Global Specialists in Integrated Security Systems

Synectics plc
Annual Report and Accounts for the year ended 30 November 2018

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

Read more page 18

Gaming

Read more page 20

Transport & Infrastructure

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High Security & Public Space

Read more page 24

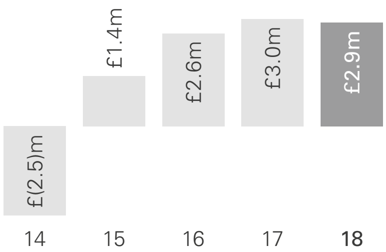
Headlines

- Revenue £71.2 million (2017: £70.1 million)
- Underlying profit[1] £2.9 million (2017: £3.0 million)
- On a constant currency basis, revenue £72.3 million and underlying profit £3.1 million
- Profit before tax £2.1 million (2017: £2.5 million*), after mostly non-cash non-underlying costs of £0.7 million in mobile systems business area
- Continued investment in technology development of £3.1 million (2017: £2.6 million)
- Net cash at 30 November 2018 £8.1 million (2017: £3.8 million); no bank debt
- Underlying diluted EPS[2] 12.6p (2017: 15.2p)
- Diluted EPS 9.1p (2017: 12.4p*)
- Return on average capital employed 8.6% (2017: 8.7%*)
- Year-end order book £21.0 million (2017: £24.4 million)
- Recommended final dividend of 3.5p per share (2017: 3.0p) giving total dividend payable for the year of 4.7p (2017: 4.0p)
- Strong performance in Gaming market with record revenue
- Good progress in UK infrastructure with high-profile project wins
- Oil & Gas and UK on-vehicle sectors performed below the Board's expectations, in difficult markets
- Solid pipeline of identified new business opportunities
- Board expects good progress against financial and strategic goals

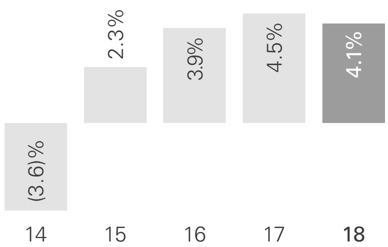
Financial overview

Revenue
+1.6%

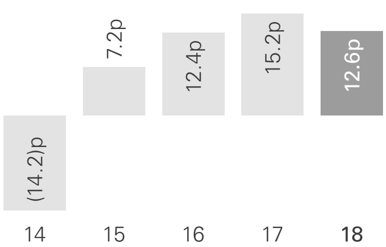
Underlying profit/(loss)[1] before tax
-5.4%



Underlying operating margin[1]
-0.4%



Underlying diluted EPS[2]
-17.1%



1. Underlying profit represents profit before tax and non-underlying items (which comprise UK mobile systems restructuring costs and stock write down, and amortisation of acquired intangibles).
2. Underlying earnings per share are based on profit after tax but before non-underlying items.

* Restated. See note 5.

In this report

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

Our business at a glance

Who we are

Synectics plc is an agile, innovative leader in the world of advanced surveillance technology and networked security systems.

We are experts in the specialist markets in which we operate, with decades of experience in areas of critical need. We have a deep and unique understanding of our customers' issues and challenges, 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 they are responsible for protecting.

We have built an enduring reputation for our problem-solving expertise, technical excellence, and total commitment to delivering for our customers.

What we do

Synectics specialises in the creation of security and surveillance solutions that are precisely adapted for some of the world's most challenging environments.

We operate in a limited number of sectors where security and surveillance needs are particularly acute and where our advanced technologies and specialist expertise deliver the maximum value for customers and clearly differentiate our offering.

We protect and support major pieces of public infrastructure, from nuclear power stations in the UK, to transport networks in Germany, to offshore energy installations in Qatar, to the highest grossing casinos in Singapore and Las Vegas.

Why we stand out

Synectics delivers large-scale security and surveillance projects for world-class companies, frequently winning major contracts in direct competition with conglomerates many times our size. We succeed because we combine the scale and track record required to handle the most challenging programmes with the agility and "can do" attitude of an independent firm.

We create flexible, user-friendly products and services which are tailored around each customer's specific needs but founded upon proven, core systems and components which clients can trust, including our Synergy software.

We deliver sophisticated, value-adding solutions, which give our clients the capabilities to improve the way they operate and enhance the experience they provide to their own customers.

We have exceptionally smart and talented people, who combine outstanding technical expertise with the ability to communicate directly with clients at all levels to understand their needs and deliver solutions.

We care. Everything we do is driven by a deep understanding of our customers' needs and a passionate commitment to working with them to solve the challenges they face.

Where we work

MARKETS

Synectics serves clients in 55 countries.

Our core teams are centred in five main hubs in the UK, Germany, the UAE, Singapore, and the US. We reach out to our customers wherever they are on the planet, providing the expertise and support where they need it, when they need it.

INDUSTRIES

Oil & Gas

Where our COEX camera stations ensure clear, accurate and unfailing image quality in hazardous environments, and our integrated solutions deliver local, remote and multi-site monitoring and control of vital security and safety systems.

Gaming

Where the surveillance and security solutions we deploy, and leading-edge cameras we provide, eliminate risk of downtime – guaranteeing high-quality image detail, uninterrupted live view, and secure data retention in line with strict regulatory demands.

Transport & Infrastructure

Where our integrated and interoperable Synergy 3 platform and on-vehicle technologies give transport operators the power to connect, monitor and control systems vital to passenger safety, security and travel experience, at every stage of their journey.

High Security & Public Space

Where our sophisticated yet user-friendly solutions are used to protect critical infrastructure, often in large scale, and guide critical decision making in operationally difficult environments to protect assets, personnel and the general public.

Our business model

Our vision…

is for Synectics to lead the creation of security and surveillance solutions that are precisely adapted for some of the world's most challenging environments – and to be the provider of choice "where it matters most".

Our purpose…

is to build a deep understanding of our customers' needs and create solutions they can rely on completely – giving them peace of mind by securing the people, assets, and livelihoods they are responsible for protecting.

How we generate revenue

Synectics embraces two complementary business models. These allow us to work with customers flexibly in the manner which best suits their needs and their interaction contributes to Synectics' attractiveness as an investment proposition.

SYSTEMS BUSINESS MODEL

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 proprietary technology.

We identify future opportunities at an early stage, and work closely with customers to understand their needs and create solutions which are tailored to their unique requirements.

These businesses earn revenue primarily through the application of our intellectual property, in the form of proprietary software and specialist expertise. We translate complex client challenges and needs into robust, practical and user-friendly solutions.

Our partnerships with specialist integrators allow our solutions to be deployed in the most efficient way for customers and enable Synectics to maximise its global reach.

Much of our revenue comes from repeat business from clients whom we support over time and across multiple sites and estates. This is both a tribute to the strength of our customer relationships and an important factor in the long-term health and resilience of the business.

IMS BUSINESS MODEL

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

Our IMS businesses generate revenue via a service-based model, working directly with end user clients to deliver solutions, using best-in-breed hardware and software technology. The contracts held by these businesses frequently include a significant stream of committed, continuous revenues, bringing the associated benefits of strong, ongoing customer relationships and a robust and stable commercial base.

The Systems and IMS businesses are highly complementary. We offer integrated solutions which draw on both sets of capabilities wherever this delivers the best outcome for our clients. However, each is a strong business in its own right. We work very flexibly with our customers, adapting our approach to suit their needs and partnering with other providers where we believe this adds value to our client solutions and enhances our market reach.

The value we deliver

FOR OUR CUSTOMERS...

we provide peace of mind, through robust, technically advanced security and surveillance solutions designed to deliver reliably in the most challenging environments.

FOR OUR INVESTORS...

we provide the strong returns and excellent prospects created by our market-leading positions in our key verticals, underpinned by our entrepreneurial culture and proven track record of technical excellence and customer service.

FOR OUR EMPLOYEES...

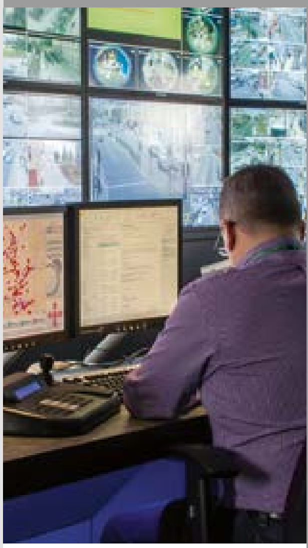
we provide stimulating, rewarding employment and excellent development opportunities within a very human and engaged working environment.

FOR OUR COMMUNITIES...

we play a full role in local programmes and charities, both through the Company's direct investments and by strongly encouraging and supporting the initiatives of our employees.

How we deliver

THE PILLARS OF OUR SUCCESS



CUSTOMERS

Our business is founded on successful, lasting relationships with our customers.

Everything we do is driven by a deep understanding of their needs, the environments they work in, and the challenges they must solve.

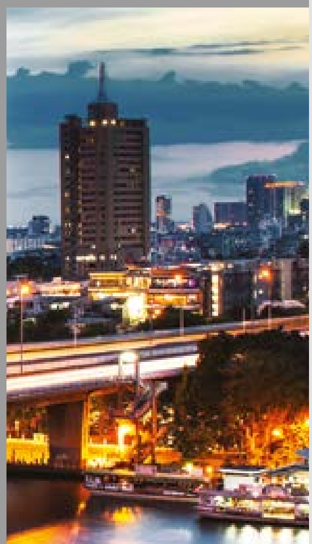
PEOPLE

As our Company has grown, we have remained true to the human values at its heart – mutual respect, deep personal commitment, and pride in the application of world-class expertise in finding solutions to practical, real-world challenges.

TECHNOLOGY

Synectics has always been at the vanguard of security and surveillance technology, applying emerging capabilities to build sophisticated, value-adding solutions with the exceptional rigour our clients demand.

Today, the heartbeat of our solutions is Synergy 3, an innovative, highly flexible platform which marks us out as a technical leader in our industry.



MARKETS

We focus on market sectors that allow us to leverage the full potential of our capabilities, differentiate our offering and stand out.

Synectics is ideally positioned to benefit from the drivers of growth in its industry: the expanding scale and nature of risks and threats; increasing investment in critical infrastructure requiring protection; and our customers' need for agile partners and value-adding solutions.

"The pipeline of identified new business that the Group expects to win and deliver in 2019 is strong, and we expect to benefit from growing momentum in certain market sectors."

David Coghlan
Chairman

Overview

In last year's final results, I set out the Board's expectation that underlying results in the 2017/18 financial year would show reasonable growth in profit from business operations being offset by a significant increase in expenditure on technology development. That turned out indeed to be the case. With those two factors combined, underlying profits for the year to 30 November 2018 at £2.9 million were slightly down on the prior year as reported (2017: £3.0 million), though slightly up on a constant currency basis.

Within the various market sectors Synectics serves, results from the gaming surveillance markets in Asia and the United States were very strong. It was particularly pleasing that Synectics continued to demonstrate the benefits of its growing leadership position in this most demanding of high-end surveillance applications. The Group also made excellent progress in sensitive and high-profile infrastructure sites in the UK, where demand for specialist technical security capability continues to grow in the face of an expanding array of threats.

As previously announced, results for the year from the Group's global oil & gas and, especially, the UK on-bus sectors were below expectations, as those markets remain difficult. In the latter case, the Group's mobile surveillance business also suffered from the loss of a large contract renewal from a UK bus operator and a second customer taking its service work in house. Management implemented a restructuring of the Group's activities in the UK on-bus area which, together with a re-assessment of related stock carrying values, resulted in a significant, mostly non-cash, non-underlying charge, partly in 2017/18 and partly on a restated basis in prior years' accounts, as described below.

The additional investment in the Group's technology development programme proceeded as planned across the year, notably in adapting our core software architecture to benefit from growth opportunities in Cloud-based applications. Synectics' strong balance sheet and cash generation allow the Company to position itself to take full advantage of this and other emerging technology capabilities as we apply them to our established markets.

Overall, in 2017/18 Synectics made progress towards achieving its main strategic goals. We are looking now towards accelerated growth in revenues and more consistent delivery of returns across the sectors in which we operate.

Results

For the year to 30 November 2018, Synectics' consolidated revenue was £71.2 million (2017: £70.1 million). Underlying profit before tax was £2.9 million (2017: £3.0 million). On a constant currency basis[1], revenue for the year ended 30 November 2018 was £72.3 million and underlying profit before tax was £3.1 million.

After charging £0.7 million for non-underlying costs for the financial year within the mobile systems business area, as described in the Performance Review, profit before tax was £2.1 million (2017: £2.5 million*). The total non-underlying costs recorded in the mobile systems business was approximately £2.0 million, as announced on 29 November 2018. The additional £1.3 million was required by accounting standards to be shown as a restatement of previous years' results. Further details on the restatement and non-underlying costs are set out in notes 4 and 5.

Underlying diluted earnings per share were 12.6p (2017: 15.2p) and diluted earnings per share were 9.1p (2017: 12.4p*). These numbers reflect a higher effective corporation tax rate for the year of 26% (2017: 15%) due primarily to an increased proportion of business in the US, combined with a remeasurement of deferred tax balances in the US as a result of US tax reform.

The Group's balance sheet continued to strengthen, with net cash at 30 November 2018 of £8.1 million (2017: £3.8 million). The last of the Group's bank borrowings were repaid during the year. This cash position was somewhat flattered by favourable working capital flows around the year end. The consolidated firm order book at 30 November 2018 was £21.0 million (2017: £24.4 million), with the decline reflecting primarily lower outstanding orders for on-bus surveillance systems and the timing of large contracts in other sectors.

Dividend

Based on the Group's strong cash position, and our confidence in future financial results, the Board is recommending payment of an increased final dividend of 3.5p per share (2017: 3.0p), payable on 7 May 2019 to shareholders on the register as at close of business on 5 April 2019. If approved by shareholders at the Company's Annual General Meeting to be held on 25 April 2019, this will bring the total dividend payable for the year to 4.7p per share (2017: 4.0p).

People

There were three changes on the Synectics Board in the last financial year. Firstly, Dennis Bate retired in April 2018 after twelve years' service as a Non-Executive Director. During that time Dennis consistently provided us with wise and experienced counsel, and on numerous occasions contributed value to the Company through his wide range of contacts, mentoring of our senior managers and understanding of the needs of current and prospective Synectics' customers. On behalf of the Board and shareholders, I would like to pay sincere tribute here for Dennis' many contributions.

On 30 November 2018, Mike Stilwell stood down as Finance Director, having ensured a well-managed and positive handover to his successor. Mike had been an important member of the senior management team at Synectics since joining in 2012 and we wish him well for the future. Simon Beswick joined the Company in September 2018 and was appointed to the Board as Finance Director on 30 November 2018. He has already had a positive impact and both the Board and senior management team look forward to working closely with him.

Sincere thanks are also due once again to Synectics' employees at all levels for another year of outstanding commitment and effort on behalf of the Group. For some time now, Synectics has been conducting annual surveys of employees and customers, with the Board paying close attention to the resulting key metrics and trends. It will not surprise anyone that there is a clear positive correlation between rising employee engagement scores and customer satisfaction (as measured by our net promoter score). During 2017/18, employee engagement rose for the third consecutive year and our Group-wide customer satisfaction rating increased substantially from an already good level.

Synectics' success in implementing its strategy depends in large measure on retaining smart, talented employees who are thoroughly engaged in providing short and long-term value to our customers. The Group's Executive team will continue to be focused on that goal.

Strategy

As the volume of digital data generated by high-end, video-centric surveillance systems continues to grow exponentially, the complexity of extracting actionable intelligence from that data is opening up growing scope for innovation. Rapidly evolving technology platforms, a new generation of customers brought up on intuitive graphical interfaces, emerging self-learning software systems, and increasingly sophisticated cyber threats are all adding to the potential for solving the problems of high-end surveillance customers in new and effective ways.

Throughout its 30-year history, Synectics has consistently demonstrated the combination of deep technical capability and a practical, expertise-based sales approach needed to benefit from such opportunities. Synectics' heritage and instincts are entrepreneurial, while its long list of high-profile reference sites, allied to its reputation for reliability, provides reassurance. We believe these characteristics give the Group a solid base from which to build in an attractive market.

Outlook

The Board considers that any potential outcome of the Brexit situation is likely to have only a limited impact on the Group, due to the nature of our customer and supply base. However, we have taken modest and appropriate measures to increase the buffer in our EU-based supply chain and to ensure we have workable alternatives where necessary.

The technology and market environments in which the Group operates are evolving at an increasing pace. The Board intends to continue, and most likely accelerate, the level of investment in development of next generation Synergy software platforms to take full advantage of the opportunities emerging in the Group's specialist sectors of the market. In that regard, both our cash resources and unleveraged balance sheet are important assets.

To succeed as planned, the Group also needs to strengthen its management structures and systems. A number of new managers have joined the senior team in recent months, and we are actively recruiting several more, particularly on the sales front. We have also initiated a thorough review of the different systems currently used by the Group which we expect to result in implementation of a new, more unified set of systems across the Group, enabling efficiencies, improved customer service and a more scalable organisation.

The pipeline of identified new business that the Group expects to win and deliver in 2019 is strong, and we expect to benefit from growing momentum in certain market sectors that did less well in 2018. Overall, the Board is confident that Synectics will make good progress against both its financial and strategic goals in the current financial year.

David Coghlan

David Coghlan
Chairman

26 February 2019

1. Using average exchange rates for the year ended 30 November 2017.

* Restated. See note 5.

