of purchased software is three to five years.

Amortisation periods and methods are reviewed annually and adjusted if appropriate.

Impairment of tangible and intangible assets other than goodwill

At each statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets, other than goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in income.

Inventories

Inventories are valued at the lower of cost and net realisable value on a first in first out basis. In the case of finished goods, cost includes all direct expenditure and production overheads based on the normal level of activity. Where necessary, an appropriate allowance is made for obsolete, slow-moving and defective inventories.

Provisions

Provisions are recognised in the Consolidated Statement of Financial Position when there is a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation.

Deferred consideration relating to business combinations

Deferred consideration relating to business combinations is initially measured at fair value at the date of acquisition and at subsequent reporting dates measured in accordance with the appropriate accounting standard, with the corresponding gain or loss being recognised in profit or loss.

Restructuring

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will be carried out.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Financial statements

Notes to the consolidated financial statements continued
For the year ended 30 November 2017

1 Principal accounting policies continued

Financial instruments

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. Hedge accounting is undertaken by the Group in respect of a balance sheet hedge of a net investment in a foreign subsidiary.

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits and bank current accounts.

Trade and other receivables

Trade receivables are initially recognised at fair value. Subsequent to initial recognition, they are measured at amortised cost less any impairment loss.

Trade and other payables

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, they are measured at amortised cost.

Loans and borrowings

Loans and borrowings comprise bank term loans and bank overdrafts.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the Consolidated Statement of Financial Position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. To meet these criteria, the right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances: the normal course of business, the event of default and the event of insolvency or bankruptcy of the Group and all of the counterparties.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. We continually evaluate our estimates, judgements and associated assumptions based on available information, experience and any other factors that are considered to be relevant. As the use of estimates is inherent in financial reporting, actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. To date there has been no material impact on the carrying value of assets or liabilities from such estimates.

Management has discussed its significant estimates and associated disclosures with the Audit Committee. The areas involving a higher degree of judgement or complexity are described below:

Revenue recognition

When the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the statement of financial position date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Judgement is required in assessing the nature of the contracts to determine if long-term contract accounting should be applied. Where the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Judgement is also required in assessing whether a contract becomes onerous. When it is considered probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where products and maintenance are bundled in a contract some judgement may be required to identify the separate components which are recognised in accordance with general revenue recognition criteria.

1 Principal accounting policies continued

Critical accounting estimates and judgements continued

Goodwill

Goodwill recognised in a business combination does not generate cash flows independently of other assets or groups of assets. As a result, the recoverable amount, being the value in use, is determined at a CGU level. The determination of the CGU is judgemental and for goodwill impairment purposes represents the lowest level within the business at which the goodwill is monitored for internal management purposes, and cannot be larger than an operating segment. The relevant CGUs are deemed to be Systems and Integration & Managed Services which match the segments identified in the Group's segmental reporting.

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill is allocated. The value-in-use calculation includes estimates about future financial performance and long-term growth rates and requires management to select a suitable discount rate in order to calculate the present value of those cash flows. The key assumptions used in the impairment review are disclosed in note 14 to the financial statements.

The future cash flows used in the value-in-use calculations are based on the latest three-year financial plans approved by the Board. Expectations about future growth reflect the expectations of growth in the markets in which the CGU operates. The discount rate is derived from the Group's post-tax weighted average cost of capital, which is assessed each year. The discount rate used in each CGU is adjusted for the risk specific to that CGU. The Directors perform sensitivity analysis to determine whether any reasonably possible change in the key assumptions on which the recoverable amounts are based would cause the CGUs' carrying amounts to exceed the recoverable amounts.

2 Segmental analysis

IFRS 8 requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker ('CODM'). The CODM has been determined to be the Chief Executive as he is primarily responsible for the allocation of resources to the segments and the assessment of the performance of each of the segments. Segment information is presented in respect of the Group's strategic operating segments. The operating segment reporting format reflects the differing economic characteristics and nature of the services provided by the Group and is the basis on which strategic and operating decisions are made by the CODM.

The management of the Group's operations, excluding Central functions, is organised within two strategic operating segments: Systems and Integration & Managed Services. The Systems segment develops, integrates and delivers resilient, flexible electronic surveillance solutions based around its proprietary hardware and software, and operates globally across all sectors. The Integration & Managed Services segment focusses on the design, delivery, maintenance and management of end-to-end security and surveillance systems for high security & public space applications, and operates principally in the UK. These, together with Central functions, comprise the Group's three reportable segments. No operating segments have been aggregated to form these reportable segments.

The CODM uses underlying operating profit, as reviewed at monthly business review meetings, as the key measure of the segments' results as it reflects the segments' underlying trading performance for the period under evaluation. Underlying operating profit is a consistent measure used within the Group.

Revenue	2017 £000	2016 £000
Systems	46,062	48,281
Integration & Managed Services	25,139	23,290
Total segmental revenue	71,201	71,571
Reconciliation to consolidated revenue:		
Intra-Group sales	(1,099)	(658)
	70,102	70,913

No single customer contributed 10% or more to the Group's revenues.

Financial statements

Notes to the consolidated financial statements continued
For the year ended 30 November 2017

2 Segmental analysis continued

	2017 £000	2016 £000
Underlying operating profit		
Systems	4,238	4,211
Integration & Managed Services	994	522
Total segmental underlying operating profit	5,232	4,733
Reconciliation to consolidated underlying operating profit:		
Central costs	(2,083)	(1,976)
	3,149	2,757

	Underlying operating profit ¹ £000	Restructuring costs £000	Amortisation of acquired intangibles £000	Total profit from operations £000
Underlying operating profit 2017				
Systems	4,238	–	–	4,238
Integration & Managed Services	994	–	–	994
Total segmental underlying operating profit	5,232	–	–	5,232
Reconciliation to consolidated underlying operating profit:				
Central costs	(2,083)	–	(23)	(2,106)
	3,149	–	(23)	3,126

	Underlying operating profit ¹ £000	Restructuring costs £000	Amortisation of acquired intangibles £000	Total profit from operations £000
Underlying operating profit 2016				
Systems	4,211	(512)	–	3,699
Integration & Managed Services	522	(73)	–	449
Total segmental underlying operating profit	4,733	(585)	–	4,148
Reconciliation to consolidated underlying operating profit:				
Central costs	(1,976)	–	(81)	(2,057)
	2,757	(585)	(81)	2,091

1. Underlying operating profit represents operating profit before non-underlying items (restructuring costs and amortisation of acquired intangibles).

Net assets

Net assets attributed to each business segment represent the net external operating assets of the respective businesses excluding goodwill, bank balances and debt which are shown as unallocated amounts, together with central assets and liabilities.

	Assets £000	Liabilities £000	2017 Net assets £000
Systems	28,585	(12,387)	16,198
Integration & Managed Services	10,682	(9,723)	959
Total segmental net assets	39,267	(22,110)	17,157
Reconciliation to consolidated net assets:			
Goodwill	19,979	–	19,979
Cash and borrowings	4,721	(900)	3,821
Unallocated	920	(1,123)	(203)
	64,887	(24,133)	40,754

2 Segmental analysis continued

Net assets continued

	Assets £000	Liabilities £000	2016 Net assets £000
Systems	30,486	(13,915)	16,571
Integration & Managed Services	9,197	(8,625)	572
Total segmental net assets	39,683	(22,540)	17,143
Reconciliation to consolidated net assets:			
Goodwill	19,921	–	19,921
Cash and borrowings	5,848	(3,678)	2,170
Unallocated	1,363	(1,016)	347
	66,815	(27,234)	39,581

By geographical segment Geographical location of contract	2017 Revenue £000	2017 Total assets £000	2017 Capital additions £000	2016 Revenue £000	2016 Total assets £000	2016 Capital additions £000
UK and Europe	46,934	50,583	197	43,966	46,020	208
North America	5,206	2,692	65	4,800	3,883	81
Middle East	3,046	2,069	–	4,330	3,665	–
Africa	723	874	–	759	597	–
Asia-Pacific	14,193	8,669	47	17,058	12,650	61
	70,102	64,887	309	70,913	66,815	350

3 Net operating expenses

	2017 £000	2016 £000
Distribution costs	246	232
Administrative expenses (before non-underlying items)	20,554	20,910
Non-underlying items (note 4)	23	666
Total administrative expenses	20,577	21,576
	20,823	21,808

4 Non-underlying items

	2017 £000	2016 £000
Restructuring costs ¹	–	585
Amortisation of acquired intangible assets	23	81
	23	666

1. The restructuring costs incurred during the prior year related predominantly to severance costs arising from specific reviews of the cost base across certain areas of the business.

5 Auditor's remuneration

	2017 £000	2016 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	37	39
Fees payable to the Company's auditor for other services to the Group:		
– the audit of the Company's subsidiaries pursuant to legislation	112	105
– tax compliance services	8	29
– other tax advisory services	9	19
	166	192

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Notes to the consolidated financial statements continued
For the year ended 30 November 2017

6 Profit from operations

	2017 £000	2016 £000
Profit from operations is stated after charging:		
Amortisation of intangible assets	1,090	1,382
Depreciation of property, plant and equipment	564	598
Cost of inventories recognised as an expense	33,836	33,853
Research & development costs	2,186	1,909
Rental payments under operating leases:		
– plant, machinery and vehicles	743	832
– other	959	795

7 Staff costs and Directors' remuneration

The average number of persons (including Executive Directors) employed by the Group during the year was:

	2017 Number	2016 Number
Reportable segment (see note 2)		
Systems	270	301
Integration & Managed Services	182	203
Central	13	13
	465	517

	2017 £000	2016 £000
Staff costs (for the above persons)		
Wages and salaries	17,550	18,358
Social security costs	1,769	1,854
Pension costs	635	526
Share-based payment charge	111	131
	20,065	20,869

The Directors consider that the key management personnel of the business comprises its Board of Directors, whose remuneration is shown in the Remuneration Committee Report on page 44. Details of the remuneration for key management personnel are set out in note 25.

8 Finance income

	2017 £000	2016 £000
Interest income on pension scheme assets	183	215

9 Finance costs

	2017 £000	2016 £000
Interest payable on bank overdrafts	112	85
Interest payable on bank loans	37	63
Interest on pension scheme liabilities	164	203
	313	351

10 Taxation

Tax charge	2017 £000	2016 £000
Current taxation		
UK tax	36	5
Overseas tax	344	691
Adjustments in respect of prior periods	(60)	(62)
Total current tax	320	634
Deferred taxation		
Origination and reversal of temporary differences	285	(115)
Adjustments in respect of prior periods	(162)	(35)
Total deferred tax	123	(150)
Total tax charge for the year	443	484

Reconciliation of tax charge for the year

The corporation tax assessed for the year differs from the standard rate of corporation tax in the UK of 19.33% (2016: 20%).

The differences are explained below:

	2017 £000	2016 £000
Profit on ordinary activities before tax	2,996	1,955
Tax on profit on ordinary activities before tax at standard rate of 19.33% (2016: 20%)	579	391
Effects of:		
Expenses not deductible for tax purposes	103	105
Net effect of different rates of tax in overseas businesses	(149)	(283)
Tax losses not recognised	146	345
Restatement of deferred tax balances for change in UK tax rate	(14)	23
Adjustment in respect of prior periods	(222)	(97)
Total tax charge for the year	443	484

The Group's tax rate is sensitive to a geographic mix of profits and reflects a combination of higher rates in certain jurisdictions, such as the US and the UK, and lower rates in Singapore and Macau. The Group's effective tax rate in 2017 has been impacted by the truing up of prudent tax provisions booked in the prior year. Over the medium term, the effective tax rate is expected to increase as the business continues to be profitable going forward.

Deferred tax

The deferred tax in the Consolidated Statement of Financial Position relates to the following:

Deferred tax (liability)/asset	Property, plant and equipment £000	Other temporary differences £000	Retirement benefit asset £000	Losses £000	Total £000
At 1 December 2015	(383)	(124)	(103)	451	(159)
Credited/(charged) to the Income Statement	202	(20)	–	(32)	150
Charged to the Statement of Comprehensive Income	–	–	(34)	–	(34)
Currency translation adjustment	(6)	63	–	–	57
At 30 November 2016	(187)	(81)	(137)	419	14
Credited/(charged) to the Income Statement	92	(48)	–	(167)	(123)
Credited to the Statement of Comprehensive Income	–	–	88	–	88
Currency translation adjustment	(1)	20	–	–	19
At 30 November 2017	(96)	(109)	(49)	252	(2)

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Notes to the consolidated financial statements continued
For the year ended 30 November 2017

10 Taxation continued

Deferred tax continued

Factors that may affect future tax charges

The UK government announced its intention to reduce the corporation tax rate to 17% effective by 1 April 2020. This was substantively enacted during the prior year. Accordingly deferred tax has been provided for at the rate at which it is expected to be settled.

Deferred tax assets of £0.3 million (2016: £0.4 million) have been recognised in relation to legal entities which suffered a tax loss in the preceding periods. The assets are recognised based upon future taxable profit forecasts for the entities concerned.

The Group has further tax losses which may be available to be carried forward for offset against the future taxable profits of certain Group companies amounting to approximately £4.8 million (2016: £4.0 million). No deferred tax asset (2016: £nil) in respect of these losses has been recognised at the year end as the Group does not currently anticipate being able to offset these against future profits.

In addition to the above, the Group has capital losses of approximately £17.8 million (2016: £17.8 million) available for offset against future taxable gains. No deferred tax asset in respect of these losses, which would amount to £3.0 million, has been recognised in these financial statements as there is insufficient certainty that the asset will be recovered against future capital gains.

11 Dividends

The following dividends were paid by the Company during the year:

	2017		2016	
	Pence per share	£000	Pence per share	£000
Final dividend paid in respect of prior year but not recognised as liabilities in that year	2.0	340	1.0	173
Interim dividend paid in respect of current year	1.0	170	–	–
	3.0	510	1.0	173
Total dividend paid, net of treasury share dividends	–	498	–	163
Proposed final dividend for the year ended 30 November	3.0	506	2.0	340

The proposed final dividend for the year ended 30 November 2017 has not yet been approved by shareholders and as such has not been included as a liability as at 30 November 2017. Subject to approval, this is expected to be paid on 4 May 2018 to shareholders on the register at 3 April 2018. This will give a total dividend for the year of 4.0p per share (2016: 2.0p per share).

12 Earnings per share

	2017 Pence per share	2016 Pence per share
Basic earnings per share	15.5	9.0
Diluted earnings per share	15.1	8.8
Underlying basic earnings per share	15.6	12.7
Underlying diluted earnings per share	15.2	12.4

Earnings per share have been calculated by dividing the profit attributable to equity holders of the Parent after taxation for each financial year by the weighted average number of ordinary shares in issue and ranking for dividend during the year.

12 Earnings per share continued

The calculations of basic and underlying earnings per share are based upon:

	2017 £000	2016 £000
Earnings for basic and diluted earnings per share	2,553	1,471
Non-underlying items	23	666
Impact of non-underlying items on tax charge for the year	(8)	(60)
Earnings for underlying basic and underlying diluted earnings per share	2,568	2,077

	2017 000	2016 000
Weighted average number of ordinary shares – basic calculation	16,480	16,404
Dilutive potential ordinary shares arising from share options	466	338
Weighted average number of ordinary shares – diluted calculation	16,946	16,742

13 Property, plant and equipment

	Freehold land and buildings £000	Short leasehold improvements £000	Plant, equipment and motor vehicles £000	Total £000
Cost				
At 1 December 2015	1,671	1,453	4,461	7,585
Additions	–	61	289	350
Disposals	–	(204)	(486)	(690)
Currency translation adjustment	–	14	211	225
At 30 November 2016	1,671	1,324	4,475	7,470
Additions	29	35	245	309
Disposals	–	–	(55)	(55)
Transfer between categories	–	–	(5)	(5)
Currency translation adjustment	–	(8)	(63)	(71)
At 30 November 2017	1,700	1,351	4,597	7,648
Depreciation				
At 1 December 2015	54	927	3,340	4,321
Charge for the year	33	107	458	598
Disposals	–	(204)	(484)	(688)
Currency translation adjustment	–	12	151	163
At 30 November 2016	87	842	3,465	4,394
Charge for the year	38	87	439	564
Disposals	–	–	(53)	(53)
Currency translation adjustment	–	(7)	(46)	(53)
At 30 November 2017	125	922	3,805	4,852
Net book value				
At 30 November 2017	1,575	429	792	2,796
At 30 November 2016	1,584	482	1,010	3,076