> **We are laying the foundations for an ambitious growth strategy which we believe will take the Company to new levels over the coming years."**
>
> Paul Webb
> Chief Executive

Synectics plc is ideally positioned to benefit from the drivers of change in its industry, as a dynamic, innovative business applying advanced technologies to provide security and surveillance solutions to market sectors where it really matters.

We are laying the foundations for an ambitious growth strategy which we believe will take the Company to new levels over the coming years.

Market

The market for security and surveillance solutions continues to expand. Demand around the world is being driven by a series of external factors, all of which support our strategic plans and align with our business strengths:

- continued urbanisation, especially in emerging markets;
- more travel, both within and across borders;
- increased investment in critical infrastructure requiring advanced protection;
- greater and ever-more complex risks and threats; and
- increased adoption of technologies including Cloud, Internet of Things, and Artificial Intelligence.

The need for robust, unfailing security and surveillance solutions remains paramount, while rapid advances in the technological possibilities available to us continue to change the needs and expectations of the customers we work with. Together, these factors open up exciting opportunities for our business.

As our clients make their own preparations for a dynamic and potentially unpredictable future, it is clear that they are looking for exactly the type of sophisticated, value-adding, and intuitive solutions in which we specialise.

They are seeking partners who offer the blend of technical expertise, agility, and commitment to outstanding service which has characterised Synectics since it was founded.

Changes in the world around us play to our strengths and we are moving quickly to capitalise on the opportunity at hand.

Strategy

We are putting in place a strategy designed to drive the business forward in the short term, while also ensuring that we are equipped to meet customer needs well into the future.

Over the past year, we have taken the first steps in this journey. During 2019 we will be accelerating the rate of change within our business and making the significant investments in our products, people, and processes which are necessary to keep us at the forefront of our industry.

The programmes we are driving through our business are future focused and directed at three main areas:

- building the leadership team and developing our expert workforce;
- becoming a truly customer-centric organisation, with systems to support this; and
- transforming our products and solutions to harness new technologies in order to meet our customers' rapidly evolving needs.

People

Continuing to strengthen our human capabilities at all levels is vital to the evolution of the Company.

Within the leadership team, we have appointed Simon Beswick as Finance Director. Simon brings wide international experience in finance and general management and an intuitive grasp of the practicalities of leadership in technology companies.

We have made a series of other senior appointments. These have been recognised and promoted from within the Company while reinforcing our talent pool with some strong external hires.

Consistent emphasis on talent development continues to benefit our entire business; our focus on recruiting a new generation of smart, agile, technically expert young people will also help shape our future.

Customers

We have always placed customers at the heart of our business and are continually recognised for our service ethos and commitment to delivering the solutions they need.

However, we are entering an era in which agility and speed of response will be even more critical. In anticipation of this, we are implementing a new customer-centric organisational model to make it simpler and faster for clients to access the resources they need.

One of its aims will be to facilitate co-creation of solutions with customers. We are already engaged in development work with individual clients to fast track the application of emerging technologies to their businesses and this will be an increasingly important model for us going forward.

During 2019 we will accelerate the transformation of our organisation to ensure our structures, processes, and day-to-day behaviours are aligned with the future requirements of our customers and markets.

Outlook

We are entering this period of exciting change with a business in robust health. We have delivered a solid set of results for 2018 and our revenues have underlying momentum.

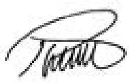
Remaining highly focused continues to benefit our business; we operate in a limited number of sectors where security and surveillance needs are particularly complex and where our advanced technologies and specialist expertise can deliver maximum value.

In each of these verticals, we have built deep expertise, lasting customer relationships, and an enduring reputation. We adapt our core technologies and systems to address the unique needs of each sector, and then tailor our solutions further to address the specific requirements of every customer.

We are team players, working closely with partners – integrators, consultants, and other technology providers – joining forces to deliver the best possible outcomes for our clients. Crucially, our partnerships extend our reach as a business, enabling us to access opportunities all over the world and provide ongoing support in the most practical way for each customer. We are an agile, forward-looking company, and are proud to say we punch above our weight.

We view the future with great optimism. The forces of change in play make our inherent strengths even more important to customers. Synectics' sophisticated problem solving expertise, agility, and "can do" attitude will be in greater demand than ever before; our unfailing emphasis on delivering reliable and robust solutions for challenging environments and areas of critical need will deliver vital peace of mind in an unpredictable world. This mix renders us better placed to succeed in the future than many of our competitors.

It is our belief that the changes already underway within our business will ensure we have the product suite, the human capabilities, and the cultural orientation necessary to help our clients navigate the challenges ahead, and to secure our own future.



Paul Webb
Chief Executive

26 February 2019

"Changes in the world around us play to our strengths and we are moving quickly to capitalise on the opportunity at hand."

Paul Webb
Chief Executive

Our customers

Synectics plc's continuing success within the expanding global security and surveillance industry is founded on our track record in building successful, lasting relationships with our customers. Everything we do is driven by a deep understanding of their needs, the environments they work in, and the challenges they must solve. As a result, we enjoy exceptionally high levels of repeat business.

Customers come to Synectics for our expertise. We are specialists in security and surveillance, not a general "tech" company. Even more importantly to our clients, we are specialists in *their* security and surveillance.

In each of the markets in which we operate – Oil & Gas, Gaming, Transport & Infrastructure, and High Security & Public Space – we have built dedicated teams which understand the specific issues in minute detail.

Some of the underlying principles and technologies are of course transferable across markets, even with industries as diverse as these. The scope and flexibility of Synectics' Synergy 3 software, for example, means that it is used by customers in all of these areas – from the world's busiest transport systems, gaming resorts and city centres, to infrastructure critical energy developments across the globe.

The key, however, lies in customising the way in which the vast array of tools and expertise at our disposal are used to create the right solution. Not just for each market, but for each individual *customer*. Having the knowledge, discipline, and desire to assess each set of requirements and deliver a precisely tailored solution is critical.

Above all, we look at things through the eyes of the customer. We focus on the big picture outcomes they need to deliver while also looking at the detailed practicalities of how they need to work day to day. What will be easy and intuitive to use? Where will extra speed or precision of results make all the difference when it matters most? These are the questions we consider and answer with the right, tailored solution.

To help us strengthen our relationships still further, we introduced a Customer Excellence programme in 2016.

The programme has created an additional channel of dialogue with our clients. We conduct a formal annual survey across our entire client base, run for us by an independent research consultancy. We feed back the results from each survey to our customers, commit to a programme of actions in response, keep customers updated on progress, and continue to seek their feedback to ensure that we are delivering the improvements they have asked for.

The overall results are very pleasing. In the latest survey, conducted in September and October 2018, our positive Net Promoter Score ('NPS') has risen across the Company by 18 percentage points over the past two years.

We are consistently rated highly by customers for the reliability of products, the user friendliness of our solutions, our specialist knowledge, and our commitment to the highest standards of service.

This is hugely encouraging as it confirms that our points of difference align with customer needs. However, we are never complacent and use customer input to constantly identify further opportunities for improvement.

For example, based on the latest feedback we are looking at more ways in which we can make it easier for customers to access help and support when they need it, so that any issues or questions can be resolved quickly.

For us, "continuous improvement" isn't a slogan, it's a mindset that drives us forward every day to make the solutions we provide easier to use, more efficient to operate, and above all more effective in what they deliver for our customers.

Securing international gateways

"Synectics has a real understanding of how airports work and the key parameters for ensuring a positive passenger experience. More importantly, they understand how innovative technology can alleviate those pressures and support safe, secure, and efficient operations."

Linda Hadi
Director, Jaya Teknik ICT Division

Supporting major retail brands

"We have been highly impressed by the breadth of their capabilities. These installations are perfectly in tune with intu's brand values, allowing us to offer our shoppers the best possible customer experience in a safe environment."

Gian Fulgoni
Chief Information Systems Officer, intu

Making vehicles safer for personnel and passengers

"We have a long-standing relationship with Synectics which has proved successful over a number of years. We believe they continue to deliver the solutions we need now, and in the future, to help us to keep improving the security and safety of our customers and our employees."

Sam Greer
UK Bus and Engineering Director, Stagecoach

Protecting people, safeguarding energy assets

"Very few organisations have the range and quality of products, combined with system integration capabilities and expertise, to develop an industrial solution for a project of this scale. That's why we were keen to work with Synectics to provide a security CCTV system at Pearl GTL plant."

Toni Partipilo
Sales & Proposals Manager, Page Europa

Footage without fail for casinos

"With our changing IP needs and a move to centralised monitoring and evidence management, we knew that upgrading to Synergy 3 would deliver. Both the surveillance operators and maintenance teams have the added comfort of familiarity, while gaining the benefits of the complete situational awareness."

Ted Nilsson
Assistant Surveillance Manager, Casino Cosmopol

Smarter solutions for public protection

"We are always looking at ways we can support the surveillance team and use our technology more efficiently and effectively. Upgrading to an open platform solution that could facilitate greater levels of integration with existing systems would be key to this."

William Ogg
CCTV Manager, London Borough of Bromley

Our people

As our Company has grown, we have remained true to the human values at its heart: mutual respect, deep personal commitment, and the pride we all take in applying world-class expertise to solve practical challenges.

Security and surveillance is a "technology" industry, but it is also a deeply human business. Our work protects assets and infrastructure, but its most important purpose is to protect people – to keep them safe, give them the peace of mind, and enable them to pursue their lives without concern. Whether protecting employees, members of the public, or both, the people who use our solutions – our customers – shoulder this enormous responsibility and rely on us to be with them every step of the way. We cannot fail them.

And our customers know we won't. The feedback we receive from clients consistently praises our expertise and the enormous commitment and dedication our teams show. As one customer commented: "In terms of system and industry knowledge, expertise in the system, and understanding and responding to our requirements, they do an exemplary job." Another said simply that we "provide instantaneous support and do so with a great attitude."

None of this happens by accident. Attracting, developing, retaining, and inspiring the right people have always been commitments central to our business strategy.

For several years now, our talent programmes have been built around three simple streams of activity:

- right people, right roles;
- learning and development; and
- communication and engagement.

This consistent focus is reaping rewards with customers and also among our own people. In our latest annual Employee Survey, we have seen further improvements across the Company on almost all of our key metrics. This is the third successive year of significant progress in these results, and corresponds with substantial gains in our customer NPS scores over the same period. We have established a virtuous circle at the heart of the business and we are determined to keep improving.

The investments we are making are bearing fruit at all levels. Over the past 18 months we have been able to make a series of senior appointments from within the business, ensuring continuity for our customers and providing well-merited recognition for our rising generation of leaders. Elsewhere, renewed emphasis on recruiting high-calibre graduates with excellent technical skills has brought fresh energy and innovative thinking to our R&D teams.

As we develop this latest generation of talent and help them build their careers with Synectics, we will pass on to them the rich heritage of specialist expertise embedded in our Company.

No matter how good you are at what you do, nothing stands still. Our industry is changing, and doing so in ways which present new challenges but also great opportunities for our business. We are continuing to evolve our structure and roles to make sure our set-up is future proofed and fit for purpose. We must be a truly customer-centric organisation, ensuring our clients can access resources in whatever way is easiest for them as their own operations evolve. All the while, we must operate with efficient and effective supply chain management and support processes, to maximise the value we deliver for our customers and investors.

We have begun a programme of significant change during 2018, and this will accelerate in the coming year. We face the future with great confidence, and trust our people to rise to the exciting opportunities which lie ahead.

We are proud of our people, not just for what they do for our Company but for the wider contributions they make to the communities of which we are a part. Here are just a few examples of their terrific efforts over the past year.

Help in a crisis

Stephanie Mayes, Synectics Vice President, Business Development, was part of a **Mission 500** team which joined a security service trip to Puerto Rico to help families after Hurricane Maria.

Rebuilding communities

Employees from the Synectics US office volunteered with **Habitat for Humanity** to help shovel mud and dig out a family's home after the mudslides that hit their community in early 2018.

Sporting success

Gemma Scott from our Finance team won the Sports Achiever Award with North Lincolnshire Community Champions for her tremendous achievement in completing an Ironman Triathlon, comprising a 2.4 mile swim, 112 mile bike ride, and 26 mile marathon run. By way of a warm-down, Gemma ran the London Marathon for **Worldwide Cancer Research**.

Saving lives

Paul Brooks, one of our UK Business Development Managers, received the Sussex Police Operations Command Commendation for his volunteer work with **Sussex Search and Rescue**.

Active fundraising

A team from our Operations Centre completed a 30,000 step evening glow walk over 15 miles (24 km) to raise money for **Lindsey Lodge Hospice**. The hospice provides specialist palliative care to people with life-limiting illnesses. Andy Pidcock from our Service team completed the Great North Run on behalf of the same charity.

Our technology

Synectics has always been at the vanguard of security and surveillance technology. We apply human ingenuity and advanced technical capabilities to create practical solutions.

Crucially, these are solutions built *for* security and surveillance professionals *by* security and surveillance professionals. Our teams understand intimately the world in which our clients operate. That knowledge is critical to designing and delivering customised systems which mirror customer workflows and are efficient and intuitive to use.

To achieve this, we have remained focused on markets where security and surveillance are fundamental to the customer's entire operation. Our specialist teams have decades of experience in adapting our capabilities to meet the needs of professionals in each market.

The heartbeat of our solutions is Synergy 3, an innovative, highly flexible platform which marks us out as a technical leader in our industry.

Synergy 3 is extraordinarily powerful. It provides the foundation for integrated solutions which can be configured specifically for each customer, tailored to meet the needs of individual users, and which ensure the right people *always* have exactly the information they need to make, and action, critical decisions.

Smart, intuitive graphical interfaces, and high standards of user friendliness, are crucial to the experience. Synergy 3 enables us to deliver technologies to security experts in ways which fit easily around their working lives and – thanks to Synergy's dynamic workflows, intelligent automation capabilities and open architecture – also *make* their working lives easier.

New technologies are arriving very quickly and exerting a dramatic effect 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 more responsive control systems and a better experience for the customers of the clients we serve. The flexibility and interoperability of systems, always central to our thinking, are improving all the time.

New capabilities also bring new threats. We and our clients must ensure that we are prepared to address different kinds of challenges and to respond rapidly and with great agility in a fast-changing and volatile world.

Our conversations with customers underscore the importance of this transformation and the speed with which it is taking effect. We are ideally positioned to meet emerging needs. The market undoubtedly has an appetite for a new generation of more powerful, higher value solutions, and a desire to work with smart, agile partners who can help them to anticipate and adapt. We are confident that Synectics is better placed to succeed in this environment than many of our competitors.

We are already developing a new suite of technical capabilities to address emerging possibilities and needs. This work, and the investments behind it, will be accelerated through 2019.

Our technical development is always grounded in meeting current and future customer needs. We are working closely with customers to co-create a new generation of solutions, and conducting live trials which are already moving rapidly to proof of concept. These fast-cycle, collaborative projects are proving highly successful and we will be expanding their scope in 2019.

Our new generation architecture is designed to support organisations across the spectrum of sectors and needs we serve. It enables us to offer:

- fully integrated and interoperable solutions for customers who wish to deploy command, control, security, and information systems across an enterprise class, geographically wide, and/or operationally diverse estate;
- large-scale but discrete – potentially ring-fenced – systems for customers who want sophisticated solutions but who, perhaps for regulatory or security reasons, may also require them not to be integrated with external data and applications, for example, in the gaming sector; and
- efficient solutions for customers who want relatively simple but exceptionally reliable capabilities that meet regulatory and other core requirements.

Integration and interoperability are becoming more and more critical. Customers want to be able to enhance and build on what they already have and connect multiple systems together.

For us, offering a truly tailored solution means respecting this fact by ensuring that our technologies seamlessly integrate with a wide range of third-party systems and devices. This gives customers the flexibility to maximise existing resources and allows us to support customers in areas where our technical specialism pays dividends.

Our software platform and tools are fundamental to this proposition, and to the unique user experience we offer. But so are our market-led hardware solutions. For example, recognising a distinct need for reliable, robust camera stations capable of withstanding incredibly harsh conditions, we developed – and for over 30 years have continued to provide – specialist COEX C3000 camera stations to customers operating in extreme environments, from oil & gas developments and marine assets to critical infrastructure projects.

Synectics has always been, and will remain, a technical leader in security and surveillance. Our proven ability to apply technology with an agility of mind and practicality of purpose will be crucial to our future success, and to that of our clients.

Synergy 3: situational awareness tailored to each customer

COEX camera stations: reliable image capture in all conditions

EX300: delivering intuitive and ergonomic control

Our markets

We choose to operate in market sectors which allow us to differentiate our offering and stand out, primarily: oil & gas, gaming, transport & infrastructure, and high security & public space industries.

These markets present an extraordinarily diverse range of working environments and operational challenges. They also have key things in common – scale, complexity and an imperative need for proven technologies applied with absolute rigour. These requirements align perfectly with our strengths and capabilities.

The overall security and surveillance market is growing globally and we expect that trend to continue. The impact of further urbanisation, new investment in infrastructure, and increased international travel, combined with unrelenting and more diverse threats, are increasing demand for high-quality, reliable solutions to protect people and assets.

The emergence of new technologies is enabling the development of new and more powerful surveillance and protection capabilities, and facilitating the seamless integration of these systems with others to provide holistic solutions.