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Notes to the consolidated financial statements continued
For the year ended 30 November 2017

14 Intangible assets

	Goodwill £000	Acquired intangibles £000	Capitalised development costs £000	Purchased software £000	Total £000
Cost					
At 1 December 2015	22,702	605	6,511	1,858	31,676
Additions	–	–	337	44	381
Disposals	–	–	–	(273)	(273)
Currency translation adjustment	1,699	125	68	20	1,912
At 30 November 2016	24,401	730	6,916	1,649	33,696
Additions	–	–	462	193	655
Transfer between categories	–	–	3	2	5
Currency translation adjustment	113	29	16	2	160
At 30 November 2017	24,514	759	7,397	1,846	34,516
Amortisation and impairment					
At 1 December 2015	3,536	448	4,001	1,319	9,304
Charge for the year	–	81	1,094	207	1,382
Impairment	–	–	74	–	74
Disposals	–	–	–	(269)	(269)
Currency translation adjustment	944	97	34	15	1,090
At 30 November 2016	4,480	626	5,203	1,272	11,581
Charge for the year	–	23	844	223	1,090
Currency translation adjustment	55	25	14	2	96
At 30 November 2017	4,535	674	6,061	1,497	12,767
Net book value					
At 30 November 2017	19,979	85	1,336	349	21,749
At 30 November 2016	19,921	104	1,713	377	22,115

Annual test for impairment of goodwill

The Group has assessed the recoverable amount of goodwill by comparing it to the value in use of the CGUs to which it relates. Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination.

The carrying amount of goodwill was allocated to the CGUs as follows:

	2017 £000	2016 £000
Systems	15,399	15,341
Integration & Managed Services	4,580	4,580
	19,979	19,921

The recoverable amount of the CGUs is determined based on a value-in-use calculation which uses cash flow projections based on financial budgets and business plans approved by the Directors covering a three-year period. Cash flows beyond that period have been extrapolated using a steady 2.25% per annum growth rate, which the Directors consider to be specific to the business and does not exceed the UK long-term average growth rate, and is therefore considered appropriate to apply to each of the CGUs.

The key assumptions used in the cash flow projections are as follows:

- terminal value applied after ten years assuming a nine (2016: nine) times multiple; and
- pre-tax discount rates as follows:

	2017 %	2016 %
Systems	13.1	12.6
Integration & Managed Services	12.9	12.8

14 Intangible assets continued

Annual test for impairment of goodwill continued

The discount rates used are based on the Group weighted average cost of capital, which has been risk adjusted to reflect divisional specific risks such as the nature of the market served, cost profiles and the barriers to entry into each market segment, as well as other macro-economic factors.

The other key assumptions have been assigned values by management using estimates based on past experience and expectations of the future performance of the CGUs.

The Directors believe that, based on sensitivity analysis performed, any reasonably possible change in the key assumptions on which the recoverable amounts are based would not cause the CGUs' carrying amounts to exceed the recoverable amounts. There is no impairment to goodwill in the period (2016: no impairment).

15 Inventories

	2017 £000	2016 £000
Raw materials and consumables	4,257	3,553
Work in progress	460	717
Finished goods for resale	5,998	5,438
	10,715	9,708
Contract balances	24	289
	10,739	9,997

	2017 £000	2016 £000
Contract balances comprise:		
Net costs incurred	24	289

16 Trade and other receivables

	2017 £000	2016 £000
Trade receivables	13,864	15,179
Allowance for doubtful debts	(271)	(144)
	13,593	15,035
Amounts recoverable on contracts	9,344	7,779
Other receivables	617	1,058
Prepayments	864	899
	24,418	24,771

Trade receivables are non-interest bearing and generally have 30 to 90-day terms. At 30 November 2017 the Group had 53 days' sales outstanding in trade receivables (2016: 48 days').

Due to their short maturities, the fair value of trade and other receivables approximates to their book value.

Movement in allowance for doubtful debts

	2017 £000	2016 £000
At 1 December	144	302
Provided for in the year	179	58
Amounts utilised in the year	(52)	(216)
At 30 November	271	144

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Notes to the consolidated financial statements continued
For the year ended 30 November 2017

16 Trade and other receivables continued

Movement in allowance for doubtful debts continued

As at 30 November 2017, trade receivables of £3,670,000 (2016: £3,413,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2017 £000	2016 £000
Up to three months past due	2,742	2,799
Three to six months past due	208	547
Over six months past due	720	67
	3,670	3,413

17 Cash and cash equivalents

	2017 £000	2016 £000
Cash at bank and in hand	4,721	5,848

For the purpose of the Consolidated Cash Flow Statement, cash and cash equivalents comprise the following:

	2017 £000	2016 £000
Cash at bank and in hand	4,721	5,848
Bank overdraft	–	(1,526)
	4,721	4,322

The fair value of cash and cash equivalents approximates to their book value.

Cash at bank earns interest at the daily bank base rate.

18 Trade and other payables

	2017 £000	2016 £000
Trade payables	8,140	9,134
Other taxation and social security	1,218	891
Other payables	367	161
Accruals	8,725	8,565
Deferred income	4,043	3,326
	22,493	22,077

Due to their short maturities, the fair value of trade and other payables approximates to their book value.

19 Loans and borrowings

	2017			2016		
	Current £000	Non- current £000	Total £000	Current £000	Non- current £000	Total £000
Bank term loans	900	–	900	1,252	900	2,152
Bank overdraft	–	–	–	1,526	–	1,526
Total	900	–	900	2,778	900	3,678

19 Loans and borrowings continued

The fair value of financial liabilities is not substantially different from the carrying value. The terms and debt repayment details of the loans and borrowings are as follows:

	Value drawn £000	Maturity	Interest rate	Security
£1.5 million term loan facility	900	26 November 2018	LIBOR +2.0%	Group assets
£8.0 million overdraft facility	–	On demand	Base +2.0%	Group assets

During the year the remaining €1.3 million balance of the euro term loan was repaid in full. £150,000 of the sterling term loan was also repaid.

20 Provisions

	Restructuring £000	Deferred and contingent consideration £000	Property £000	Total £000
At 1 December 2015	55	49	25	129
Utilised in the year	(365)	(49)	–	(414)
Charged to the Income Statement	585	–	354	939
At 30 November 2016	275	–	379	654
Utilised in the year	(275)	–	(185)	(460)
Charged to the Income Statement	–	–	57	57
At 30 November 2017	–	–	251	251

Provisions have been analysed between current and non-current as follows:

	2017 £000	2016 £000
Current	149	439
Non-current	102	215
	251	654

The Group has a number of properties where the Directors believe that dilapidation costs may be incurred or where the property is sublet and the Directors believe that they may not be able to fully recover future rental costs. Appropriate cost provisions have therefore been made. It is anticipated that substantially all of the property cost provision carried forward at 30 November 2017 will be utilised within two years.

21 Called up share capital and reserves

The number of allotted, called up and fully paid shares is as follows:

	2017		2016	
	Number	£000	Number	£000
Ordinary shares of 20p each				
Allotted, called up and fully paid	17,794,439	3,559	17,794,439	3,559

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings. The 1,263,351 shares (2016: 1,331,750) held under the Group Executive Shared Ownership Plan ('ExSOP') at 30 November 2017 are treated as treasury shares and are therefore excluded from the basic earnings per share calculation.

The merger reserve has been created in accordance with sections 612 and 613 of the Companies Act 2006 whereby the premium on ordinary shares in the Company issued to acquire shares has been credited to the merger reserve rather than the share premium account.

The cost of own shares held within the ExSOP of £2,908,332 (2016: £3,064,139) has been deducted from other reserves. The nominal value of these shares is £252,670 (2016: £266,350).

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Notes to the consolidated financial statements continued

For the year ended 30 November 2017

22 Options over shares of Synectics plc

The Group operated three share schemes in the year: the Quadnetics Employees' Share Acquisition Plan, the Quadnetics Executive Shared Ownership Plan and the Synectics Performance Share Plan.

Quadnetics Employees' Share Acquisition Plan

The Quadnetics Employees' Share Acquisition Plan ('ESAP') was adopted on 23 April 2010. Deductions from salary are used to buy partnership shares in Synectics plc at the end of each six-month accumulation period. The Trustee will use any dividend income paid on these shares to buy further shares to be held in the scheme as dividend shares.

Partnership shares can be withdrawn from the scheme by the employee at any time, but withdrawals before the fifth anniversary after purchase are subject to income tax; withdrawals after the fifth anniversary of their purchase date can be made in full and are not subject to income tax. Dividend shares are required to be held in trust for a period of three years following the purchase date. Employees who leave the Group are required to withdraw all of their shares in the scheme and are subject to the same rules.

The scheme holds 76,625 (2016: 73,744) ordinary shares at 30 November 2017, which were acquired by the Scheme Trustee as follows:

Effective date of purchase	Type of shares	Third or fifth anniversary of the purchase date	Purchase/base price	2017 Number of shares	2016 Number of shares
14 October 2010	Partnership	15 October 2015	147.5p	2,514	2,852
7 April 2011	Partnership	8 April 2016	177.5p	3,306	3,897
25 July 2011	Dividend	26 July 2014	200.0p	50	57
2 November 2011	Partnership	3 November 2016	185.5p	3,013	3,579
2 November 2011	Dividend	3 November 2014	205.0p	68	79
20 April 2012	Partnership	21 April 2017	200.0p	2,640	3,540
17 May 2012	Dividend	18 May 2015	289.0p	140	164
9 October 2012	Partnership	10 October 2017	272.5p	1,969	2,629
9 October 2012	Dividend	10 October 2015	272.5p	104	125
3 April 2013	Partnership	4 April 2018	282.5p	2,229	2,812
8 May 2013	Dividend	9 May 2016	445.0p	154	189
4 October 2013	Dividend	5 October 2016	488.0p	97	121
14 October 2013	Partnership	15 October 2018	393.0p	1,978	2,436
4 April 2014	Partnership	5 April 2019	404.0p	1,930	2,390
7 May 2014	Dividend	8 May 2017	430.0p	223	282
2 October 2014	Partnership	3 October 2019	350.0p	3,205	3,960
17 April 2015	Partnership	18 April 2020	153.0p	6,954	8,799
22 October 2015	Partnership	23 October 2020	123.5p	10,570	12,853
29 April 2016	Partnership	30 April 2021	162.0p	8,728	10,468
6 May 2016	Dividend	7 May 2019	154.0p	288	348
20 October 2016	Partnership	21 October 2021	154.0p	10,413	12,164
27 April 2017	Partnership	28 April 2022	212.5p	7,445	–
24 May 2017	Dividend	25 May 2020	223.0p	545	–
13 October 2017	Dividend	14 October 2020	285.0p	239	–
27 October 2017	Partnership	28 October 2022	210.0p	7,823	–
Shares held at the end of the year				76,625	73,744

At 30 November 2017 the shares held by the ESAP had a market value of £166,659 (2016: £143,063).

Movements during the year were as follows:

	Number of shares
Shares held at 1 December 2016	73,744
Shares acquired during the year	16,774
Withdrawals from the scheme during the year	(13,893)
Shares held at 30 November 2017	76,625

22 Options over shares of Synectics plc continued

Quadnetics Executive Shared Ownership Plan

The Quadnetics Executive Shared Ownership Plan ('ExSOP') was formed in July 2009. Under the provisions of the ExSOP, shares ('ExSOP shares') are jointly owned by nominated senior employees and by an employees' share trust on terms, similar to a share option scheme, whereby the value of appreciation in the Company's share price over a minimum three-year period accrues to the relevant employee, provided the Company meets certain performance thresholds.

In summary, none of the awarded ExSOP shares will vest unless the total return (dividends plus share price appreciation) on the Company's shares is better than the performance of the FTSE AIM All Share Total Return Index ('Index') over the three-year period from award. The shares will vest fully if the Company's performance beats the Index by more than 5% over that period. If the Company's share performance matches the Index, then 25% of the awarded shares will vest and between these points vesting will be pro-rata.

ExSOP shares outstanding at 30 November 2017 are exercisable as follows:

Date awarded	Exercise dates	Relevant share price at date of award	2017 Number of shares	2016 Number of shares
7 July 2009	8 July 2012 onwards	147.5p	216,743	419,743
7 March 2011	8 March 2014 onwards	178.0p	117,400	127,400
Balance of shares in respect of leavers			929,208	784,607
			1,263,351	1,331,750

Movements during the year were as follows:

	Number of shares
Shares held at 1 December 2016	1,331,750
Vested shares sold or transferred in the year	(68,399)
Shares held at 30 November 2017	1,263,351

Dividends have been waived in respect of the 929,208 (2016: 784,607) shares not specifically allocated to employees.

Synectics Performance Share Plan

The Synectics Performance Share Plan ('PSP') was formed on 9 October 2012.

Under the PSP, selected employees are entitled to exercise an option to receive a certain number of Synectics plc shares at any time after a three-year vesting period, at no cost to themselves. The number of shares that are awarded at the end of the three-year period is dependent on the achievement of certain performance criteria.

The performance criteria are identical to those that apply under the existing ExSOP. Provided that the total return on Synectics plc shares has outperformed the Index by 5% or more in the three years following the award, beneficiaries will be entitled to receive the full number of shares awarded. If Synectics plc's share performance matches the Index, then 25% of the awarded shares will vest and between these points vesting will be pro-rata. If the total return on Synectics plc shares underperforms the Index, then no entitlement will vest. The limit on the number of shares over which interests may be awarded also remains unchanged.

It is intended that if the performance criteria are met in full or part, the appropriate number of shares will be transferred to the employees from unallocated Synectics plc shares already held within the employee benefit trust established for the existing ExSOP.

PSP shares outstanding at 30 November 2017 are exercisable as follows:

Date awarded	Exercise dates	Relevant share price at date of award	2017 Number of shares	2016 Number of shares
5 March 2014	5 March 2017 onwards	437.5p	–	14,000
30 March 2015	30 March 2018 onwards	125.0p	252,000	282,000
1 March 2016	1 March 2019 onwards	117.5p	145,000	155,000
1 March 2017	1 March 2020 onwards	225.0p	82,500	–
			479,500	451,000

14,000 (2016: 50,500) options under the PSP expired during the year.

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For the year ended 30 November 2017

23 Share-based payment charge

The fair value of services received in return for share options granted or awards made under the Group's share schemes is measured by reference to the fair value of the share options granted or share scheme shares awarded.

For the equity-settled share scheme awards, the estimate of the fair value of the services received for accounting purposes is measured based on an adjusted Black-Scholes model using the following assumptions:

Synectics PSP	March 2014 awards	March 2015 awards	March 2016 awards	March 2017 awards
Number of share options awarded	25,500	335,000	155,000	88,500
Exercise price	nil	nil	nil	nil
Share price on date of award	£4.375	£1.25	£1.175	£2.25
Expected volatility	30%	30%	30%	30%
Expected dividend yield	2.3%	4.0%	3.0%	3.0%
Risk-free interest rate	3.1%	1.8%	1.8%	1.4%
Vesting period	3 years	3 years	3 years	3 years
Expected life of option	5 years	5 years	5 years	5 years

The weighted average fair value of options granted during 2017 is £1.94 (2016: £1.01).

The expected volatility is based wholly on the historical volatility.

Share options and share scheme awards are granted under a service condition and also for grants to employees under the ExSOP and PSP, a performance measure based around the Company's share price relative to the Index.

The total charge recognised for the year arising from share-based payments is as follows:

	2017 £000	2016 £000
Equity-settled share-based payments	111	131

24 Contingent liabilities

Certain subsidiary companies have agreed to guarantee a number of bonds, issued by Lloyds Bank plc and HSBC, amounting to a total of £0.4 million at 30 November 2017 (2016: £1.1 million).

25 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. The subsidiaries in the Group are listed in note 7 of the Company accounts.

During the year an amount was paid to the spouse of a director of Synectic Systems (Asia) Pte Limited of S\$2,640 for provision of accommodation to an external consultant engaged by the company (2016: S\$4,440).

During the year rental amounts of S\$78,150 were paid to a company in which two of the directors of Synectic Systems (Asia) Pte Limited held a direct interest (2016: S\$78,150).