We operate in some of the most complex and challenging environments, and it will be here that the forces of change will be most keenly felt in the coming years. Synectics plc is ideally equipped to benefit from these trends.

Many organisations do not know exactly what they will have to deal with in the coming years. They *do* know that there will be many challenges, some of which will be unforeseen. Meticulous planning will be important, but it will also be vital to be fast on one's feet and to respond at great speed to the unexpected.

The qualities required to deliver and prosper in this environment are inherent in Synectics' technology and culture.

Our solutions are founded upon proven, core systems and components, such as Synergy 3, but can be quickly adapted to meet specific needs.

Our talent strategy has consistently focused on attracting, retaining and developing exceptionally high-calibre people – individuals who can work closely with clients to understand their needs and apply problem-solving skills and technical expertise to deliver the optimum solution.

Synectics faces the future confident that our core values and capabilities are well aligned with the direction of travel for our customers. Over the next twelve months, we will be making further changes to our organisation and significant investments in our products and underlying technology to ensure that we remain an outstanding specialist partner for clients seeking security and surveillance solutions in the areas of most critical need.

The new era is characterised by an accentuated focus on specific attributes which will be essential to survive and prosper.

Agility – the world we live in, the things we can achieve, and the threats we face are moving in ways which are dramatic, rapid, and unpredictable.

Intuitiveness – the standards of design and "ease of use" set by the likes of Apple, Google, and Facebook have become the new normal – the minimum we expect in every aspect of our personal and working lives.

Pre-emption – Artificial Intelligence and other technologies increasingly offer the potential to anticipate security threats or customer requirements, and provide more secure protection and enhanced service.

Integration – different systems and components need to be able to connect seamlessly to support a variety of desired outcomes, albeit recognising that in some environments surveillance capabilities may need to remain ring-fenced to meet regulatory requirements.

We specialise in the kinds of sophisticated, value-adding solutions our customers are demanding. We are also used to partnering around the world with other organisations whose expertise complements our own, and to playing our own specialist role in delivering the total solution the customer requires.

Oil & Gas

The complexity of the task facing our Oil & Gas customers is enormous: safeguarding on-site personnel; protecting offshore and onshore pipelines; and monitoring hazardous and explosive areas, often in remote locations under extreme temperatures. It's a challenging brief. It's also why our COEX cameras and integrated solutions are trusted to protect major projects across the globe.

Gaming

Gaming is one of the most technically demanding, tightly regulated leisure industries in the world. Monitoring vast, crowded facilities in low-light conditions where massive amounts of cash constantly change hands is a daily reality. With sophisticated redundancy, resilience and data retention features that guarantee regulatory compliance, our solutions deliver precision images and absolute peace of mind.

Transport & Infrastructure

Transport operators need powerful, integrated command and control systems and monitoring technologies that protect the public *and* help to deliver a better passenger experience, both in and around stations and on vehicles themselves. Our tailored solutions for this sector meet this need now, and future proof the path to the continued adoption of new innovations.

High Security & Public Space

Balancing tight security with public access; visual surveillance with data privacy; localised control with central, multi-facility oversight; and operational efficiency with cost maximisation – these are just some of the challenges our High Security & Public Space customers face, and why our surveillance technologies, integration capabilities and facilities management services are chosen time and time again.

Oil & Gas

Monitoring and controlling security, safety and industrial processes in all conditions.

The task facing our Oil & Gas customers is hugely complex. Often operating in remote locations and under extreme temperatures, they are presented with multiple challenges: safeguarding on-site personnel; protecting offshore and onshore assets; and monitoring hazardous and explosive areas.

The scale of these challenges means that Synectics' specialist capabilities and deep knowledge of the industry are widely respected and sought after. We are long established as a major global player in security and surveillance for the oil & gas sector, and also in the marine markets, which share many of the same needs.

The oil & gas market has been an extremely tough one in which to operate in recent years. Our strategy has been to take the long view, anticipate our customers' changing needs, and implement the right actions to secure the future of our business. We have continued to invest to ensure that we keep our product range at the cutting edge of the industry. This has left us extremely well placed to respond to the signs of recovery, which are now apparent.

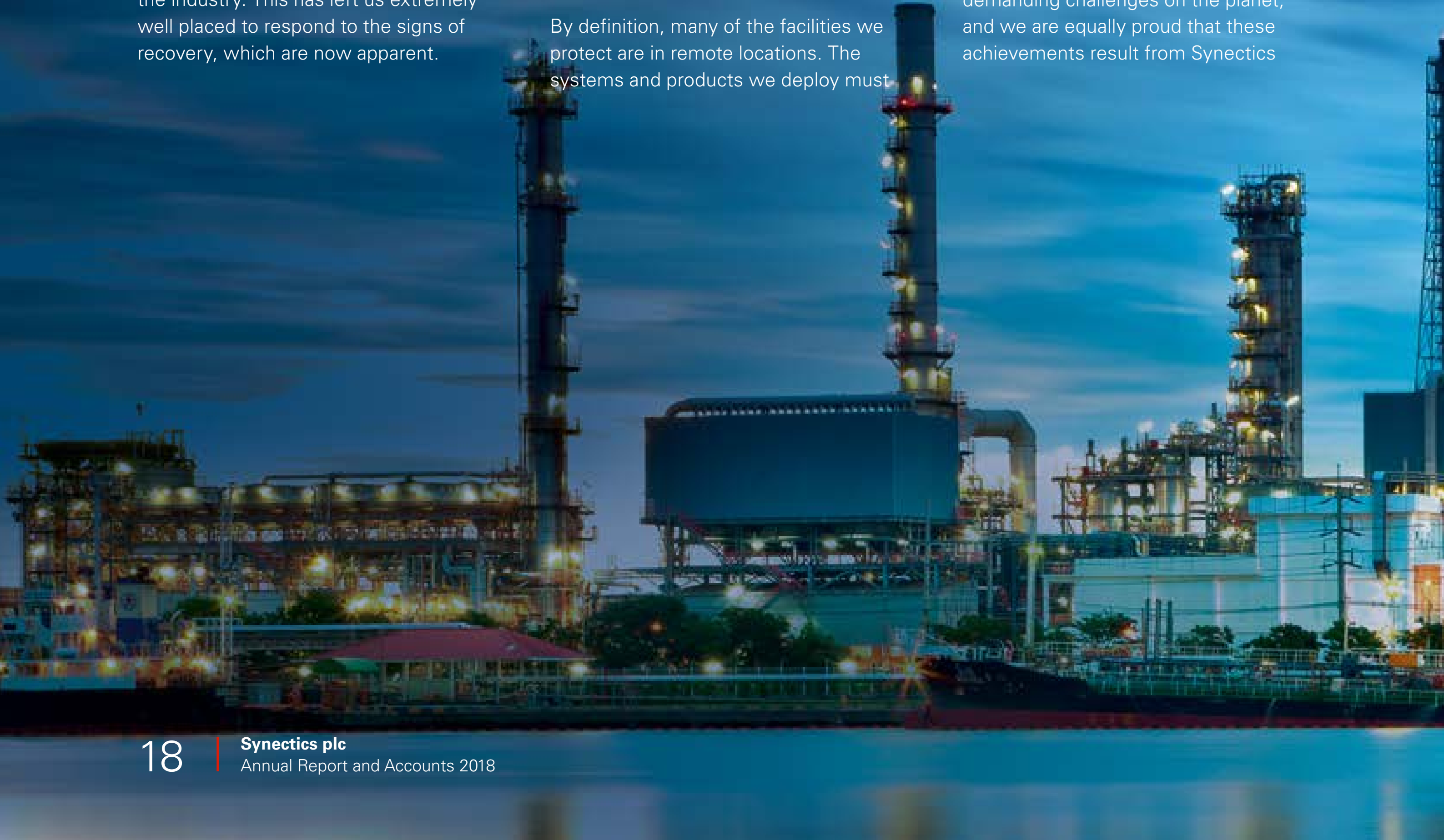
We believe the market is returning, but it is also evolving geographically, with more of the key decisions being taken in Asia, especially in China and South Korea. We are continuing to expand in these markets, as well as in Japan, South East Asia, and Australia. Other regions remain very important to us, especially Western Europe, the Middle East, and the US. More than ever, these are global industries. With proven experience of successful deployment of our solutions all over the world, and a strong network of international partners, Synectics is well positioned to benefit from the opportunities now emerging.

The Synectics proposition is based around turnkey solutions, long-standing industry expertise, and a specialist product range. Our COEX camera stations and Synergy software have an exceptional track record of reliability in the uniquely demanding conditions our customers face, and satisfy the constantly changing requirements of compliance legislation.

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, and 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. Our projects frequently involve working in partnership with our "end clients", the companies which own and operate the oil & gas installations, and with the engineers, construction firms, telecommunications providers, and other specialist security and surveillance firms with whom these customers also have relationships.

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. We are proud of the role we play in helping our customers tackle some of the most demanding challenges on the planet, and we are equally proud that these achievements result from Synectics



working with trusted partners whose expertise complements our own.

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 all lie at the heart of our success.

- We monitor the world's largest gas-to-liquids plant, Shell Pearl GTL 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).

"Synectics provided excellent support to successfully execute our project."

Customer comment

Case study

Delivering the world's largest ever oil & gas surveillance project

Synectics' reputation within the oil & gas industry makes us a natural choice for the most demanding programmes.

The $27 billion RAPID project in Malaysia is the largest security and surveillance project the sector has ever seen.

RAPID is a refinery and petrochemical integrated development by Petronas. When it reaches full capacity, an estimated 300,000 barrels of petroleum and specialist chemicals will be processed every day.

Synectics has been involved in this megaproject since its inception and supplied the initial packages more than five years ago. We were selected on the basis of our long experience of developing solutions for large scale oil & gas projects, from Gorgon in Western Australia, to Shell Pearl GTL in Qatar, and Kashagan in the Caspian Sea.

Once complete, the integrated solution we have developed for RAPID will support central and localised monitoring and control of almost 800 cameras spread over 2,000ha, making it the largest installation of its kind anywhere in the world.

The end-to-end surveillance solution we have developed and delivered utilises our open-architecture software platform, Synergy 3, and covers all process and security areas. The solution allows footage from Synectics' proprietary COEX camera stations to be monitored, controlled, and recorded. It enables integration to the process management system and to the site-wide access control system, providing a single command and control environment for the operators. COEX thermal cameras are also being used to monitor flare stack health, allowing operators to see any variations in temperature that may indicate issues with the type and/or flow of gases being burned.

Synectics is the sole surveillance contractor for the project, and we have been working with over 20 different Engineering, Procurement and Construction ('EPC') contractors commissioned to handle different aspects of the development. The RAPID project exemplifies our ability to combine unique technical capabilities with the service ethic and team working skills needed to deliver a programme of this magnitude.

Darren Alder, Synectics Divisional Director for Oil & Gas, said: "This is a project Synectics is uniquely qualified to undertake. Our experience of the industry was a major factor in our being awarded the contract, and Synergy 3's scalability and modular structure has allowed seamless expansion of the systems over time and facilitated the integration of new technology at each stage of the project."

Gaming

Gaming is one of the most technically demanding leisure industries in the world.

From a security and surveillance perspective, safeguarding people is always the first priority, but our customers in this sector also face other challenges. They face stringent regulatory requirements – the installation of approved surveillance systems is a pre-requisite for obtaining a licence. Protection against fraud is an ever-present necessity. Casino operators must continuously monitor activity, analyse suspicious behaviour in real time, and respond appropriately and swiftly when concerns arise. All of this in vast, crowded locations with low-light conditions where very large amounts of money change hands.

Synectics is well established as a global leader in the gaming sector. We have built deep knowledge of the dynamics of a unique industry and applied our core technologies to create solutions tailored to its needs.

The industry itself has been buoyant in recent years, and our specialist skills and propositions have enabled us to gain share within an expanding market. One key to our success has been the expansion from our original North American base into the dynamic Asian market, where we are now one of the main players. Macau, Singapore, Malaysia, the Philippines and South Korea have been especially important for us.

There is reason to believe that the industry's most recent "Golden Age" may have run its course, as restraints imposed by China impact the gaming business in a number of countries. However, the US market, although mature, is continuing to witness significant investment as a long-term consequence of the "rebound effect" following the 2008/09 recession. There is also plenty of potential for us to grow elsewhere, notably in other parts of APAC where Japan, Australia, Malaysia, and Vietnam all present particularly strong opportunities, as well as in South Africa.

Much of our growth in recent years has come through repeat business, with customers expanding or upgrading their operations, and via our specialist integration partners as they invite us to work with them in new geographies. The customer and partner loyalty we are experiencing is both motivation and reward for maintaining the exceptionally high standards we set ourselves.

Casino operators around the world value Synectics for our ability to deliver ultra-reliable, scalable, end-to-end solutions – comprising hardware, software, cameras and networking – backed up by proven experience, industry knowledge, and technically expert staff who respond fast. Our turnkey approach includes hardware, software, cameras, and a network, and we integrate these into one solution.

Built using our Synergy 3 software platform, our solutions are designed to meet the unique needs of the gaming industry and tailored to meet the specific requirements of each customer. They offer casinos the flexibility to utilise existing hardware, work with their preferred integrator partners, capitalise on being able to control and manage multiple applications from an intuitive user interface, and ensure that our customers can take advantage of ever-more sophisticated reporting and data analytics capabilities.

Meeting the industry's demanding regulatory requirements is a "must have". However, Synectics' solutions go far beyond this. We give our customers access to high-quality video with a speed and flexibility which enables them to mitigate against a plethora of risks and respond immediately to any challenge. This makes us the provider of choice for many of the world's largest, most demanding, and most tightly regulated gaming facilities.

- 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.

"The system is reliable but I'm more happy with Synectics who helped us a lot and provided excellent after-sales services and support to us."

Customer comment

Case study

Supporting the development of America's newest five-star gaming resort

Much of Synectics' success in the gaming industry is due to our ability to offer absolute reliability, technical excellence, and a "can do" service ethic – it has helped us build lasting relationships and secure exciting new projects.

Encore Boston Harbor is the latest venture from existing customer Wynn Resorts and is set to become America's premier five-star urban gaming resort. Due to open in mid-2019, the $2.5 billion luxury development located just outside Boston, Massachusetts, spans over 33 acres and will feature a casino, a hotel, a harbour walk, a spa, retail zones, corporate hospitality, and convention spaces.

Having worked closely with Wynn Resorts to develop a 6,700-channel system for its flagship Las Vegas site, we have now been selected, along with our integrator partner SSI, to provide a comprehensive security and surveillance command and control solution for this new, high-profile property.

The Synergy 3 software platform will ensure the casino's surveillance team can easily and securely monitor, control, manage, and retain footage from 3,800 fixed and PTZ Synectics IP cameras deployed across the site. The solution features 4K monitoring and recording capabilities and includes specially developed de-warping functionality. This allows fisheye lens images to be viewed in a full 360-degree panoramic format, guaranteeing extraordinary precision and detail under any conditions.

The Synergy 3 solution, tailored to meet Boston Harbor's exact needs, will also integrate fully with other systems such as point of sale and access control.

John Roessler, Chief Operating Officer for North America, said: "For a five-star site in a highly regulated state, any system downtime is unacceptable. Our customer needed a solution they could absolutely trust to deliver high-quality image detail and dependability in terms of both live view and data retention.

"They also needed a provider able to offer professional technical services, including in-depth onsite training and ongoing support, to help tailor the system as the resort grows and evolves. The high level of after-sales support provided for previous sites operated by this customer was one of the key reasons we secured this exciting new project."

Transport & Infrastructure

Synectics systems protect over five billion passenger journeys worldwide each year.

We work 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, from stations and urban transport networks, to airports and ports.

Inevitably, organisations across this spectrum have varying requirements. Running a city bus company presents different challenges to operating an international airport. The key to our success lies in our ability to work closely with each customer and tailor proven technologies and capabilities to address their particular requirements.

However, there are some recurring themes across the transport sectors, and indeed some convergence in the wider issues the leading players are seeking to tackle.

Change is being enabled by rapid advances in technological possibilities. Cloud-based capabilities are making it easier to share and integrate different data streams. Increasingly, analytics are enabling this data to be used in real time to support a range of applications.

In a variety of land-based transport environments, these expanding capabilities are facilitating the pursuit of twin goals: improving safety and security through faster decision making and pre-emptive action; and enhancing passenger experience.

Within our clients' organisations, different functions such as security and operations are working ever-more collaboratively to balance these two objectives. As one bus customer put it: "We want to use CCTV as an enabler – integrating with other on board systems to help pre-empt and prevent incidents before they occur. And we want to use the masses of data generated by our fleet to deliver actionable intelligence, applying the power of analytics to transform how we work."

Each sector has its own priorities. We are working with leading rail and subway/underground operators to integrate pioneering passenger information systems with security capabilities. In the airport sector, we are helping to drive improvements in both the passenger environment and safety and security by combining and leveraging different data streams.

The demands created by this rapidly changing landscape play to Synectics' strengths. Where customers need sophisticated and innovative solutions which deliver greatly expanded functionality, our high-end design expertise and powerful technologies come strongly into play. Where their immediate priority is for systems which are robust, compliant, but less ambitious, we offer flexibility, efficiency, and absolute reliability.

Underpinning all this are the decades of experience we have built around the world across the full spectrum of transport operations – from London's buses, through Germany's rail networks, to Asia's most prestigious new airports.

We see great opportunities for Synectics to expand its role in these sectors in the coming years.