Transactions with key management personnel are as follows:

	2017 £000	2016 £000
Salary and fees	554	533
Bonuses	126	93
Benefits	61	46
Total short-term remuneration	741	672
Post-employment benefits	22	33
Share-based payments	31	35
	794	740

26 Capital commitments

At the year end capital commitments not provided for in these financial statements amounted to £nil (2016: £131,000).

27 Operating lease commitments

The Group had total outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 £000	2016 £000
Within one year	1,618	1,485
Within two to five years	3,361	3,394
In excess of five years	428	431
	5,407	5,310

The Group's lease commitments primarily relate to land and buildings and vehicles.

28 Pension commitments

The Group operates a closed defined benefit pension scheme and a number of defined contribution schemes.

a) Defined benefit scheme

The Group operates the Quadrant Group plc Retirement Benefit Scheme. This scheme includes a defined benefit section and a defined contribution section both in respect of past employees. The accrual of benefits in the defined benefit section ceased in 1996 and the liabilities relate only to members with preserved benefits or pensions in payment. A full actuarial valuation was carried out by a qualified independent actuary, independent of the scheme's sponsoring employer, as at 30 June 2016. These results have been updated to 30 November 2017. The major assumptions used by the actuary are shown below.

The Group has paid contributions of £1,000 (2016: £8,000) in the year.

The disclosures below relate to the defined benefit section, with the contributions to the defined contribution section being disclosed in section b) on page 83.

Net defined benefit asset

	2017 £000	2016 £000
Fair value of scheme assets	6,812	6,706
Present value of scheme liabilities	(6,523)	(5,986)
Net defined benefit asset recognised in the Statement of Financial Position	289	720
Associated deferred tax liability	(49)	(137)

Future economic benefits are available to the Group in the form of a reduction in future contributions or a cash refund. Any surplus ultimately repaid by the Trustees would be subject to a tax charge deducted at source.

Reconciliation of opening and closing balances of the present value of the defined benefit obligations

	2017 £000	2016 £000
Defined benefit obligations at the start of the year	5,986	5,795
Interest cost	164	203
Remeasurements:		
– losses/(gains) due to scheme experience	523	(25)
– gains due to changes in demographic assumptions	(68)	(99)
– losses due to financial assumptions	228	469
Benefits paid	(310)	(357)
Defined benefit obligations at the end of the year	6,523	5,986

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Notes to the consolidated financial statements continued
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28 Pension commitments continued

a) Defined benefit scheme continued

Reconciliation of opening and closing balances of the fair value of plan assets

	2017 £000	2016 £000
Fair value of plan assets at the start of the year	6,706	6,310
Interest income	183	215
Return on plan assets, excluding amounts recognised in interest income	232	530
Contributions by the Company	1	8
Benefits paid	(310)	(357)
Fair value of plan assets at the end of the year	6,812	6,706

Assets

	2017 Fair value of plan assets £000	2016 Fair value of plan assets £000	2015 Fair value of plan assets £000
UK equities	22	17	114
Overseas equities	–	–	41
Government bonds	1,194	1,151	1,057
Corporate bonds	5,557	5,497	5,049
Cash	39	41	49
Total assets	6,812	6,706	6,310

All of the scheme assets have a quoted market price in an active market with the exception of the cash holding, being the Trustee's bank account balance.

As at 30 November 2017, the fair value of the assets shown above include holdings of £22,348 (2016: £16,653) in Synectics plc shares which constitute employer-related investments. There are no further amounts in assets which represent the Company's own financial instruments or any property occupied by, or other assets used by, the Company.

Actual return on plan assets

The actual return on the plan assets over the year ended 30 November 2017 was £415,000 (2016: £745,000).

Principal actuarial assumptions

	2017 % per annum	2016 % per annum	2015 % per annum
Inflation	3.40	3.50	3.20
Inflation (CPI)	2.50	2.60	2.30
Rate of discount	2.50	2.80	3.50
Allowance for revaluation of deferred pensions of CPI or 5% pa if less	2.50	2.60	2.30

The mortality assumptions adopted at 30 November 2017 imply the following life expectancies at age 65:

	2017 Years	2016 Years
Male currently age 45	23.5	23.9
Female currently age 45	25.4	26.1
Male currently age 65	22.1	22.2
Female currently age 65	23.9	24.2

28 Pension commitments continued

a) Defined benefit scheme continued

Analysis of the sensitivity to the principal assumptions of the present value of the defined benefit obligation

The sensitivities shown are approximate and each sensitivity considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation and pension increases. The average duration of the defined benefit obligation at 30 November 2017 is 12 years (2016: 12 years).

	Change in assumption	Change in liability
Discount rate	Decrease of 0.25% pa	Increase by 3.0%
Rate of inflation	Increase of 0.25% pa	No change
Rate of mortality	Increase in life expectancy of one year	Increase by 4.1%

The Company estimates that no additional contributions will be paid to the plan during the year ending 30 November 2018.

b) Defined contribution schemes

Contributions made by the Company to the defined contribution section of the Quadrant Group plc Retirement Benefit Scheme amounted to £nil in the year (2016: £5,000).

There are also a number of other defined contribution pension schemes operated by various companies within the Group. The Group's total expense for these other schemes in the year was £635,000 (2016: £521,000).

29 Financial instruments

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders. The capital structure of the Group consists of cash held in interest-bearing current accounts (note 17), loans and borrowings on fixed terms (note 19), bank overdrafts (note 19) and equity attributable to equity holders of the Parent, comprising issued share capital (note 21), reserves and retained earnings. The Group is not subject to any externally imposed capital requirements. The Group's dividend policy depends on both the earnings profile and investment opportunities together with wider macro-economic factors.

Foreign currency risk

The Group operates internationally giving rise to exposure from changes in foreign exchange rates. At 1 December 2016 the functional currency of the Singaporean subsidiary was changed from Singapore dollars to US dollars. The main foreign currencies in which the Group currently operates are the US dollar and the euro.

The Group's policy is to manage transaction exposure in respect of the Group's UK subsidiaries where appropriate through the use of forward exchange contracts, which are entered into in respect of forecast foreign currency transactions when the amount and timing of such forecast transactions becomes reasonably certain. The Group had no commitments in respect of forward exchange contracts at either 30 November 2017 or 30 November 2016.

At 30 November 2017, certain subsidiaries within the Group had the following forecast foreign currency transactions during the next two years which have not been hedged, principally due to either natural hedges being available of receipts against payments or to significant uncertainty over the timing of the transactions:

	2017		2016	
	€000	\$000	€000	\$000
Receipts	550	4,250	50	3,000
Payments	(1,160)	(4,865)	(950)	(5,050)

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Notes to the consolidated financial statements continued

For the year ended 30 November 2017

29 Financial instruments continued

Foreign currency risk continued

The Group is exposed to fluctuations in exchange rates on the translation of profits earned by its overseas subsidiaries. These profits are translated at average exchange rates for the year which is an approximation to rates at the date of transaction. The Group's overseas subsidiaries account for approximately -0.6% (2016: 10.2%) of the Group's net assets as follows:

Functional currency of entity	2017 %	2016 %
United States dollars	9.0	6.0
Euros	(9.6)	(7.9)
Singapore dollars	–	12.1
Total	(0.6)	10.2

Translation exposure in respect of these assets is not hedged.

At 30 November 2017 the Group held foreign currency cash balances of \$2,818,000 (2016: \$2,881,000) and S\$161,000 (2016: S\$756,000), and was overdrawn by €5,810,000 (2016: €3,307,000).

The following table details the Group's sensitivity to a 10% fall in the relevant foreign currencies:

	USD impact		Euro impact		SGD impact	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Profit/(loss)	208	43	(32)	(149)	–	233
Other equity	645	309	(195)	(234)	–	796
Total	853	352	(227)	(383)	–	1,029

The table below shows the extent to which the Group had significant monetary assets and liabilities in currencies other than the local currency of the company in which they are recorded. Foreign exchange differences on the retranslation of these assets and liabilities are recognised in the Consolidated Income Statement.