The global demand for transport and the associated infrastructure is being fuelled by continuing urbanisation at one end of the spectrum and increasing international travel at the other. There will be more vehicles and infrastructure to protect, and investment in new capabilities is increasing.

Alongside this, the growing diversity and unpredictability of threats faced, and a desire to transform passenger experience are driving increased demand for the sophisticated security, surveillance, command and control solutions in which we excel.

- 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.

"During technical discussions they often can provide a more effective solution than expected with benefits that were not apparent from our initial request."

Customer comment

Case study

Sophisticated solutions at the cutting edge of Europe's transport networks

Synectics' depth of experience across public space, transport infrastructure and on-vehicle projects is one of our unique propositions for this market, frequently helping us secure major contracts and build lasting relationships.

We are currently supplying networked video recording solutions for a fleet of new metro trains serving one of Europe's busiest and fastest expanding urban transport networks.

The fleet is being introduced to replace and supplement existing vehicles on a leading European metro system between 2018 and 2021. Each train will feature the latest evolution of Synectics' robust on-vehicle recording system with our Synergy 3 software at its core.

Synergy 3 facilitates networked recording, storage and retention of high-quality footage from IP cameras. As a flexible, open-architecture platform, it features built-in diagnostics to quickly identify and alert operators of any potential issues for improved surveillance within the trains.

Synectics has supported this metro system operator for over a decade, anticipating and adapting to its needs as it has evolved. Working closely on this latest programme with our partner, Siemens, who specified the solution on behalf of the customer, we have developed a solution which matched an exacting brief perfectly in terms of form, fit, and function.

Jürgen Fuchs, Director of Strategic Projects for Synectics Germany, commented: "Rail is entering an era of insight, analysis and response that will genuinely transform services for both customers and operators.

"The tailored solution we are supplying enables our customer to manage onboard third-party systems and devices, and to analyse data such as GPS, telematics, video, and signalling. This provides real-time 360-degree oversight of operations to deliver an improved passenger experience with smoother, safer, less crowded journeys.

"The design uses an open architecture which will allow it to scale in line with the customer's objectives. New technology can be integrated seamlessly whenever they wish.

"This solution is a vital part of the network infrastructure for one of the busiest lines in Europe. I am especially proud that our system will be able to flex in line with evolving operational needs."

High Security & Public Space

Supporting secure and efficient management of facilities and spaces integral to modern life.

These sectors have always formed a vital part of Synectics' heartland. We quickly established a strong track record of delivering turnkey, end-to-end solutions, and have retained our reputation ever since.

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

While public spending has come under pressure in some countries in recent years, the security and surveillance market in these sectors is expanding. There is more critical infrastructure to protect around the world, and more diverse, less predictable, risks to guard against.

We are also now seeing customers invest significantly in upgrading their existing systems and integrating wider command and control capabilities.

Synectics' Systems division serves these sectors globally, while our Integration and Managed Services teams at Quadrant Security Group ('QSG') and SSS Management Services ('SSS') operate primarily in the UK. Our solution design, integration, outsourced management, and efficient processes have allowed us to take an ever-widening role in the protection of high security sites, the people who are employed there, and the general public.

Synectics and QSG work with a series of specific customer groups, each with distinctive needs.

- In the commercial world, 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 greatest where there is a requirement for more complex, far-reaching solutions and the wherewithal to fund major projects. We have particular specialisms in energy (including nuclear), defence, borders, custodial, heritage buildings, and universities.

Synectics' systems and QSG's integration services are strongly complementary. For example, in the UK custodial sector, where both our brands have an outstanding reputation, QSG is highly experienced in implementing new or upgraded systems while maintaining security levels in highly sensitive environments, while Synectics' software provides the foundation for the solutions we deliver.

Our customers' needs and the technology we can bring to bear are evolving rapidly in these sectors, as they are in other areas of our business.

Clients are increasingly willing to invest in areas such as:

- database linked analytics;
- Smart Analytics that can identify behavioural patterns which in turn enable pre-emptive protection;
- IP networks, secure Cloud, and on-site Cloud computing; and
- protection against specific new and rapidly widening threats, for example drone detection.

We are at the forefront of helping our clients to harness these new capabilities and put them to practical, beneficial use to safeguard a wide variety of public spaces and infrastructure, from shopping centres to nuclear power stations.

Our SSS business excels in providing security and facilities management services to UK clients with complex 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.

This proposition has been further strengthened by the launch of our Cloud-based security and facilities management portal (HALO) which provides tailored reporting to enable our clients to monitor activity and gain valuable business insight.

In keeping with the culture throughout our Company, SSS combines the scale, resources, and experience required to handle large, continuous programmes, with the dedicated and tailored customer service more commonly associated with a smaller firm.

The market in which SSS operates remains buoyant, with many types of businesses seeking to outsource facilities management services and to integrate these with robust security and surveillance capabilities.

We have an excellent track record of delivering both the responsive support these customers require and the substantial savings they need to achieve by outsourcing and are well placed to benefit from further growth potential.

- 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 13,000 sites and £50 million of customer spend, and handle 500,000 operational transactions each year.

"The area-based service engineer is excellent, very helpful and knowledgeable and provides excellent customer service."

Customer comment

Case study

Safeguarding the future of an iconic site

The complementary nature of solution and service propositions across Synectics plc – particularly for high security & public space markets – is demonstrable by the calibre of projects we work on.

London's Queen Elizabeth Olympic Park spans 560 acres. The site, originally developed for the 2012 Olympics, is a major attraction, welcoming thousands of visitors every day and hosting eight permanent cultural, sporting and leisure venues.

The security and surveillance challenges associated with such an iconic site are considerable, the more so as the use of its facilities expands and diversifies.

Synectics plc companies have been playing a pivotal role. Working in close partnership with the London Legacy Development Corporation ('LLDC') and individual venue stakeholders, our teams are supporting an extensive surveillance solution upgrade and expansion project for the Park.

QSG won a competitive public framework tender to design, supply, test, and maintain surveillance and security systems across the entire Park, upgrading the existing central management system using Synectics' Synergy 3 command and control platform.

The new solution enables operators based at the Park's headquarters to view, control and manage footage from around 500 cameras in use across the site and share relevant footage with a dedicated Crisis Management facility. The project also delivers full integration with existing video management systems deployed at each individual venue within the Park.

The Synectics and QSG solution meets extensive "situational intelligence" requirements for the site, offering sophisticated analytics including Automatic Number Plate Recognition, virtual perimeter detection, crowd density analysis, and person of interest tracking. Dynamic incident management workflows support intelligent automation of responses to critical incidents.

Mark Pennington, QSG's Managing Director, said: "Upgrading live sites of this scale and complexity with high public footfall, no downtime, and tight timescales is a logistical challenge but one to which our project management, planning, and technical integration capabilities are ideally suited.

"Synectics was the ideal provider for this project, with Synergy 3 and support from the Company's technical team allowing QSG to tailor system architecture and analytics capabilities to deliver exactly the solution the customer needs and specified."

The Company's involvement with the Park will continue for at least the next five years. In addition to integrating the Synectics solution and deploying a full back-up system for emergency operations, QSG will test and upgrade network infrastructure, verify all existing security system assets, and provide maintenance services. Dedicated engineers will be based on site for the project duration.

> **Sector results were mixed but combined to give steady performance in 2018 with good cash generation."**
>
> Simon Beswick
> Finance Director

Keeping track of Group performance

Group results for the year

The Group's financial performance in 2018 was in line with the prior year.

Total revenue for the year increased by 1.6% from £70.1 million to £71.2 million, generating an underlying operating profit of £3.0 million compared to £3.1 million in 2017. Total profit from operations was £2.2 million (2017: £2.6 million*) after a non-underlying charge for the restructuring of the Group's on-vehicle security activities and write down of associated inventories.

Close control of the cost base, together with improvements in the sales mix and operational efficiency, have contributed to the Group's continued underlying profitable performance.

Revenues in the higher margin gaming surveillance sector enjoyed another very strong year, ahead of expectations particularly in the Asian market. As expected, the oil & gas sector remained subdued due to the continuing low level of investment and demand for surveillance systems from the UK bus market continued to decline. Management responded to the reduced on-vehicle activities by restructuring the sector's activities around a lower overhead cost base incurring a current year non-underlying charge of £0.2 million. In addition, a re-evaluation of stock values in that area led to a significant one-off write down, of which £0.5 million was recognised as non-underlying in the current year, and £1.3 million has been recognised as a restatement to previous years' results.

The Group generated a substantial cash inflow in the period of £3.4 million (2017: £0.4 million) and finished the year with cash of £8.1 million compared with net cash at 30 November 2017 of £3.8 million. The net movement of £4.3 million comprised an increase in cash and cash equivalents of £3.4 million and a £0.9 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 2018 amounted to £71.2 million compared with £70.1 million in the previous year, an increase of £1.1 million (1.6%).

Revenue split between our two business segments was as follows:

Revenue	**2018 £000**	2017 £000	Inc/(dec) £000	Inc/(dec)
Systems	**48,923**	46,062	2,861	6.2%
Integration & Managed Services	**24,249**	25,139	(890)	(3.5)%
Intra-Group sales	**(1,923)**	(1,099)	(824)	
Total revenue	**71,249**	70,102	1,147	1.6%

Revenues in the Systems division increased by £2.9 million (6.2%) to £48.9 million. Revenues from the gaming sector in Asia and the United States were very strong and increased significantly year on year. In addition revenues from UK infrastructure sites increased from those of the previous year as good progress was made in this sector. The market continued to remain difficult in the oil & gas sector and therefore these revenues were below expectations, and activity in the UK on-bus sector continued to be impacted by declines in new registrations.

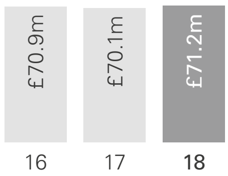
Revenues in the IMS division decreased by £0.9 million (3.5%) to £24.2 million.

Recurring revenue decreased year on year to £14.1 million (2017: £15.7 million), representing approximately 20% of sales (2017: 22%) due predominantly to a reduction in UK on-vehicle support contracts combined with an overall increase across the Group of install revenues.

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

Revenue

+1.6%



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

-10.2%

KPI definition

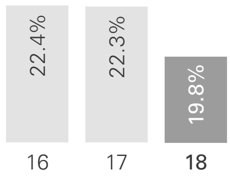
Contracted sales where a service is delivered over a future time period and revenues are recognised in the relevant future accounting period.

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

-2.5%



KPI definition

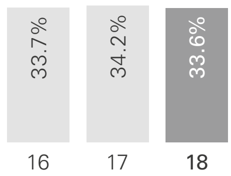
Recurring revenue as % of total revenue.

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.

Underlying gross margin

-0.6%



KPI definition

Ratio of underlying gross profit to revenue.

Why we measure

To assess trends in the underlying gross margin as an important measure of profit available to cover the overheads necessary to generate that profit.

Sales by geographical location of contract	2018 £000		2017 £000		Inc/(dec) £000
UK	**39,301**	**55%**	42,070	60%	(2,769)
Rest of Europe	**4,323**	**6%**	4,864	7%	(541)
UK and Europe – total	**43,624**	**61%**	46,934	67%	(3,310)
North America	**10,923**	**15%**	5,206	8%	5,717
Middle East	**2,221**	**3%**	3,046	4%	(825)
Asia-Pacific	**13,911**	**20%**	14,193	20%	(282)
Africa	**570**	**1%**	723	1%	(153)
Total revenue	**71,249**	**100%**	70,102	100%	1,147

Consolidated gross margins for 2018 decreased by 0.5% overall. Whilst tight cost control and improved operational efficiencies saw an increase in margin of 0.5% in the IMS division, the Systems division saw a decrease of 2% predominantly in relation to the results in the UK on-vehicle sector, which were below expectations.

The full segmental analysis is as follows:

Underlying gross margin	2018	2017	Inc/(dec)
Systems	**37.6%**	39.8%	(2.2)%
Integration & Managed Services	**22.8%**	22.3%	0.5%
Total Group	**33.6%**	34.2%	(0.6)%

Gross margin*	2018	2017	Inc/(dec)
Systems	**36.6%**	38.6%	(2.0)%
Integration & Managed Services	**22.8%**	22.3%	0.5%
Total Group	**32.9%**	33.4%	(0.5)%

Underlying operating expenses in the year increased marginally by 0.8% to £21.0 million.

Operating expenses	2018 £000	2017 £000	Inc £000	Inc
Underlying operating expenses	**20,972**	20,800	172	0.8%
Non-underlying items:				
UK mobile systems restructuring costs	**191**	–	191	
Amortisation of acquired intangibles	**23**	23	–	
	214	23	191	
Total operating expenses	**21,186**	20,823	363	1.7%

Non-underlying operating expenses amounted to £214,000 (2017: £23,000) and comprised the severance costs incurred from the review of the cost base of the UK mobile systems business and a charge for the amortisation of intangible assets acquired in previous years.

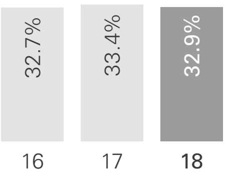
Net finance costs in 2018 reduced by £31,000 to £99,000 as the cost and utilisation of borrowing facilities reduced between years.

Finance income/(costs)	2018 £000	2017 £000	Inc/(dec) £000	Fav/(adv)
Finance income	**167**	183	(16)	(8.7)%
Finance costs	**(266)**	(313)	47	15.0%
Net finance costs	**(99)**	(130)	31	23.8%

Consolidated underlying profit before tax was £2.9 million in 2018 compared with £3.0 million in the year to 30 November 2017. Profit before tax also decreased to £2.1 million (2017: £2.5 million*) as increased non-underlying costs were incurred during the year.

Gross margin*

-0.5%



KPI definition

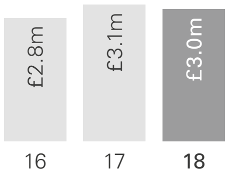
Ratio of gross profit to revenue.

Why we measure

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

Underlying operating profit

-6.2%



KPI definition

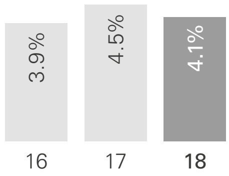
Operating profit before non-underlying items[1].

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

-0.4%



KPI definition

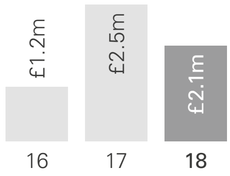
Ratio of underlying operating profit to revenue.

Why we measure

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

Profit before tax*

-12.9%



KPI definition

Profit before tax.

Why we measure

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

Income Statement continued

Despite an increase in revenue, underlying profits from the Systems division fell by 10.6% to £3.8 million as a result of lower than expected performances in both the Oil & Gas and UK mobile systems businesses. In addition, these results were also adversely impacted by around £0.2 million from the impact of the movement in sterling across the year on the earnings of our foreign subsidiaries. In IMS, despite a reduction in revenue, operating margin remained consistent with the previous year at 4%. Central costs reduced by £0.3 million to £1.8 million.

Underlying operating profit	**2018 £000**	2017 £000	Inc/(dec) £000	Fav/(adv)
Systems	**3,790**	4,238	(448)	(10.6)%
Integration & Managed Services	**967**	994	(27)	(2.7)%
Central costs	**(1,802)**	(2,083)	281	13.5%
Underlying operating profit	**2,955**	3,149	(194)	(6.2)%
Net finance costs	**(99)**	(130)	31	23.8%
Underlying profit before tax	**2,856**	3,019	(163)	(5.4)%

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

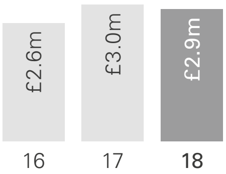
Operating profit	**2018 £000**	2017* £000	Inc/(dec) £000	Fav/(adv)
Systems	**3,089**	3,689	(600)	(16.3)%
Integration & Managed Services	**967**	994	(27)	(2.7)%
Central costs	**(1,825)**	(2,106)	281	13.3%
Operating profit	**2,231**	2,577	(346)	(13.4)%
Net finance costs	**(99)**	(130)	31	23.8%
Profit before tax	**2,132**	2,447	(315)	(12.9)%

Research & development costs are charged to the division benefiting from the service provided by the Synectics Technology Centre, principally the Systems division. In 2018 £3.1 million was spent on research & development with £2.6 million charged to the Income Statement after capitalisation of £0.5 million of development costs. This compares with total expenditure of £2.6 million in 2017, of which £0.5 million was capitalised.

The Group underlying operating margin was 4.1% compared with 4.5% in 2017.

Underlying operating margins	**2018**	2017	Dec
Systems	**7.7%**	9.2%	(1.5)%
Integration & Managed Services	**4.0%**	4.0%	–
Total Group	**4.1%**	4.5%	(0.4)%

Underlying profit before tax
-5.4%



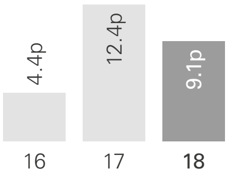
KPI definition

Profit before tax and non-underlying items[1].

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.

Diluted earnings per share*
-26.6%



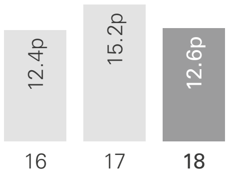
KPI definition

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
-17.1%



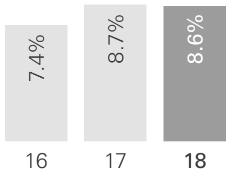
KPI definition

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.