	2017		2016	
	Sterling £000	SGD £000	Sterling £000	SGD £000
Sterling	–	–	–	1,503
US dollars	(424)	–	(446)	259
Euros	(40)	–	(1,138)	–
Total	(464)	–	(1,584)	1,762

Credit risk

Credit risk refers to the risk that a customer or counterparty to a financial instrument fails to meet its contractual obligations, resulting in financial loss to the Group, and arises principally from the Group's receivables from customers and interest-bearing current accounts. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit using information supplied by independent rating agencies where available. The Group also uses other publicly available information and its own trading records to rate major customers. The credit risk on current accounts is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

At the statement of financial position date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Consolidated Statement of Financial Position.

29 Financial instruments continued

Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient cash to meet its financial obligations as they fall due. The Group ensures that sufficient cash and undrawn facilities are available to fund ongoing operations and to meet its medium-term capital and funding obligations, and to meet any unforeseen obligations and opportunities.

At the year end, the Group had net funds of:

	2017 £000	2016 £000
Current accounts (note 17)	4,721	5,848
Loans and borrowings (note 19)	(900)	(3,678)
	3,821	2,170

The level of the Group's bank overdraft facilities is reviewed annually, and at 30 November 2017 the Group had undrawn overdraft facilities of up to £8.0 million, on which interest would be payable at the rate of bank base rate +2.0%.

Financial liabilities of the Group principally comprise trade creditors falling due for payment within twelve months of the statement of financial position date (2016: twelve months), bank overdraft repayable on demand and a term loan which falls due for final repayment within one year of the statement of financial position date.

Interest risk

Interest-bearing assets comprise cash held in current accounts, earning interest at bank base rate. During the year these bank deposits bore interest at base rate of 0.25% from 1 December 2016 to 2 November 2017 and 0.5% from 2 November 2017 to the end of the year (2016: 0.5% to 4 August 2016 and 0.25% from 4 August 2016 to the end of the year). The Group benchmarks the rates being obtained in order to maximise its returns within the credit risk framework referred to above.

Interest rates charged for the bank overdraft and term loan are set out in note 19.

The Group's funding position did not carry any significant interest rate risk at 30 November 2017 or 30 November 2016.

A 0.5% rise or fall in interest rates would not have a material impact on the results of the Group.

30 Subsidiaries

The Group consists of a Parent Company, Synectics plc, incorporated in the UK and a number of subsidiaries held directly and indirectly by Synectics plc, which operate and are incorporated around the world. Note 7 to the Company's financial statements lists details of all subsidiaries.

One subsidiary, Synectic Systems (Macau) Limited, has an accounting reference date of 31 December, which is different to that of the consolidated financial statements of 30 November. This is to more closely align the accounting period with the tax reporting requirements in Macau and thereby reduce administrative costs.

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Company statement of comprehensive income

For the year ended 30 November 2017

	2017 £000	2016 £000
Profit for the year	5,666	1,028
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement (loss)/gain on defined benefit pension scheme, net of tax	(363)	151
	(363)	151
Total comprehensive income for the year	5,303	1,179

Company statement of changes in equity

For the year ended 30 November 2017

	Called up share capital £000	Share premium account £000	Merger reserve £000	Other reserves £000	Retained earnings £000	Total £000
At 1 December 2015	3,559	16,043	9,971	(1,393)	5,666	33,846
Profit for the year	-	-	-	-	1,028	1,028
Other comprehensive income						
Remeasurement gain on defined benefit pension scheme, net of tax	-	-	-	-	151	151
Total other comprehensive income	-	-	-	-	151	151
Total comprehensive income for the year	-	-	-	-	1,179	1,179
Credit in relation to share-based payments	-	-	-	-	131	131
At 30 November 2016	3,559	16,043	9,971	(1,393)	6,976	35,156
Profit for the year	-	-	-	-	5,666	5,666
Other comprehensive income						
Remeasurement loss on defined benefit pension scheme, net of tax	-	-	-	-	(363)	(363)
Total other comprehensive loss	-	-	-	-	(363)	(363)
Total comprehensive income for the year	-	-	-	-	5,303	5,303
Dividends paid	-	-	-	-	(498)	(498)
Credit in relation to share-based payments	-	-	-	-	111	111
Share scheme interests realised in the year	-	-	-	5	-	5
At 30 November 2017	3,559	16,043	9,971	(1,388)	11,892	40,077

Financial statements

Company statement of financial position

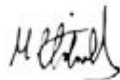
As at 30 November 2017

	Note	2017 £000	2016 £000
Non-current assets			
Plant and equipment	5	175	245
Intangible assets	6	52	60
Investments in subsidiary undertakings	7	19,583	19,515
Retirement benefit asset	16	289	720
		20,099	20,540
Current assets			
Other receivables	8	30,928	30,419
Tax assets		-	40
		30,928	30,459
Total assets		51,027	50,999
Current liabilities			
Loans and borrowings	9	(3,769)	(7,681)
Trade and other payables	10	(7,136)	(7,177)
Tax liabilities		(32)	-
Provisions	11	-	(21)
		(10,937)	(14,879)
Non-current liabilities			
Loans and borrowings	9	-	(900)
Provisions	11	(2)	-
Deferred tax liabilities	11	(11)	(64)
		(13)	(964)
Total liabilities		(10,950)	(15,843)
Net assets		40,077	35,156
Equity			
Called up share capital	12	3,559	3,559
Share premium account		16,043	16,043
Merger reserve		9,971	9,971
Other reserves		(1,388)	(1,393)
Retained earnings		11,892	6,976
Total equity		40,077	35,156

The financial statements on pages 86 to 95 were approved and authorised for issue by the Board of Directors on 20 February 2018 and were signed on its behalf by:



Paul Webb
Director



Mike Stilwell
Director

Company number: 1740011

Financial statements

Notes to the Company financial statements

For the year ended 30 November 2017

The principal activity of the Company was to act as a holding company for its trading subsidiaries.

1 Company accounting policies

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard ('FRS') 101 'Reduced Disclosure Framework'. In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards ('IFRS') as adopted by the EU.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payments' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7 'Financial Instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1 'Presentation of Financial Statements', comparative information requirements in respect of:
 - Paragraph 79(a)(iv) of IAS 1; and
 - Paragraph 73 of IAS 16 'Property, Plant and Equipment'.
- The following paragraphs of IAS 1 'Presentation of Financial Statements':
 - 10(d) (statement of cash flows);
 - 10(f)(a) (statement of financial position as at the beginning of the preceding period);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B–D (additional comparative information);
 - 40A–D (requirements for a third statement of financial position);
 - 111 (cash flow statement information); and
 - 134–136 (capital management disclosures).
- IAS 7 'Statement of Cash Flows'.
- Paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but not yet effective).
- Paragraph 17 of IAS 24 'Related Party Disclosures' (key management compensation).
- The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group.

In accordance with section 408(3) of the Companies Act 2006, the Company is exempt from the requirement to present its own income statement. The amount of profit for the year of the Company is £5.7 million (2016: £1.0 million).

The financial statements have been prepared under the historical cost convention.

Going concern

The Directors have assessed, in light of current and anticipated economic conditions, the Company's ability to continue as a going concern. The Directors confirm they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and, accordingly, they continue to adopt the going concern basis in preparing the Parent Company financial statements. For further consideration of the going concern position of the Group see page 48 of the Directors' Report.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1 Company accounting policies continued

Fixed asset investments

Fixed asset investments are stated at cost plus deemed capital contributions arising from share-based payment transactions less any provision for impairment. The Company records an increase in its investments in subsidiaries equal to the share-based payments charge recognised by its subsidiaries with a corresponding credit to equity. Details of the Group's share-based payment charge are set out in note 23 of the Group financial statements.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accruals basis in the income statement and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation.

Depreciation is calculated so as to write off the cost of plant and equipment, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned, commencing on the first day of the month after being brought into use. The principal annual rates used for this purpose are 10%–33%.

Intangible assets

Purchased computer software is stated at cost less accumulated amortisation.

Amortisation is charged to the income statement on a straight-line basis from the date the assets are available for use over the estimated useful lives of the intangible asset. The useful life of purchased software is three to five years.

Amortisation periods and methods are reviewed annually and adjusted if appropriate.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is provided in full on timing differences which result in an obligation at the statement of financial position date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered. Deferred tax balances are not discounted.

Foreign currency

Transactions denominated in foreign currency are translated into sterling at the exchange rates prevailing at the date of the transaction. At each statement of financial position date, monetary items denominated in foreign currencies are retranslated at the prevailing rates.

Employee share schemes

Transactions of the Company-sponsored ExSOP are treated as being those of the Company and are therefore reflected in the Parent Company financial statements. In particular, the scheme's purchases of shares in the Company are debited directly to equity.

Other significant accounting policies

Other significant accounting policies are consistent with the Group accounts and the table below references where they are disclosed:

Significant accounting policy	Page
Leased assets	62
Pension schemes	63
Dividends	64
Loans and borrowings	66

Financial statements

Notes to the Company financial statements continued
For the year ended 30 November 2017

1 Company accounting policies continued

Significant estimates

In the application of the Company's accounting policies the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Management has discussed its significant estimates and associated disclosures with the Audit Committee. An area involving a higher degree of judgement or complexity is the recoverability of the Company's investment in subsidiaries. The Company assesses the carrying value of its investments in subsidiaries using the value-in-use model. The value-in-use calculation includes estimates about future financial performance and long-term growth rates and requires management to select a suitable discount rate in order to calculate the present value of those cash flows. The key assumptions used in the impairment review are disclosed in note 14 of the Group financial statements. The future cash flows used in the value-in-use calculations are based on the latest three-year financial plans approved by the Board.

2 Auditor's remuneration

Fees payable to the Company's auditor for the audit of the Company's annual accounts are £37,000 (2016: £39,000).

3 Directors and employees

The remuneration of the Directors is set out below:

Directors' emoluments	2017 £000	2016 £000
Salaries, bonuses and benefits	535	471
Pension benefits under defined contribution plans	22	33
	557	504

Detailed information on the emoluments, pensions, option holdings and shareholdings for each Director is shown in the Remuneration Committee Report on pages 42 to 45.

The average number of persons (including Executive Directors) employed by the Company during the year was 13 (2016: 13).

4 Dividends

The following dividends were paid by the Company during the year:

	2017		2016	
	Pence per share	£000	Pence per share	£000
Final dividend paid in respect of prior year but not recognised as liabilities in that year	2.0	340	1.0	173
Interim dividend paid in respect of current year	1.0	170	–	–
	3.0	510	1.0	173
Total dividend paid, net of treasury share dividends	–	498	–	163
Proposed final dividend for the year ended 30 November	3.0	506	2.0	340

The proposed final dividend for the year ended 30 November 2017 has not yet been approved by shareholders and as such has not been included as a liability as at 30 November 2017. Subject to approval, this is expected to be paid on 4 May 2018 to shareholders on the register at 3 April 2018. This will give a total dividend for the year of 4.0p per share (2016: 2.0p per share).

5 Plant and equipment

	£000
Cost	
At 1 December 2016	533
Additions	16
At 30 November 2017	549
Depreciation	
At 1 December 2016	288
Charge for the year	86
At 30 November 2017	374
Net book value	
At 30 November 2017	175
At 30 November 2016	245

6 Intangible assets

	£000
Cost	
At 1 December 2016	206
Additions	17
At 30 November 2017	223
Amortisation	
At 1 December 2016	146
Charge for the year	25
At 30 November 2017	171
Net book value	
At 30 November 2017	52
At 30 November 2016	60

7 Investments in subsidiary undertakings

	£000
Cost	
At 1 December 2016	27,697
Share-based payments capital contribution	68
At 30 November 2017	27,765
Provision for impairment at 1 December 2016 and 30 November 2017	(8,182)
Net book value	
At 30 November 2017	19,583
At 30 November 2016	19,515

Financial statements

Notes to the Company financial statements continued
For the year ended 30 November 2017

7 Investments in subsidiary undertakings continued

Details of the Company's subsidiaries at 30 November 2017 are as follows:

	Registered office (see footnote)	Country of incorporation	Class of share	Proportion of voting rights and shares held	Nature of business
Directly held by Synectics plc					
Synectic Systems Group Limited	1	UK	Ordinary shares	100%	Design and manufacture of video systems control products, integrated digital CCTV systems, and CCTV equipment and systems for extreme or hazardous environments
Quadrant Security Group Limited	2	UK	Ordinary shares	100%	Design, installation and maintenance of CCTV security systems and integrated security systems, and security management and support services
Synectic Systems, Inc.	3	USA	Common stock	100%	Design and supply of video systems control products and integrated digital CCTV systems
Indanet GmbH	4	Germany	Ordinary shares	100%	German holding company
Coex Limited	5	UK	Ordinary shares	100%	Dormant
Flash No.1 Limited	5	UK	Ordinary shares	100%	Dormant
Flash No.2 Limited	5	UK	Ordinary shares	100%	Dormant
Flash No.3 Limited	5	UK	Ordinary shares	100%	Dormant
Fotovalue Limited	5	UK	Ordinary shares	100%	Dormant
Foxall & Chapman Limited	5	UK	Ordinary shares	100%	Dormant
Look CCTV Limited	5	UK	Ordinary shares	100%	Dormant
Look Closed Circuit TV Limited	5	UK	Ordinary shares	100%	Dormant
Midlands Video Systems Limited	5	UK	Ordinary shares	100%	Dormant
Monument Photographic Laboratories Limited	5	UK	Ordinary shares	100%	Dormant
MVS (Research) plc	5	UK	Ordinary shares	100%	Dormant
Newco 3006 Limited	5	UK	Ordinary shares	100%	Dormant
Protec plc	5	UK	Ordinary shares	100%	Dormant
OSG Limited	5	UK	Ordinary shares	100%	Dormant
Quadnetics Employees' Trustees Limited	5	UK	Ordinary shares	100%	Dormant
Quadnetics Group Limited	5	UK	Ordinary shares	100%	Dormant
Quadnetics Limited	5	UK	Ordinary shares	100%	Dormant
Quadnetics SIP Trustees Limited	5	UK	Ordinary shares	100%	Dormant
Quadrant Integrated Systems Limited	5	UK	Ordinary shares	100%	Dormant
Quadrant Properties Limited	5	UK	Ordinary shares	100%	Dormant
Quadrant Research & Development Limited	5	UK	Ordinary shares	100%	Dormant
Quadrant Support Services Limited	5	UK	Ordinary shares	100%	Dormant
Quadrant Video Systems plc	5	UK	Ordinary shares	100%	Dormant
Quick Imaging Centre Limited	5	UK	Ordinary shares	100%	Dormant
S&M (Processing) Limited	5	UK	Ordinary shares	100%	Dormant
Sanpho Pension Trustees Limited	5	UK	Ordinary shares	100%	Dormant
SSS Management Services Limited	5	UK	Ordinary shares	100%	Dormant
Stanmore Systems Limited	5	UK	Ordinary shares	100%	Dormant
Synectics Group Limited	5	UK	Ordinary shares	100%	Dormant
Synectics High Security Limited	5	UK	Ordinary shares	100%	Dormant
Synectics Industrial Systems Limited	5	UK	Ordinary shares	100%	Dormant
Synectics Mobile Systems Limited	5	UK	Ordinary shares	100%	Dormant
Synectics Security Group Limited	5	UK	Ordinary shares	100%	Dormant
Synectics Security Networks Limited	5	UK	Ordinary shares	100%	Dormant
Synectic Systems Limited	5	UK	Ordinary shares	100%	Dormant
Synectics Surveillance Technology Limited	5	UK	Ordinary shares	100%	Dormant
Synectics Technology Centre Limited	5	UK	Ordinary shares	100%	Dormant