Underlying return on capital employed*
-0.1%



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.

The Group operating margin was 3.1% (2017: 3.7%) split by division as follows:

Operating margins	2018	2017*	Dec
Systems	**6.3%**	8.0%	(1.7)%
Integration & Managed Services	**4.0%**	4.0%	–
Total Group	**3.1%**	3.7%	(0.6)%

The tax charge for 2018 was £0.6 million compared with £0.3 million* in 2017. 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 26%. The favourable impact of lower tax rates applicable to the Group's subsidiaries in Singapore and Macau was offset by the recalculation of deferred tax balances due to the significant US tax reform and tax losses elsewhere, the benefit of which has not yet been recognised.

At 30 November 2018 the Group recognised a deferred tax asset of £0.5 million (2017: £0.3 million) in relation to tax losses which are expected to be offset against future taxable profits. Further tax losses of £5.0 million (30 November 2017: £4.8 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 2018 were 9.1p compared with 12.4p* in the year ended 30 November 2017. 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 12.6p compared with 15.2p in 2017.

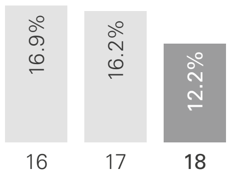
Earnings per share	2018 p	2017* p	Dec p	Dec
Diluted earnings per share	**9.1**	12.4	(3.3)	(26.6)%
Underlying diluted earnings per share	**12.6**	15.2	(2.6)	(17.1)%

Return on capital employed (based on total profit from operations) for 2018 was 6.5% compared with 7.1%* in the year ended 30 November 2017. 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 8.6% compared with 8.7% in 2017.

Return on capital employed	2018	2017*	Dec
Based on total profit from operations	**6.5%**	7.1%	(0.6)%
Based on underlying operating profit	**8.6%**	8.7%	(0.1)%

Working capital*

+4.0%



KPI definition

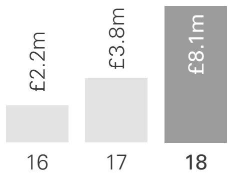
Working capital as % of revenue, where working capital is the sum of inventories, trade and other receivables, and trade and other payables.

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

+112.4%



KPI definition

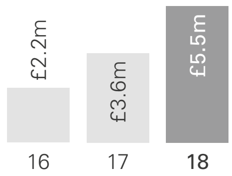
Cash balances net of loans.

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

+51.7%



KPI definition

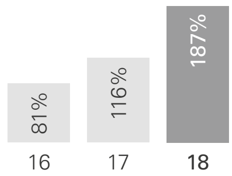
Cash flow from operations less capital expenditure, but before any payments in respect of non-underlying items.

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

+71%



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

The net assets of the Group amounted to £40.7 million at 30 November 2018 (2017: £39.6 million*) and can be summarised as follows:

	2018 £000	2017* £000
Property, plant and equipment	**2,728**	2,796
Intangibles	**21,488**	21,749
Retirement benefit asset	**182**	289
Non-current assets (excluding deferred tax assets)	**24,398**	24,834
Cash balances	**8,114**	4,721
Loans and borrowings	**–**	(900)
Net cash	**8,114**	3,821
Other net current assets	**8,703**	11,383
Net tax liabilities (including deferred tax assets)	**(367)**	(216)
Provisions	**(128)**	(251)
Net assets	**40,720**	39,571

Non-current assets (excluding deferred tax assets) at 30 November 2018 were £24.4 million compared with £24.8 million at 30 November 2017.

Exchange rate movements in the year increased the retranslated value of goodwill on overseas acquisitions by £0.1 million.

Total capital expenditure remained consistent year on year at £1.0 million. During 2018 £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 contain specific criteria around what can be capitalised for ongoing work on products which have been launched in the market. £0.4 million and £0.1 million was spent on property, plant and equipment, and software respectively.

Capital expenditure of £1.0 million (2017: £1.0 million) compares with depreciation and amortisation charges of £1.4 million in the year (2017: £1.7 million).

The surplus on the Group's closed defined benefit pension scheme was £0.2 million at 30 November 2018 compared to £0.3 million at 30 November 2017. This reduction is due largely to a loss on the plan assets. Substantially all of this movement has been posted to reserves through the Consolidated Statement of Comprehensive Income.

Working capital levels fell compared with the prior year to £8.7 million at 30 November 2018 and also decreased as a percentage of annual revenues from 16.2%* in 2017 to 12.2% at 30 November 2018, within the normal range we expect to see.

Net tax liabilities at 30 November 2018 amounted to £0.4 million (2017: £0.2 million*) and comprised a current tax asset of £87,000 (2017: £16,000), a current tax liability of £0.5 million (2017: £0.3 million), deferred tax assets of £0.7 million (2017: £0.2 million) and deferred tax liabilities of £0.6 million (2017: £0.2 million).

Provisions at 30 November 2018 amounted to £0.1 million (2017: £0.3 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 £8.1 million at 30 November 2018 (2017: £3.8 million). The term loan to purchase the property in Scunthorpe in 2013 was fully repaid during the year.

The net cash inflow of £3.4 million in the year is summarised in the table opposite. Major non-operating cash flow items include taxation payments of £0.5 million, capital expenditure of £1.0 million, as described above, scheduled loan repayments of £0.9 million and dividends of £0.7 million. In addition, cash balances increased by £0.2 million as a result of exchange rate movements during the year.

	2018 £000	2017* £000
Underlying operating profit	**2,955**	3,149
Depreciation and amortisation charges and profit/loss on disposal of non-current assets	**1,368**	1,633
Share-based payment charge	**66**	111
Other non-cash movements	**192**	72
Decrease/(increase) in working capital	**1,914**	(429)
Unrealised currency translation (gains)/losses	**(16)**	70
Cash from operations before non-underlying payments	**6,479**	4,606
Restructuring costs	**(191)**	(275)
Cash generated by operations	**6,288**	4,331
Interest paid (net)	**(107)**	(149)
Taxation paid	**(459)**	(653)
Capital expenditure	**(955)**	(964)
Loan repayments	**(900)**	(1,259)
Share scheme interests realised in the year	**33**	5
Dividends paid	**(699)**	(498)
Effect of exchange rate changes on cash	**192**	(414)
Net cash flow	**3,393**	399

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 International Financial Reporting Standards ('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 32 to 35, to relevant GAAP measures:

Underlying profit measures

	2018 £000	2017* £000
Underlying gross profit		
Reported gross profit	**23,417**	23,400
UK mobile systems restructuring costs and stock write down	**510**	549
Underlying gross profit	**23,927**	23,949
Underlying operating profit		
Reported operating profit	**2,231**	2,577
UK mobile systems restructuring costs and stock write down	**701**	549
Amortisation of acquired intangible assets	**23**	23
Underlying operating profit	**2,955**	3,149
Underlying profit before tax		
Reported profit before tax	**2,132**	2,447
UK mobile systems restructuring costs and stock write down	**701**	549
Amortisation of acquired intangible assets	**23**	23
Underlying profit before tax	**2,856**	3,019

A reconciliation of reported profits to non-underlying profits for Systems is as follows:

GAAP reconciliation – Systems

	Gross profit		Operating profit	
Systems	**2018 £000**	2017 £000	**2018 £000**	2017 £000
Underlying profit				
Reported profit	**17,894**	17,802	**3,089**	3,689
UK mobile systems restructuring costs	**510**	549	**701**	549
Underlying profit	**18,404**	18,351	**3,790**	4,238

There are no differences between reported profits and non-underlying profits for IMS; therefore, no reconciliation is required.

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 13 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).

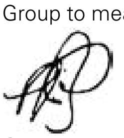
Free cash flow

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:

	2018 £000	2017 £000
Free cash flow		
Reported cash generated from operations	**6,288**	4,331
Capital expenditure	**(955)**	(964)
Payments in respect of restructuring costs	**191**	275
Free cash flow	**5,524**	3,642

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.



Simon Beswick
Finance Director

26 February 2019

1. Non-underlying items comprise UK mobile systems restructuring costs and stock write down, and amortisation of acquired intangibles.

* Restated. See note 5.

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 gaming, oil & gas operations, transport & infrastructure, and high security & public space applications.

Revenue	£48.9 million (2017: £46.1 million)
Underlying gross margin	37.6% (2017: 39.8%)
Gross margin	36.6% (2017: 38.6%*)
Underlying operating profit[1]	£3.8 million (2017: £4.2 million)
Operating profit	£3.1 million (2017: £3.7 million*)
Underlying operating margin[1]	7.7% (2017: 9.2%)
Operating margin	6.3% (2017: 8.0%*)

1. After research & development expenditure, but before non-underlying items and Group central costs.

* Restated. See note 5.

Synectics' business is to provide integrated electronic surveillance 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

Synectics' Gaming activities generated record revenue in 2018. The market for gaming surveillance generally continued its recent strength but, for the first time in several years, new orders for Synectics from the North American market outstripped those from Asia. Although for security reasons the majority do not wish to be specifically named, the Group is now proud to have as customers across those two regions most of the major casino operators that dominate the industry.

During the year, Synectics delivered substantial new systems and upgrades in Macau, Singapore, the Philippines, Korea, Canada, Las Vegas and other casino locations in the United States, as well as sales to several major cruise lines for ship-board 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 a 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. Barriers to entry for general security industry competitors are quite considerable, so this remains an attractive market for Synectics.

Oil & Gas

Although the global oil & gas prices have now recovered to a level that supports exploration and infrastructure investment, the price shock of 2014–2016 is still having an impact on current capital expenditure in the industry. This particularly applies to large-scale new development projects that take years to bring to fruition. Delays to specific projects that Synectics was expecting to receive orders for in 2017/18 meant that revenue and profit contribution from our Oil & Gas activities were below the Board's expectations, despite increased bid activity and optimism in the market. At this stage in the recovery, we are seeing more smaller orders and fewer of the larger orders that usually underpin our business in this area.

Synectics made sales in this sector during 2017/18 for installation in almost all of the oil & gas producing regions globally. Systems were delivered for new projects in Qatar, Mozambique, Azerbaijan and the Gulf of Mexico, as well as for new marine vessels being built in Asia. Upgrades and service contracts were won for many existing installations in the Middle East, Asia and elsewhere.

Transport & Infrastructure

Sophisticated surveillance systems in Transport & Infrastructure are well suited to early adoption of new technology approaches to address the clear needs of those responsible not only for public safety and high security sites, but also for the efficient operation of ever-busier transport systems. The market is growing and is an area of increasing focus for the Group.

Synectics' presence in protecting the UK's national and public infrastructure was further strengthened during the year. We won important new installation and upgrade sales for Synergy systems from customers such as London Olympic Park, a major London sports stadium, high security prisons, several "safe city" systems across the UK, a nationwide utility network, Leeds hospital, a high security government agency and our initial Synergy installation at Heathrow Airport.

Internationally, Synectics secured a substantial three-year renewal of its long-standing contract with BVG in Berlin (operator of one of Europe's largest urban rapid-transit systems), an initial Synergy software order from Deutsche Bahn, on-train systems for the Munich public transport operator, and a major upgrade of the Synergy system at Jurong Shipyard in Singapore.

Our UK mobile systems business had a tough year, with its main end market experiencing a further significant decline in new bus registrations, combined with a large bus operator customer choosing not to renew its fleet service contract on terms acceptable to Synectics, and a second customer taking its service work in house. As a result, revenue from the sector in the financial year ended 30 November 2018 was 16% lower than in the prior year. Management responded to these events by restructuring the sector's activities around a lower overhead cost base. In addition, a re-evaluation of stock values in that area led to a significant one-off write down. The combined impact of these costs resulted in a non-underlying £2 million charge, of which £0.7 million has been recorded in 2017/18, with the remaining £1.3 million required to be brought to account via a restatement of non-underlying costs in prior years. £1.8 million of the total £2.0 million non-underlying mobile systems charge is non-cash.

On the positive side, the introduction of a Cloud-based video evidence management solution created strong interest among Synectics' on-vehicle customers and agreement to undertake several additional proof of concept trials, which are now underway. These followed on from the initial successful trial for a launch customer early in 2018 that resulted in a service that is now deployed.

Following the restructuring, the Board expects that Synectics' mobile systems segment will produce a satisfactory financial return in the 2018/19 year.

Research & development

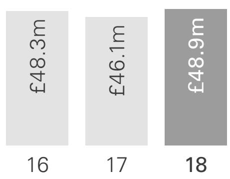
Continued investment in our proprietary technology base within the Systems division remains an important priority for the Group. During the 2018 financial year, Synectics spent a total of £3.1 million on technology development (2017: £2.6 million). Of this total, £0.5 million was capitalised, and the remainder expensed to the Income Statement. £0.7 million of previously capitalised development costs were amortised in the year.

This planned increase in expenditure in 2018 enabled important work on improving our development methodology, extending the Synergy software platform and further enhancing its cyber security resilience. This was on top of incremental advances in adding features, incorporating 4K and H.265 video standards, and continual additions to our library of deep integrations with the growing panoply of third-party systems.

During 2019, Synectics intends to further re-orientate its development team to incorporate a more formal product management structure that will help to connect our product development even more closely to market needs, and to dedicate more of its resources to future product development.

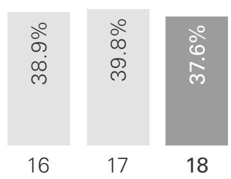
Revenue

+6.2%



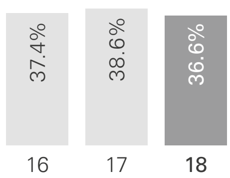
Underlying gross margin

-2.2%



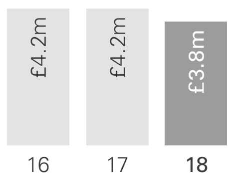
Gross margin*

-2.0%



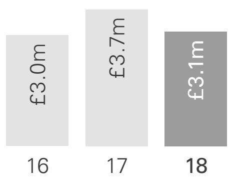
Underlying operating profit[1]

-10.6%



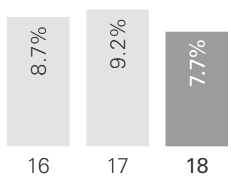
Operating profit*

-16.3%



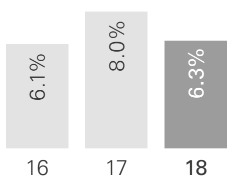
Underlying operating margin[1]

-1.5%



Operating margin*

-1.7%



1. After research & development expenditure, but before non-underlying items and Group central costs.

* Restated. See note 5.

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	£24.2 million (2017: £25.1 million)
Gross margin	22.8% (2017: 22.3%)
Underlying operating profit[1]	£1.0 million (2017: £1.0 million)
Operating profit	£1.0 million (2017: £1.0 million)
Underlying operating margin[1]	4.0% (2017: 4.0%)
Operating margin	4.0% (2017: 4.0%)

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

Integrated Systems

The IMS division as a whole produced a relatively flat financial performance for 2017/18, though this masks some substantial improvements in the quality of the underlying business.

In particular, the Integrated Systems business area continued to win further high-profile strategic customers, a number of them including sales of Synectics' Synergy software. Among notable new business wins in 2018 were a portfolio of six custodial sites for Serco, a leading provider of public sector services, London's Olympic Park, a major London sports stadium, a pan-European network of data centres, and substantial additional works for Westminster Abbey, Goldsmiths University and Huntingdonshire Council. 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, including for one highly visible and prestigious site in London.

Significant strides have been made in recent years to sharpen the strategic focus of this business onto more complex and sensitive high security applications and to improve the quality of management, customer service and business processes. The success of these efforts is borne out in the growing pipeline of expected new business in the area of our strategic objective, increasing margins from a more effective service organisation and feedback from customers and employees.

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 directed towards 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. Having access to the resources of a Parent Company at the forefront of surveillance technology development is a clear competitive advantage in succeeding with such customers.

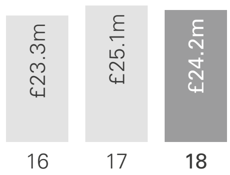
Managed Services

The focus of the division's Managed Services activities continues to be on delivering security and facilities management ('FM') services for clients with large and complex multi-site estates. During 2017/18, extensions were won on contracts for three existing clients, including Wolseley and a major high street chain. Importantly, Managed Services was also able to win two new clients, The Fragrance Shop and Aurum, using its new HALO management software and covering both security and FM services.

This business area is well managed, and its pipeline of qualified new sales opportunities has grown. We expect a satisfactory performance in the coming year.

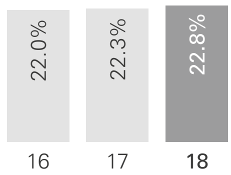
Revenue

-3.5%



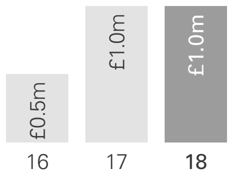
Gross margin

+0.5%



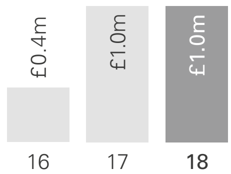
Underlying operating profit[1]

—%



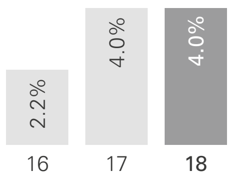
Operating profit

—%



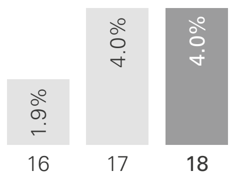
Underlying operating margin[1]

—%



Operating margin

—%



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

Project highlight: High-profile London landmark

QSG was awarded a contract to significantly enhance security provisions at a prestigious high-profile site in central London with a major control room upgrade.

QSG's extensive experience and track record were crucial to this award, with its proven ability to migrate complex integrated systems within live control room environments without impacting existing security operations.

The Board of Directors

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. In addition to a background in developing and implementing board-level strategies for major multinational companies, David brings current wide experience as a director and founder of, and investor in, medium-sized technology growth companies in the business-to-business software and electronics sectors. He is currently a non-executive director and audit committee chairman of AIM-quoted SCISYS plc, non-executive director and chairman of the remuneration committee of AIM-quoted Eckoh plc, and chairman of aviation simulation and training company Quadrant Group Limited.

Paul Webb
Chief Executive

joined the Group in 2004, and drove the rapid growth of the Group's Systems activities. With a 30-year career in the electronic surveillance industry, he has held roles spanning engineering, business development and general management. Before joining the Group, Paul was MD of a surveillance business that was acquired by Siemens, and has previously lived and worked in Asia. He has a degree in Physics from Imperial College, London.

The Board of Synectics comprises, in addition to the Chairman, three 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.

Simon Beswick
Finance Director

joined Synectics in 2018 as Finance Director. For eight years Simon was European finance director of Rohm & Haas Electronic Materials; subsequently he joined Halma plc, where he was finance director and then managing director of its subsidiary Tritech International Ltd. Simon read Engineering at Cambridge University, is a fellow of the Chartered Association of Certified Accountants, and has an MBA from Saïd Business School, Oxford University.

Michael Butler
Senior 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 was previously managing director of MCI Worldcom UK. He is currently a director of several other companies, including non-executive chairman of Broadband Satellite Services Limited and non-executive director of AddValue Technologies, a Singapore-listed provider of broadband solutions for the mobile satellite communications industry.

Peter Rae
Independent Non-Executive Director

is an Independent Non-Executive Director. He graduated from Cambridge University and has worked as director and shareholder in the early development stages of several private companies in the technology, engineering, printing and distribution sectors. He has also served on the main board of several quoted companies as director and as chairman.

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. He currently chairs one of Fujitsu's pension schemes.

"Synectics has been following the principles of the QCA Code for some time."

David Coghlan
Chairman

During 2018 the Board made the decision to adopt the Quoted Companies Alliance Corporate Governance Code (the 'Code') as the most appropriate guide against which to manage and report our approach in this important area. The QCA itself describe its guide as a tool that is "pragmatic, practical… [and] proportionate". In that spirit, Synectics intends to comply fully with the principles of the Code.

Synectics has regularly provided in its Annual Report to shareholders a governance statement following, to the extent appropriate for a company of this size, the provisions of the FRC's UK Corporate Governance Code. In addition, I have provided over the past six years a lengthy personal introduction giving an annual progress report on the Board's evolving collective view on Synectics' governance in general, as well as a detailed explanation each year of the rationale behind our approach to one or two of a now quite extensive list of relevant issues, including:

- 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;
- the Board's role in setting Synectics' strategic direction;
- alignment of purpose, values and culture; and
- engagement with stakeholders.

In the context of the significant shift this year to the new Code, I have gone back and re-read what I said then on these topics. Reassuringly, both the range of issues covered and our approach to them sit fairly well with the QCA's principles today. Those historical comments from our 2012–2017 Annual Reports, available on our Company website, still represent an accurate reflection of core aspects of Synectics' governance, and I commend them to anyone wanting a full picture of how our Board aims to fulfil its governance obligations on behalf of shareholders.

This year's introduction will be slightly different. The new Code requires that the chair prepares a corporate governance statement that appears in the Annual Report and on the Company's website and which does four things (slightly summarised):

- articulates the chair's role in and responsibility for corporate governance;
- explains how the Company applies the Code;
- explains in detail any areas in which the Company's governance differs from the expectations of the Code; and
- identifies any significant governance events or changes in the past year.

The formal response to these requirements is set out in the Governance Statement in the following section of this report, and has been posted on the Company's website. Given that Synectics has been in most applicable respects following the provisions of the UK Corporate Governance Code, this year's Governance Statement is different more in format than in substance.

As previously, though, I want to provide a fuller and more personal narrative review of the current governance matters at the Company that may be of most relevance and interest to shareholders.

The first observation is that I believe Synectics is and has been for some time in compliance with all of the ten principles of the new Code. However, there is still room for significant improvement in the structures, processes and communication of the way the Board operates, and for a deeper account of some aspects of our governance practice. The initial area which requires more thorough explanation is the composition and independence of the Board.

Synectics' Board currently comprises a Chairman, two Executive Directors and three Independent Non-Executive Directors. The Chief Executive has been in post for four years and the Finance Director just three months. Among the Non-Executive Directors, Peter Rae and Steve Coggins have been Directors for 21 and 14 years respectively, and Michael Butler joined us just three years ago.

The new Code makes it explicit that independence is a matter for judgement by the Board, and that the fact a director has served for more than nine years does not automatically affect independence. The logic of this approach is that, in complex smaller companies, lengthy experience and deep knowledge of the company's business and markets are potentially very valuable assets, and that shareholders' interests may not necessarily be served by mechanistic application of the full-time whistle. I believe this is the case with Synectics.

Anyone sitting in on our Board meetings would be left in no doubt that the robust and challenging inputs from all of the Non-Executive Directors demonstrate a high degree of independence and diversity of views, aiding in better-quality decisions. That is not, however, a complete answer.

Michael Butler became a Non-Executive Director in 2016, following a distinguished executive career, most recently as president and chief operating officer, and a main board director, of Inmarsat plc. Michael had no prior connection with Synectics or any of its Directors or management. He is Chairman of Synectics' Remuneration Committee and, more recently, was appointed as Senior Independent Director. Given the length of my own tenure as Chairman, Michael's position as Senior Independent Director provides a clear alternative route of communication for any shareholder who may have concerns over the perceived independence of any Non-Executive Director.

Further, the Board is in the process of searching for an appropriate additional Non-Executive Director who we hope will broaden and refresh our experience base as Synectics grows and its markets evolve. We expect to make an appointment during the current financial year.

The only other area in which I am aware that Synectics takes an approach that may differ from best practice for larger companies is the establishment of a standing Nominations Committee. In common with many AIM companies, Synectics uses the Board as a whole to discuss and manage the regular functions of such a committee. This process involves regular consideration by the Board of the two key elements of succession planning: Board-level succession in normal or emergency circumstances, and the Group's processes for identification and fostering of special talent within the wider employee base. Where necessary, actions are delegated to an individual or ad hoc sub-committee, for example to manage an outsourced recruitment process.

The Board's view is that this approach works well at our current size, and there are no current plans to set up a permanent Nominations Committee.

In all other respects I believe the Company's compliance with the letter and spirit of the new Code is adequately explained in the Governance Statement that follows.

David Coghlan
Chairman

26 February 2019

The Board has applied the Quoted Companies Alliance Corporate Governance Code (the 'Code') since 28 September 2018 and has carried out a review of how the Code principles have been applied, together with the processes and procedures adopted by the Company to support the Code. The Board considers that Synectics' governance framework continues to ensure that the Group operates effectively and with integrity.

The Corporate Governance Statement, together with the Committee Reports that follow, explains how our governance framework works and how the Company complies fully with the ten principles of the Code. Further detail relating to certain principles can be found in other sections of the Annual Report as indicated below:

Principle 1: Establish a strategy and business model which promote long-term value for shareholders

Synectics is a leader in the design, integration, control and management of advance surveillance technology and networked security systems. Through two complementary business models, the Group serves 55 countries through five major hubs across the world.

- Our Systems businesses secure major contracts for the design, development and deployment of security and surveillance solutions founded on our proprietary technology.
- Our Integration & Managed Services businesses serve customers by designing security, surveillance and facilities management solutions, and then implementing, maintaining and supporting them over time.

The Board considers that our progressive dividend policy over the last four years indicates the long-term value for our shareholders.

For information on our strategy and business model, please refer to the Strategic Review.

Principle 2: Seek to understand and meet shareholder needs and expectations

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 ('AGM'). The Notice of Meeting is sent to shareholders at least 21 days before the AGM. The Chairman of the Board, the Chief Executive and the Finance Director routinely attend the Annual General Meeting and are available to answer questions raised by shareholders. For each vote, the number of proxy votes received for, against and withheld is announced at the meeting. The results of the Annual General Meeting are subsequently published on the Company's corporate website.

The Directors actively seek to build a relationship with substantial shareholders. Shareholder relations are managed primarily by the Chief Executive and Finance Director, supported by the Chairman of the Board, as appropriate. The Chief Executive and Finance Director make presentations to substantial shareholders, on request, and analysts each year immediately following the release of the full-year and half-year results. In 2018 a shareholder event was held at our offices in Sheffield to allow shareholders to see the business first hand and engage directly with management and the Board.

The Board as a whole is kept informed of the views and any concerns of major shareholders by briefings, as appropriate, from the Chairman. Investment reports from analysts and feedback reports from brokers following the investor meetings are also circulated to the Board. The Non-Executive Chairman and Senior Independent Director ('SID') are available to meet with major shareholders if required to discuss issues of importance to them.

As part of the continued review of the Company's governance reporting, the Annual Report and Accounts includes expanded narrative governance disclosures that take into account the views of shareholders.

Principle 3: Take into account wider stakeholder and social responsibilities, and their implications for long-term success

The Board is regularly updated on wider stakeholder engagement feedback to stay abreast of stakeholder insights into the issues that matter most to them and our business, and to enable the Board to understand and consider these issues in decision making. Aside from our shareholders, suppliers and customers, our employees are one of our most important stakeholder groups and the Board therefore closely monitors and reviews the results of the Group's annual Employee Survey as well as other feedback it receives in relation to employee engagement.

The Board receives the feedback from the annual Customer Excellence Survey, including the progress made against previous years' initiatives as well as new initiatives made in the current year. See page 10 for more information on our Customer Excellence programme.

Modern slavery

The Company opposes modern slavery in all its forms and will try to prevent it by any means that it can. It is expected that anyone who has any suspicions of modern slavery within the business or the supply chain will raise their concerns without delay. Synectics plc maintains relationships with many different organisations in its supply chain, as well as directly employing over 400 people worldwide. In light of the Modern Slavery Act 2015, each year the Board reviews internal measures to ensure the Company is doing what it can to prevent slavery and human trafficking. Details in relation to our modern slavery polices are available on the plc website.

For more information on our people please see pages 12 and 13.

Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Board has overall responsibility for risk management, and is assisted by the Audit Committee in monitoring the principal risks and uncertainties facing the Group as well as the actions taken to mitigate those risks. The Board has delegated responsibility for review of the adequacy of the effectiveness of the internal control framework to the Audit Committee.

The Chief Executive and Finance Director are responsible for the day-to-day operational and commercial activity across the Group and are, therefore, responsible for the management of risk. The Audit Committee reviews the risk register prepared by the Chief Executive and Finance Director biannually and any emerging risks are identified and reported to the Board.

Further information on the Group's internal control systems, the key risks facing the Group, and how the Board gets its assurance that the risk management and related control systems in place are effective can be found in the Audit Committee Report on pages 45 to 47 and the Risks and Risk Management section on pages 56 and 57.

Principle 5: Maintain the Board as a well-functioning, balanced team led by the Chairman

The Board

The Board comprises a Non-Executive Chairman, three Non-Executive Directors and two Executive Directors. The Company 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.

Michael Butler has recently taken over from Peter Rae as the Senior Independent Non-Executive Director of the Group. He was appointed based on his ability to perform the role and his extensive board-level experience, in particular most recently as president, chief operating officer and a main board member at Inmarsat plc. As a relatively recent appointment to the Board, Michael Butler is able to bring a fresh perspective in challenging the Group's strategy and the execution of its plans. He also supports and deputises for the Chairman on matters relating to Directors, governance and engagement.

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 2018 financial year, seven 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 2018 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;

Principle 5: Maintain the Board as a well-functioning, balanced team led by the Chairman continued

Board meetings continued

- Board and Committee evaluation, reviewing progress of actions from the 2017 evaluation and setting actions for 2018/19;
- considering the risk registers and the outcome of the risk review, as reviewed in detail by the Audit Committee;
- the appointment of RSM UK as external auditor, upon the recommendation of the Audit Committee;
- reviewing the findings of the 2018 Employee Survey;
- consideration of the possible impacts of the result of the UK's EU referendum;
- review of the Quoted Companies Alliance ('QCA') Corporate Governance Code and agreement of actions necessary to achieve full compliance;
- 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 the EU General Data Protection Regulations were successfully embedded within the organisation;
- 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.

Excluding ad hoc meetings for general administrative matters, the number of Board and Board Committee meetings attended during the 2018 financial year are as follows:

	Total number of meetings		
	Board	Audit Committee	Remuneration Committee
DJ Coghlan Chairman	7	–	–
D Bate[1]	2	1	3
MJ Butler Chairman of Remuneration Committee	7	5	4
SW Coggins Chairman of Audit Committee	7	5	4
PM Rae	5	2	4
MJ Stilwell[2]	7	–	–
PA Webb	7	–	–

1. Dennis Bate retired from the Board at the Annual General Meeting held on 26 April 2018. Number of meetings eligible to attend prior to resignation from the Board: two.

2. Mike Stilwell stood down from the Board on 30 November 2018.

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 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.

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 Michael Butler have served on the Board for 21, 14 and three years respectively. Each brings different and complementary high-level experience relevant to the current business and future development of the Group. During 2018, 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, provides 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 three Non-Executive Directors is considered by the Board to be independent.

Principle 6: Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

The Board is satisfied that, between the Directors, it has an effective and appropriate balance of skills and experience, including in the areas of technology, engineering, finance, law, international trading, sales and marketing.

Biographies of each Director can be found on pages 36 and 37.

Each member of the Board takes responsibility for maintaining his skill set, which includes roles and experience with other boards and organisations as well as formal training and seminars.

All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. The business reports monthly on its headline performance against its budget and forecast, and the Board reviews the update on performance at each meeting.

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.

The Directors are aware that a Board comprising six men and no women does not reflect current views of best practice and carries some risks in terms of the breadth of capability and views brought to the table. An issue in the technology and surveillance industries is that there are not many women in senior positions, and the Board's policy so far has been to appoint members who have the most appropriate skills for the role, irrespective of gender. The issue continues to be kept under review.

Induction

The Company'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. This process was followed upon the external appointment of Simon Beswick as Finance Director on 1 December 2018.

Independent advice

All Directors are able to take independent professional advice in the furtherance of their duties, if necessary. In addition, the Directors have direct access to the advice and services of the Company Secretary and Finance Director.

Principle 7: Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

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 focused 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.

During the last financial year, substantial progress was made on each of the identified objectives. These steps contributed to an increase in the effectiveness of the Board's review processes. It has been agreed that further action still needs to be taken to increase the exposure of Non-Executive Directors to the latest industry technology developments, and this will be undertaken in 2018/19.

It was also decided to alter the timing of the annual evaluation process until just after the approval of year-end results. The next evaluation will therefore take place in March/April 2019.

Principle 8: Promote a corporate culture that is based on ethical values and behaviours

The Board aims to lead by example and do what is in the best interests of the Group. Synectics has a strong ethical culture, supported in recent years by embedding policies and practices across the business to ensure that the "whole" is greater than the sum of the parts. The success of the "whole" depends on the Company's business principles of Professionalism and Quality, Openness, Communication and Integrity, and Value and Respect our Employees and on the values embedded in the business of Understand, Innovate, Respect and Do The Right Thing.

The Company has a bribery and corruption policy and each of its businesses has implemented that policy and adequate procedure to prevent bribery. Any known non-compliance with the policy would be reported to the Board. The Group's policy is reviewed annually by the Board.

Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision making by the Board

Board programme

The Board sets direction for the Group through a formal schedule of matters reserved for its decision. Prior to the start of each financial year, a schedule of dates for that year's Board meetings is compiled to ensure an appropriate spread of meetings across the financial year and in line with the Group's half-year and full-year results reporting. This may be supplemented by additional meetings as and when required.

The Board meets at least six times each year in accordance with its scheduled meeting calendar. The attendance by each Board member at scheduled meetings is shown in the Board table on page 42.

During the year to 30 November 2018, the Board met for all of its scheduled meetings. The Board and its Committees receive appropriate and timely information prior to each meeting; a formal agenda is produced for each meeting, and Board and Committee papers are distributed several days before meetings take place. Minutes of the meetings are then circulated to all Directors. Any specific actions arising from such meetings are agreed by the Board or relevant Committee and then followed up by management or the Board, as appropriate.

Roles of the Board, Chairman and Chief Executive Officer

The Board is responsible for the long-term success of the business. It is responsible for overall Group strategy; approval of major contracts; approval of significant investments; approval of the annual and interim results; annual budgets; dividend policy; and Board structure. It monitors the exposure to key business risks and reviews the strategic direction of each business, its annual budget and its performance in relation to those budgets and subsequent forecasts. There is clear division of responsibility. The Chairman is responsible for running the business of the Board and for ensuring appropriate strategic focus and direction. The Chief Executive is responsible for proposing the strategic focus to the Board, implementing it once it has been approved and overseeing the management of the business through the senior management team.

Senior management below Board level attend Board meetings where appropriate to present business updates. Board meetings throughout the year are held at the Group's various offices within the UK, giving access to the different locations to gain a greater understanding of the Group's activities.