7 Investments in subsidiary undertakings continued

	Registered office (see footnote)	Country of incorporation	Class of share	Proportion of voting rights and shares held	Nature of business
Indirectly held by Synectics plc					
Synectic Systems GmbH	6	Germany	Ordinary shares	100%	Design and manufacture of video systems control products, integrated digital CCTV systems, and CCTV equipment and systems for the transport sector
Synectic Systems (Asia) Pte Limited	7	Singapore	Ordinary shares	100%	Design and supply of video systems control products and integrated digital CCTV systems
Synectic Systems (Macau) Limited	8	Macau	Ordinary shares	100%	Design and supply of video systems control products and integrated digital CCTV systems
A1 Presentations Limited	5	UK	Ordinary shares	100%	Dormant
Falcon Equipment and Systems Limited	5	UK	Ordinary shares	100%	Dormant
IES Integrated Electronic Systems Limited	5	UK	Ordinary shares	100%	Dormant
Integrated Environmental Systems Limited	5	UK	Ordinary shares	100%	Dormant
Protec 2001 Limited	5	UK	Ordinary shares	100%	Dormant
SDA Network Solutions Limited	5	UK	Ordinary shares	100%	Dormant
SDA Protec (2001) Limited	5	UK	Ordinary shares	100%	Dormant
SDA Protec Limited	5	UK	Ordinary shares	100%	Dormant
Sectronic (Marketing) Limited	5	UK	Ordinary shares	100%	Dormant
Security Design Associates (1979) Limited	9	UK	Ordinary shares	100%	Dormant
Software Developments (Digital Direct) Limited	5	UK	Ordinary shares	100%	Dormant
SSS Managed Services Limited	5	UK	Ordinary shares	100%	Dormant
Synectics Managed Services Limited	5	UK	Ordinary shares	100%	Dormant
Synectics No. 2 Limited	5	UK	Ordinary shares	100%	Dormant

1. Synectics House, 3–4 Broadfield Close, Sheffield S8 0XN.
2. 3 Attenborough Lane, Chilwell, Nottingham NG9 5JN.
3. 4180 Via Real, Suite A, Carpinteria, California, 93013, USA.
4. Brienner Straße 28, 80333 München, Germany.
5. Studley Point, 88 Birmingham Road, Studley, Warwickshire B80 7AS.
6. Machtlfinger Straße 13, 81379 München, Germany.
7. 10 Ubi Crescent, #06-80 Ubi Techpark (Lobby E), Singapore, 408564.
8. Avenida da Praia Grande No. 409, China Law Building, 16 Andar, B77, Macau.
9. 3–5 Melville Street, Edinburgh EH3 7PE.

8 Other receivables

	2017 £000	2016 £000
Other receivables	302	283
Amounts due from subsidiaries	30,542	30,051
Prepayments	84	85
	30,928	30,419

Financial statements

Notes to the Company financial statements continued
For the year ended 30 November 2017

9 Loans and borrowings

	2017			2016		
	Current £000	Non-current £000	Total £000	Current £000	Non-current £000	Total £000
Bank term loan	900	–	900	1,252	900	2,152
Bank overdraft	2,869	–	2,869	6,429	–	6,429
Total	3,769	–	3,769	7,681	900	8,581

Loans and borrowings comprise the Company's bank term loan and overdraft facilities. The fair value of financial liabilities is not substantially different from the carrying value. The terms and debt repayment details are as follows:

	Value drawn £000	Maturity	Interest rate	Security
£1.5 million term loan facility	900	26 November 2018	LIBOR +2.0%	Group assets
£8.0 million overdraft	2,869	On demand	Base + 2.0%	Group assets

During the year the remaining €1.3 million balance of the euro term loan was repaid in full. £150,000 of the sterling term loan was also repaid.

The bank overdrafts are part of a Group offset arrangement.

10 Trade and other payables

	2017 £000	2016 £000
Trade payables	268	229
Amounts owed to subsidiaries	6,617	6,617
Other taxation and social security	40	43
Other payables	7	5
Accruals	204	283
	7,136	7,177

11 Provisions

	Restructuring £000	Deferred tax £000	Property £000	Total £000
At 1 December 2016	21	64	–	85
Utilised in the year	(21)	–	–	(21)
Charged to the Income Statement	–	14	2	16
Charged to the Statement of Comprehensive Income	–	(67)	–	(67)
At 30 November 2017	–	11	2	13

The deferred taxation balances relate to the following:

	2017 £000	2016 £000
Retirement benefit asset	49	137
Fixed asset timing differences	(55)	(59)
Other timing differences	41	20
Tax losses	(24)	(34)
	11	64

12 Called up share capital and reserves

The number of allotted, called up and fully paid shares is as follows:

	2017		2016	
	Number	£000	Number	£000
Ordinary shares of 20p each				
Allotted, called up and fully paid	17,794,439	3,559	17,794,439	3,559

13 Contingent liabilities

The Company has agreed, in some instances jointly with subsidiary companies, to guarantee borrowings, annual operating lease rentals and performance bonds amounting to £0.4 million at 30 November 2017 (2016: £1.1 million).

14 Capital commitments

At 30 November 2017 capital commitments not provided for in these financial statements amounted to £nil (2016: £nil).

15 Operating lease commitments

The Company has total outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 £000	2016 £000
Within one year	46	52
Within two to five years	48	94
	94	146

16 Pension commitments

The Company participates in all of the Group's pension schemes. Full disclosures relating to these schemes are given in note 28 to the Group accounts.

Defined contribution schemes

Contributions made by the Company to the defined contribution section of the Quadrant Group plc Retirement Benefit Scheme in the year amounted to £nil (2016: £5,000).

In addition, the Company's total expense for other defined contribution pension schemes during the year was £70,000 (2016: £57,000).

Defined benefit schemes

The table below shows the gross assets and liabilities of the Group's closed defined benefit pension scheme that have been recognised in the Company's Statement of Financial Position.

	2017 £000	2016 £000
Fair value of scheme assets	6,812	6,706
Present value of scheme liabilities	(6,523)	(5,986)
Net defined benefit asset recognised in the Statement of Financial Position	289	720
Associated deferred tax liability	(49)	(137)

100% of the values of the scheme assets and liabilities have been allocated to the Company as this reflects a reasonable estimate of its share of the surplus.

Other information

Principal subsidiaries

The principal subsidiaries and divisions within the Group during the year were as follows:

Quadrant Security Group Limited

Design, installation, maintenance and management of advanced integrated CCTV and security systems

qsg.co.uk

3 Attenborough Lane
Chilwell
Nottingham NG9 5JN

Tel: +44 (0) 115 925 2521

Axis 6
Rhodes Way
Radlett Road
Watford
Hertfordshire WD24 4YW

Tel: +44 (0) 1923 211550

SSS Management Services

Total security outsourcing support and management services to retail and multi-site customers

sss-support.co.uk

Shannon House
Coldharbour Lane
Aylesford
Kent ME20 7NS

Tel: +44 (0) 1622 798200

Synectic Systems Group Limited

Design and development of advanced surveillance technology, operating through the following divisions:

synecticsglobal.com

Synectics House
3–4 Broadfield Close
Sheffield S8 0XN

Tel: +44 (0) 114 255 2509

Moat Road
Normanby Enterprise Park
North Lincolnshire DN15 9BL

Tel: +44 (0) 1652 688908

Synectics Mobile Systems

Development and supply of CCTV systems for bus manufacturers and operators

synecticsglobal.com

2 Wyder Court
Bluebell Way
Millennium City Park
Preston PR2 5BW

Tel: +44 (0) 1253 891222

Synectic Systems, Inc.

Developers of integrated software solutions and products for complex security and surveillance networks

synecticsglobal.com

4180 Via Real, Suite A
Carpinteria
California 93013
USA

Tel: +1 888 755 6255

Synectic Systems GmbH

Provider of integrated surveillance and security management systems to the European transport industry

synecticsglobal.com

Machtlfinger Straße 13
81379 München

Tel: +49 89 748862-0

Synectic Systems (Asia) Pte Limited

Provision of specialist video-based electronic systems and technology, for use in high-security applications

synecticsglobal.com

10 Ubi Crescent
#06–80 Ubi Techpark (Lobby E)
Singapore 408564

Tel: +65 6749 6166

Synectic Systems (Macau) Limited

Provision of specialist video-based electronic systems and technology, for use in high-security applications

synecticsglobal.com

Avenida do dr. Rodrigo Rodrigues
No. 600-E
Centro Comercial First Nactional
P14-04
Macau

Tel: +853 2855 5178

Other information

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Secretary and registered office

Richard Brierley

Synectics plc

Studley Point
88 Birmingham Road
Studley
Warwickshire B80 7AS
Tel: +44 (0) 1527 850080

Email: legalandsecretarial@synecticsplc.com

Bankers

Lloyds Bank plc

125 Colmore Row
Birmingham B3 3SF

Stockbrokers

Stockdale Securities Limited

100 Wood Street
London EC2V 7AN

Auditor

KPMG LLP

One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

Registrars and transfer office

Link Asset Services

34 Beckenham Road
Beckenham BR3 4TU



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Email: info@synecticsplc.com



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