Executive team

The Executive team consists of Paul Webb and Simon Beswick with input from the divisional Directors and teams. It is responsible for formulation of the proposed strategic focus for submission to the Board, the day-to-day management of the Group's businesses and its overall trading, operational and financial performance in fulfilment of that strategy, plans and budgets approved by the Board of Directors, as well as managing key business risks. The Chief Executive reports to the Board on issues, progress and recommendations for change.

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 45 to 51.

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.

Principle 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Company communicates with shareholders through the Annual Report and Accounts, full-year and half-year announcements, the Annual General Meeting and one-to-one meetings with large existing or potential new shareholders. A range of corporate information (including all announcements and presentations) is also available to shareholders, investors and the public on the corporate website.

The Board receives regular updates on the views of shareholders through briefings and reports from the Chairman of the Board, the Chief Executive and the brokers. Analysts' notes and brokers' briefings are reviewed to achieve a wide understanding of investors' views.

The Company completes annual employee surveys to maintain an open communication with employees and introduced the Customer Excellence programme in 2016, which has created an additional channel of dialogue with customers.

The Audit Committee comprises:

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

Role and operation of the Committee

The Audit Committee is responsible for ensuring that Synectics maintains a strong control environment. It provides effective governance over the Group's financial reporting, including oversight and review of the systems of internal control and risk management and the performance of internal and external audit functions.

The Committee's formal terms of reference, which are reviewed and approved annually, 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 five times. Neither the Executive Directors nor the Chairman of the Board attend meetings other than by invitation of the Committee members. The Committee invites the external 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 Committee's 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, including the assessment of going concern and recommendation to the Board that it is appropriate to adopt the going concern assumption;
- the scope and cost of the external audit;
- the auditor's full-year report for 2017;
- the removal of KPMG LLP as external auditor and the subsequent appointment of RSM UK (explained in more detail on page 47);
- the evaluation of the performance and independence of KPMG LLP as the Group's external auditor until September 2018 and RSM UK subsequently;
- the review and approval of the external auditor's plan for 2018, which detailed the proposed audit scope and risk and governance assessment;
- the review and approval of the external auditor's fees for 2018, including the review of the policy of the provision of non-audit fees by the auditor;
- the implementation of new accounting standards, including IFRS 15 concerning revenue recognition;
- 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 2018/19, as well as reports on the activity carried out during the year;
- 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 2018;
- the approval of the Audit Committee plan for 2018;
- 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.

Financial reporting

During the year, the Committee reviewed and recommended approval of the half-year and full-year financial statements. As part of its review, the Committee interrogated the key judgements and accounting policies applied and considered the basis for estimates and assumptions underlying the financial statements.

The Committee recognises the importance of understanding changes in accounting policies and practice, and receives regular updates from both the external auditor, and the finance team on key changes in this area. The Committee continued its review of the impact on the Group of the implementation of IFRS 15 concerning revenue recognition, IFRS 9 concerning financial instruments and IFRS 16 concerning leases. See pages 66 to 68 for more details.

During the year, the Committee, management and the external auditor considered and concluded on a number of significant matters in relation to the financial statements. Those matters and what the Committee did to ensure that these matters had been appropriately addressed in the financial statements are set out below:

Area of focus	How the matter was addressed by the Audit Committee
Revenue recognition and contract accounting	The 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. The Committee agreed with the conclusions reached.
Goodwill impairment review	The Committee reviewed a management report outlining the approach taken on impairment testing and the key assumptions and sensitivities supporting the conclusions. The Committee agreed with the conclusions reached on impairment.
Inventories	In forming a conclusion on the appropriateness of the value of inventories, the Committee reviewed and challenged the management report explaining the inappropriate procedures in the mobile systems business underpinning the inventory write down. The Committee considered the failure of the existing controls and how these would be improved. The Committee reviewed the detailed analyses determining the value of the inventory write down and the re-assessment of the value of inventory held in the mobile systems business. The Committee agreed with the conclusions reached and the disclosures made in note 5.
Presentation of the Group's Income Statement – non-underlying items and prior period restatement	The Committee considered the items classified as exceptional and challenged the significance, timing and nature of those items and the disclosures in note 4. In particular, in relation to the mobile systems inventory write down and restructuring costs, consideration was given as to the amount treated as non-underlying in the current year and the amount restated in previous years' results. The Committee agreed with the conclusions reached.

Risk management and internal control

The Committee also has responsibility for reporting to the Board on whether the Group's key control policies and procedures remain appropriate and that it is operating a robust and effective control environment.

Risk management

The Committee, on behalf of the Board, ensures that the Group's principal risks and uncertainties have been appropriately identified and assessed. It reviews those key risks and the quality of the assurance on the effectiveness of the controls that mitigate those risks, allowing it to conclude on the principal risks for disclosure in the Annual Report.

Effective internal control

Operating policies, procedures and controls are in place across the Group, and have been in place throughout the year under review. These policies ensure the accuracy and reliability of financial reporting and the preparation of financial statements including the consolidation process.

The controls relating to financial reporting include:

- an appropriately qualified management structure, with clear lines of responsibility;
- a comprehensive annual budgeting process, which is approved by the Board;
- close management of the day-to-day activities of the Group by the Chief Executive and Finance Director;
- detailed monthly reporting of performance, and against budget and forecast; and
- central control over key areas such as contract risk assessment, capital expenditure authorisation and banking facilities.

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 56 and 57.

External audit

The Committee has responsibility to ensure that there is a sufficiently robust and effective external audit through considering the independence of the external auditor, the appointment and re-appointment of the external auditor and all reports from the external auditor.

Appointment of the external auditor

The Committee reviews and makes recommendations regarding the appointment of the external auditor. In making this recommendation, the Committee considers auditor effectiveness and independence, and any other factors which may impact upon the external auditor's re-appointment. After careful consideration, the Committee did not recommend the re-appointment of KPMG LLP as auditor of the Group.

Further to a thorough audit tender process in the previous financial year, the Committee made a recommendation to the Board, which endorsed the appointment of RSM UK as the preferred new auditor, subject to approval by shareholders at the 2019 Annual General Meeting.

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 partner 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.

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

The independence and objectivity of the non-audit services provided by RSM UK to the Group are safeguarded by Synectics' non-audit services policy. The Group's policy on engaging the external auditor for non-audit services has always been designed to ensure that such engagements do not result in the creation of a mutuality of interest between the auditor and the Group, that a transparent process and reporting structure is established to enable the Committee to monitor policy compliance and that unnecessary restrictions on the engagement of the auditor for non-audit services are avoided where the provision of advice is commercially sensible and is more cost effective than other providers.

RSM UK provides non-audit services to the Group which are governed 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 2018 21% of fees provided to the Group were non-audit services and related predominantly to support in relation to the implementation of IFRS 15 (see note 6 to the financial statements). This work was undertaken by a separate specialist team, engaged prior to the appointment of RSM UK as external auditor.

By Order of the Board

Steve Coggins
Chairman of the Audit Committee

26 February 2019

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 2018. As an AIM-listed company, the information provided is disclosed to fulfil the requirements of AIM Rule 19. Synectics plc is not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. This information is unaudited, except where stated.

Unaudited information

Remuneration Committee

The Group's Remuneration Committee comprises:

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

Michael Butler was appointed as Chair of the Committee on 26 April 2018. All 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 four times. Matters dealt with by the Remuneration Committee included the:

- approval of the 2017 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 2018 for Executive Directors. For the 2018 financial year, the upper limits on bonuses were set at 75% of base salary for the Chief Executive;
- approval of an award of options under the Performance Share Plan on 1 March 2018 for the 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; and
- review of the outturn of the 2015 Performance Share Plan awards and the determination that those awards vested had vested in full.

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 or have a prior interest in. Details of the share plans are given in note 24 to the financial statements. Directors' interests in the shares of the Group are detailed in the shareholdings disclosure on page 53.

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	PSP awards[2] £000	**2018 Total (excl pension) £000**	2017 Total (excl pension) £000	**2018 Pension allowance[3] £000**	2017 Pension allowance[3] £000
Executive Directors								
MJ Stilwell (resigned 30 November 2018)	133	–	15	44	**192**	177	**7**	6
PA Webb	237	18	15	88	**358**	346	**29**	28
Non-Executive Directors								
D Bate (retired 26 April 2018)	12	–	–	–	**12**	30	–	–
MJ Butler	30	–	–	–	**30**	30	–	–
SW Coggins	30	–	–	–	**30**	30	–	–
DJ Coghlan	75	–	10	–	**85**	86	–	–
PM Rae	30	–	–	–	**30**	30	–	–
Total	547	18	40	132	**737**	729	**36**	34

1. Bonuses are paid or accrued based on the achievement of agreed personal objectives and corporate performance metrics.
2. This is the value of PSP awards vesting and exercised in the financial period. This has been calculated by reference to a share price of £1.755, being the share price on the day the awards were exercised.
3. Pension allowance includes both contributions to the Group's defined contribution pension scheme and cash payments in lieu of contributions.

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 2018 and 26 February 2019.

Performance Share Plan

The following Executive Directors held an interest in the Company's shares at 30 November 2018 through awards made under the Synectics Performance Share Plan ('PSP'), which was established on 9 October 2012, as set out below and in note 24.

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.

Date awarded	1 March 2016		1 March 2017		1 March 2018	
	Number of shares	Issue price (p)	Number of shares	Issue price (p)	Number of shares	Issue price (p)
MJ Stilwell	15,000	117.5	7,500	225.0	–	–
PA Webb	30,000	117.5	15,000	225.0	–	–

The PSP awards granted on 30 March 2015 vested in full and were exercised in the year ended 30 November 2018 as follows:

Date awarded	30 March 2015		Share price on day exercised (p)
	Number of shares	Issue price (p)	
MJ Stilwell	25,000	125.0	175.5
PA Webb	50,000	125.0	175.5

Executive Shared Ownership Plan

The following Directors held an interest in the Company's shares at 30 November 2018 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 24. The last awards under the ExSOP were made in March 2011.

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.

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.

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 2018:

	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
25 April 2018	185.0	486	162
26 October 2018	190.0	474	–
		6,597	**3,728**

	Purchase price (p)	PA Webb Number of shares	MJ Stilwell Number of shares
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
10 August 2018	207.0	85	53
26 November 2018	192.0	39	23
		326	**121**
		6,923	**3,849**

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 2017	220.0p
At 30 November 2018	190.0p

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

	Ordinary shares of 20p each
Maximum	223.0p
Minimum	180.0p

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
S Beswick	6 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

* MJ Stilwell stood down from the Board on 30 November 2018.

By Order of the Board

Michael Butler
Chairman of the Remuneration Committee

26 February 2019

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 6 to 35, and pages 56 and 57.

Review of business and future developments

The Consolidated Income Statement for the year ended 30 November 2018 is set out on page 62.

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 6 to 35. 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 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 56 and 57.

Group results and dividends

The consolidated profit after tax for the year was £1,535,000 (2017 restated: £2,102,000).

The Directors recommend the payment of a final dividend of 3.5p per share (2017: 3.0p per share), totalling around £597,000. Subject to approval, this is expected to be paid on 7 May 2019 to shareholders on the register as at close of business on 5 April 2019. An interim dividend of 1.2p per share was paid during the year (2017: 1.0p per share).

Financial instruments

Details of financial instruments to which the Group is a party are shown in note 31 to the financial statements.

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 £3.1 million (2017: £2.6 million), of which £2.6 million (2017: £2.1 million) has been expensed 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 2018. No shares were held in treasury and 1,051,265 shares were held by the Company's employee share trusts. Details of movements in the issued share capital can be found in note 23 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 15,148 shares in the Company were purchased by the employee benefit trust during the 2018 financial year.

Directors' interests

Interests of the Directors and their connected persons in the issued share capital of the Company as at 30 November 2018 were as follows:

	2018 Number of shares held	2018 Interests in share schemes	2018 Total interests in shares	2017 Total interests in shares
MJ Butler	**40,000**	–	**40,000**	40,000
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**	**26,349**	**33,259**	58,021
PA Webb	**36,322**	**251,923**	**288,245**	310,839
	1,849,917	**371,515**	**2,221,432**	2,268,788

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 26 February 2019.

Significant shareholdings

As at the close of the market on 6 February 2019, 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	3,152,500	17.72	Direct
Downing LLP	2,287,618	12.86	Direct
Hargreave Hale Limited	1,289,041	7.24	Indirect
Quadnetics Employee Benefit Trust	1,050,081	5.90	Direct
Cavendish Asset Management	958,500	5.39	Direct
Seguro Nominees Limited	834,125	4.69	Indirect

Board of Directors

Details and biographies of the current Directors are shown on pages 36 and 37.

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 2019 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 27 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 436 people in 2018 (2017: 465).

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 48 to 51.

Policy on payment of suppliers

The Group's policy during the year was to pay suppliers in accordance with agreed terms. At 30 November 2018 the Group had 72 days' purchases outstanding in trade payables (2017: 52 days').

Charitable donations and activity

The Group made donations amounting to £1,142 (2017: £1,764) to charitable causes during the year.

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 21 working days before the meeting. Separate Resolutions are proposed on each substantially separate issue. The poll results from the 2019 Annual General Meeting will be made available on the Company's website after the meeting.

Auditor

As detailed in the Audit Committee Report, RSM UK has been appointed by the Board as the Company's external auditor, upon the recommendation of the Audit Committee. Accordingly, a Resolution for the appointment of RSM UK 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

Simon Beswick
Company Secretary

26 February 2019

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.

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

Volatility of global energy prices impacting project awards and timescales

Exchange rate risk

Brexit

Complexity of operations

Risk **Factors that may impact the business**	Mitigation **What we are doing to minimise the risk**
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.	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.
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 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 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.	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.
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.	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.
As the industry becomes increasingly technical and transitions to digital technology, there is a risk that products become obsolete or irrelevant.	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.
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.	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.
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.	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.
The electronic security industry in general is competitive with continued pressure on sales and margins.	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 bids for projects in large energy-related projects around the world. The current volatility of energy prices creates increased uncertainty in the timing of the award and delivery of such projects. This therefore increases the corresponding volatility of the Group's revenues and margins in this sector.	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 operates internationally giving rise to exposure from changes in foreign currency exchange rates.	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.
The Group conducts a significant amount of trade with businesses located in EU countries. This trade could be disrupted or impeded if, as is currently likely, the UK leaves the EU. Our ability to serve our customers globally, and thus our revenues and profits, could accordingly be reduced.	The Group conducts significant trade with non-EU countries and thus has experience in international, non-EU customs and compliance. We are additionally mitigating the risk to some extent through increased inventories, management of key project deadlines, working with our suppliers and review of alternative supply-chains.
For a company of its scale Synectics has relatively complex operations: multiple locations, varied product offerings, multiple information systems and significant overseas operations. The company is therefore relatively complex to manage giving a greater risk of internal control weakness.	The Group has comprehensive reporting and review with its different management teams. The Group has in 2018 integrated more fully its Systems supply-chain. In addition the executive management are reviewing management processes and options to update and integrate its information systems.

Read more about how the Group manages risk in the Corporate Governance Statement from page 40.

The Audit Committee advises the Board of Directors on matters of risk management. It has its own report, which can be read on pages 45 to 47.

Opinion

We have audited the financial statements of Synectics plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 November 2018 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Statement of Comprehensive Income, Company Statement of Changes in Equity, Company Statement of Financial Position and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Group and Parent Company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, 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 Group and Parent Company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition and contract accounting

2018: £71.2 million; 2017: £70.1 million – refer to Audit Committee Report (page 46), accounting policies and critical accounting estimates and judgements (pages 69–70 and 75) and financial disclosures (note 2 – pages 75–77).

The risk:

The Group recognises a substantial element of its revenue and profit from non-recurring contracts, which may span accounting periods. Contract accounting requires the assessment of the stage of completion of each contract and likely outcome of the contract in order to determine the revenue and profit to be recognised.

There is a risk of misstatement resulting from inappropriate bases being used or inaccurate estimates being made.

Our approach:

Our procedures included:

- a review of the appropriateness of the revenue recognition and contract accounting policies and practices;
- evaluation of the controls in place to assess the accuracy of the stage of completion and likely outcome of contracts;
- testing of a sample of contracts to agree details to supporting documentation and consider and challenge the contract accounting assessments;
- a review of any significant old accrued income balances; and
- a retrospective review of the outcome of contracts in progress at the prior year end to assess the validity of the estimates applied in the prior period.

Key audit matters continued

Carrying value of goodwill

2018: £20.1 million; 2017: £20.0 million – refer to Audit Committee Report (page 46), accounting policies and critical accounting estimates and judgements (pages 69 and 75) and financial disclosures (note 15 – pages 83–84).

The risk:

The Group balance sheet includes goodwill totalling £20.1 million at 30 November 2018. The risk is that the goodwill is not recoverable and should be impaired.

Impairment testing requires management to identify appropriate cash generating units ('CGUs'), identify the carrying amount of each CGU, including its goodwill, and determine whether the higher of the fair value less cost to sell and the value in use for the CGU, based on the net present value of the forecast earnings of the CGU, exceeds the carrying amount. Impairment testing involves a significant degree of judgement due to the level of estimation involved in forecasting future performance and setting appropriate assumptions regarding discount rates, growth rates and working capital movements.

Our approach:

Our procedures included:

- a critical assessment of the key assumptions made in determining the recoverable amounts of each CGU;
- consideration of the consistency and appropriateness of the allocation of goodwill to CGUs in the light of our understanding of the Group's businesses, including specific challenge relating to the poorer performing components;
- agreeing the forecast future performance to the most recently approved business plan;
- considering the forecasts in the context of historical forecasting accuracy and our understanding of the sectors in which the Group operates;
- considering the appropriateness of the assumptions used in the calculation of the discount rates used, including comparison with external data sources;
- undertaking our own sensitivity analyses; and
- assessing the appropriateness of the Group's disclosures about the sensitivity of their impairment assessment.

Inventories

2018: £7.6 million; 2017: £9.5 million – refer to Audit Committee Report (page 46), accounting policies and critical accounting estimates and judgements (pages 73 and 75) and financial disclosures (note 16 – page 84).

The risk:

The Group has inventories of £7.6 million at 30 November 2018. Inventories are stated at the lower of cost and net realisable value and impairment provisions are held against slow moving and obsolete inventories.

During the year, management identified that inventories at the mobile systems business had not been subject to appropriate physical verification, were in part inappropriately valued and that inadequate provisions were being held against slow moving and obsolete items. Following an internal investigation, write downs totalling £1.8 million were identified.

There is a degree of estimation and judgement involved in determining appropriate adjustments in these circumstances and the key audit risks are that at the balance sheet date the inventory may not exist and that it may not be appropriately valued.

Our approach:

Management provided us with detailed analyses supporting the mobile systems business inventory write downs, which we reviewed and subjected to audit testing, as follows:

- discussed the basis of each element of the write down with the local finance team and Group management, and agreed the calculations back to source documents;
- considered the appropriateness of the assumptions underpinning the revised inventory valuation and impairment provisions;
- challenged management regarding the extent to which there was evidence that the errors identified represented a material misstatement impacting on the opening balance sheet position;
- considered the appropriateness of the prior period adjustment determined by management and reviewed the supporting calculations and source documents; and
- in addition, we considered whether the errors identified at mobile systems could result in similar issues at other business units.

In addition, we have:

- attended and followed up year-end inventory counts;
- reviewed the appropriateness of the application of the inventory valuation policies and procedures; and
- tested samples of slow moving inventory lines and formed our own assessment of the impairment provision required in respect of these items.

Key audit matters continued

Presentation of the Group's Income Statement – non-underlying items and prior period adjustment

2018: £0.6 million; 2017: £0.5 million – refer to Audit Committee Report (page 46), accounting policies and critical accounting estimates and judgements (pages 72 and 75) and financial disclosures (notes 4 and 5 – pages 78–79).

The risk:

A number of the Group's key performance indicators reference underlying results, which exclude the impact of certain items, by virtue of their size, nature or incidence, which management consider provides a better understanding of the trading performance of the Group and to facilitate comparison with prior periods.

The key audit risk is that management may manipulate the allocation to non-underlying items, or deal with prior period items inappropriately, in order to overstate this alternative performance measure.

Our approach:

Our procedures included:

- testing the supporting data relating to significant non-underlying items;
- considering whether non-underlying items impact on the opening balance sheet;
- considering the appropriateness of the prior period adjustments recorded by management in respect of non-underlying items;
- considering whether there are further items which impacted on the reported results which ought to be identified in non-underlying items; and
- considering whether the emphasis placed on non-underlying items in the Annual Report is reasonable.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole ('FSM'). During planning FSM was calculated as £480,000, which was not changed during the course of our audit. Materiality for the Parent Company financial statements as a whole was calculated as £260,000, which was not significantly changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £25,000, as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The Group comprises nine reporting components. Of these, the Parent Company was subject to full scope statutory audit to the Group reporting timetable and a further seven components have been subject to full scope audit to Group materiality to the Group reporting timetable. One component was subject to reduced scope review procedures to the Group reporting timetable.

The UK audit team conducted the audits of the five UK components, the US component, which is a significant component but not subject to local statutory audit, and conducted the reduced scope review of the German component.

The other two components are accounted for in Singapore and have been subject to full scope audit to Group materiality to the Group reporting timetable by RSM Singapore. We issued detailed audit instructions to RSM Singapore, highlighting our assessment of the significant risks to be addressed by their work and setting out Group reporting requirements. The Singapore component is a significant component to the Group and the Group audit team has undertaken a remote review of the Singapore team audit working papers, reviewed the Group reporting documents and discussed the findings of the work with them. The Macau entity is not a significant component and the Group audit team work was restricted to reviewing the Singapore team Group reporting documents and discussing the findings of their work with them.

The full scope audit work for Group audit purposes covered 95% of the Group's revenue, over 100% of the Group's profit before tax and 97% of the Group's total assets.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditor's Report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on pages 54 and 55, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the 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 the Directors 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 for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Use of our report

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.

RSM UK Audit LLP

Charles Fray (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
St Philips Point
Temple Row
Birmingham
B2 5AF

26 February 2019

Consolidated income statement
For the year ended 30 November 2018

	Note	2018 Before non-underlying items £000	2018 Non-underlying items (note 4) £000	2018 Total £000	2017 Before non-underlying items £000	2017 Non-underlying items (note 4) Restated £000	2017 Total Restated £000
Revenue	2	**71,249**	**–**	**71,249**	70,102	–	70,102
Cost of sales		**(47,322)**	**(510)**	**(47,832)**	(46,153)	(549)	(46,702)
Gross profit		**23,927**	**(510)**	**23,417**	23,949	(549)	23,400
Operating expenses	3	**(20,972)**	**(214)**	**(21,186)**	(20,800)	(23)	(20,823)
Profit from operations		**2,955**	**(724)**	**2,231**	3,149	(572)	2,577
Finance income	9	**167**	**–**	**167**	183	–	183
Finance costs	10	**(266)**	**–**	**(266)**	(313)	–	(313)
Profit before tax		**2,856**	**(724)**	**2,132**	3,019	(572)	2,447
Income tax expense	11	**(738)**	**141**	**(597)**	(451)	106	(345)
Profit for the year attributable to equity holders of the Parent		**2,118**	**(583)**	**1,535**	2,568	(466)	2,102
Basic earnings per share	13	**12.7p**	**–**	**9.2p**	15.6p	–	12.8p
Diluted earnings per share	13	**12.6p**	**–**	**9.1p**	15.2p	–	12.4p

Consolidated statement of comprehensive income
For the year ended 30 November 2018

	2018 £000	2017 Restated £000
Profit for the year	**1,535**	2,102
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement loss on defined benefit pension scheme, net of tax	**(97)**	(363)
	(97)	(363)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**286**	(760)
Gains on a hedge of a net investment taken to equity	**25**	125
	311	(635)
Total comprehensive income for the year attributable to equity holders of the Parent	**1,749**	1,104

Consolidated statement of financial position

As at 30 November 2018

	Note	2018 £000	2017 Restated £000	2016 Restated £000
Non-current assets				
Property, plant and equipment	14	**2,728**	2,796	3,076
Intangible assets	15	**21,488**	21,749	22,115
Retirement benefit asset	30	**182**	289	720
Deferred tax assets	11	**659**	221	216
		25,057	25,055	26,127
Current assets				
Inventories	16	**7,632**	9,458	9,265
Trade and other receivables	18	**20,395**	24,418	24,771
Tax assets		**87**	16	72
Cash and cash equivalents	19	**8,114**	4,721	5,848
		36,228	38,613	39,956
Total assets		**61,285**	63,668	66,083
Current liabilities				
Loans and borrowings	21	**–**	(900)	(2,778)
Trade and other payables	20	**(19,324)**	(22,493)	(22,077)
Tax liabilities		**(467)**	(292)	(623)
Current provisions	22	**(121)**	(149)	(439)
		(19,912)	(23,834)	(25,917)
Non-current liabilities				
Loans and borrowings		**–**	–	(900)
Non-current provisions	22	**(7)**	(102)	(215)
Deferred tax liabilities	11	**(646)**	(161)	(202)
		(653)	(263)	(1,317)
Total liabilities		**(20,565)**	(24,097)	(27,234)
Net assets		**40,720**	39,571	38,849
Equity attributable to equity holders of the Parent Company				
Called up share capital	23	**3,559**	3,559	3,559
Share premium account		**16,043**	16,043	16,043
Merger reserve		**9,971**	9,971	9,971
Other reserves		**(1,748)**	(2,185)	(2,341)
Currency translation reserve		**1,065**	754	1,389
Retained earnings		**11,830**	11,429	10,228
Total equity		**40,720**	39,571	38,849

The financial statements on pages 62 to 95 were approved and authorised for issue by the Board of Directors on 26 February 2019 and were signed on its behalf by:

Paul Webb
Chief Executive

Simon Beswick
Finance Director

Company number: 1740011

Financial statements

Consolidated statement of changes in equity

For the year ended 30 November 2018

	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 2016	3,559	16,043	9,971	(2,341)	1,389	10,960	39,581
Restatement (see note 5)	–	–	–	–	–	(732)	(732)
At 1 December 2016 (restated, see note 5)	3,559	16,043	9,971	(2,341)	1,389	10,228	38,849
Profit for the year (restated, see note 5)	–	–	–	–	–	2,102	2,102
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)	1,739	1,104
Dividends paid (note 12)	–	–	–	–	–	(498)	(498)
Credit in relation to share-based payments (note 25)	–	–	–	–	–	111	111
Share scheme interests realised in the year	–	–	–	156	–	(151)	5
At 30 November 2017 (restated, see note 5)	3,559	16,043	9,971	(2,185)	754	11,429	39,571
Profit for the year	–	–	–	–	–	1,535	1,535
Other comprehensive income							
Currency translation adjustment	–	–	–	–	311	–	311
Remeasurement loss on defined benefit pension scheme, net of tax	–	–	–	–	–	(97)	(97)
Total other comprehensive income	–	–	–	–	311	(97)	214
Total comprehensive income for the year	–	–	–	–	311	1,438	1,749
Dividends paid (note 12)	–	–	–	–	–	(699)	(699)
Credit in relation to share-based payments (note 25)	–	–	–	–	–	66	66
Share scheme interests realised in the year	–	–	–	437	–	(404)	33
At 30 November 2018	**3,559**	**16,043**	**9,971**	**(1,748)**	**1,065**	**11,830**	**40,720**

Consolidated cash flow statement
For the year ended 30 November 2018

	Note	2018 £000	2017 Restated £000
Cash flows from operating activities			
Profit for the year		**1,535**	2,102
Income tax expense	11	**597**	345
Finance income	9	**(167)**	(183)
Finance costs	10	**266**	313
Depreciation and amortisation charge		**1,378**	1,654
Loss on disposal of non-current assets and impairment		**13**	2
Unrealised currency translation (gains)/losses		**(16)**	70
Net movement in provisions		**(123)**	(403)
Non-underlying items		**701**	549
Other inventory write down		**669**	–
Cash flow relating to non-underlying items		**(191)**	–
Other non-cash movements		**(354)**	200
Share-based payment charge		**66**	111
Operating cash flows before movement in working capital		**4,374**	4,760
Decrease/(increase) in inventories		**678**	(857)
Decrease/(increase) in receivables		**4,147**	(105)
(Decrease)/increase in payables		**(2,911)**	533
Cash generated from operations		**6,288**	4,331
Tax paid		**(459)**	(653)
Net cash from operating activities		**5,829**	3,678
Cash flows from investing activities			
Purchase of property, plant and equipment	14	**(426)**	(309)
Capitalised development costs	15	**(461)**	(462)
Purchased software	15	**(68)**	(193)
Net cash used in investing activities		**(955)**	(964)
Cash flows from financing activities			
Repayment of borrowings		**(900)**	(1,259)
Share scheme interests realised in the year		**33**	5
Interest paid		**(107)**	(149)
Dividends paid	12	**(699)**	(498)
Net cash used in financing activities		**(1,673)**	(1,901)
Effect of exchange rate changes on cash and cash equivalents		**192**	(414)
Net increase in cash and cash equivalents		**3,393**	399
Cash and cash equivalents at the beginning of the year		**4,721**	4,322
Cash and cash equivalents at the end of the year	19	**8,114**	4,721

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 96 to 104. The consolidated financial statements of the Company as at and for the year ended 30 November 2018 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.

With effect from 1 December 2017, the Group has adopted the following amendments to existing standards, these have not had a material impact on the Group:

- 'Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative', which requires disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, such as foreign exchange adjustments. This new disclosure is provided in note 21 to the consolidated financial statements.
- 'Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses'.

New standards and interpretations not yet adopted

As at 30 November 2018 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:
IFRS 2	Share-based Payment 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
IAS 28	Investments in Associates and Joint Ventures Long-term interests to which the equity method is not applied	1 January 2019
IFRS 9	Financial Instruments Prepayment features with negative tax treatments	1 January 2019
Other existing standards arising from the Annual Improvements to IFRSs 2015–2017 cycle		

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 2018 as appropriate.

Background to IFRS 15

The transition to IFRS 15 will take effect from 1 December 2018 for the Group. The interim results for financial year 2018/19 will be IFRS 15 compliant with the first Annual Report published in accordance with IFRS 15 being the 30 November 2019 report.

IFRS 15 sets out the requirements for recognising revenue from contracts with customers and includes extensive disclosure requirements. The standard requires revenue earned from contracts to be apportioned to individual performance obligations within a contract, on a stand-alone selling price basis, based on a five-step model.

1 Principal accounting policies continued

Basis of preparation continued

Transition

The Group plans to adopt a modified retrospective transition approach and will recognise the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings at 1 December 2018, i.e. the date of initial application. Under this transition method:

- The standard will be applied only to contracts in progress but not completed at the date of initial application.
- For contracts that were modified before 1 December 2018, the Group will reflect the aggregate effect of all of the modifications that occur before this date at 1 December 2018.
- Prior year comparatives will not be restated for the effect of IFRS 15 but, instead, the 1 December 2018 opening retained earnings will be restated for the full cumulative impact of adopting this standard.
- For the year ended 30 November 2019 a reconciliation of the primary financial statements under IFRS 15 to those in accordance with IAS 18 and IAS 11 will be provided.

IFRS 15 project

The Group is making good progress in assessing the impact of this standard. Having performed an initial impact assessment, the Group is working on a comprehensive transition exercise at each of its subsidiaries. The transition exercise has involved scoping the Group's revenues to identify revenue streams with like commercial terms and performing sample contract reviews to determine the appropriate revenue recognition under IFRS 15. To ensure a consistent approach to the exercise and consistent judgements, the exercise has been supported from the Central team through setting the approach to the transition, engaging in the contract reviews and providing appropriate guidance, including determining revenue recognition accounting policies under the new standard.

The review and conclusion of this exercise is ongoing, including the final transition adjustment to retained earnings and the review by the Group's auditor.

Performance obligations

IFRS 15 requires that at contract inception, we assess the goods or services promised in a contract with a customer and identify as a performance obligation each distinct promise to transfer to the customer the good or service. Promises in a contract can be explicit, or implicit if the promises create a valid expectation to provide a good or service based on the customary business practices, published policies, or specific statements.

Financial impact

The following financial impacts were identified from our initial impact assessment and are being investigated as part of the transition exercise at each subsidiary:

- Uninstalled goods

  Currently, the cost incurred in relation to goods that have been ordered on a project but not installed at the accounting date are included in the cost-based input method used to determine the stage of completion relevant to the revenue recognised. Under IFRS 15, inputs that do not represent the entity's performance in transferring control of goods or services to the customer must be excluded from the input method calculation of the stage of completion. This means that revenue in relation to these goods may only be recognised at an amount equal to the cost incurred, where certain conditions are met, or may not be recognised at all. This will be the most significant impact of the IFRS 15 adoption on the Group in the first year and is likely to have a material impact on the opening balance adjustment.

- Timing of contract income

  Revenue and profits attributable to contracts are currently included in the Consolidated Income Statement as the contracts proceed in proportions relevant to their stage of completion. IFRS 15 requires that specific criteria are met in order to recognise revenue over time in relation to each performance obligation. Based on the review of specific contract terms against the requirements of IFRS 15 we expect that the criteria of IFRS 15 will be met in relation to most contracts and as such do not expect there to be material change in the timing or quantum of revenue recognition in relation to these arrangements.

1 Principal accounting policies continued

Basis of preparation continued

Financial impact continued

- Warranty arrangements

  Many of our companies have warranty arrangements with their customers. Having reviewed the details of the warranty arrangements, these have been determined to be both assurance and service type warranties. There is no material change in the accounting treatment required for assurance type warranties. In relation to the service type warranties, revenue is currently recognised in the year that the warranty is taken and a cost provision is made over the length of the warranty. Under IFRS 15, revenue will be deferred over the term of the warranty and there will be no cost provision. Whilst there will be some revenue deferral, we do not expect the change in accounting treatment to have a significant impact on results.

- Contract costs

  Currently, sales commissions and other third-party sales acquisition costs resulting directly from securing contracts with customers are expensed when incurred. Under IFRS 15, these costs are required to be recognised as an asset, and amortised over the period in which the corresponding benefit is received, resulting in deferral of these costs over the life of the contract, where this contract period is expected to be greater than one year in length. Having reviewed the nature of the existing arrangements, we do not currently expect this to have a material impact on the Group financial statements.

- Presentation and disclosure

  The presentation and disclosure requirements of IFRS 15 represent a significant change from current practice and will increase the volume of disclosures required in the notes to the financial statements.

- Other areas

  IFRS 15 will impact other areas but we do not expect the impact normally to be material. These include the accounting treatment for contract modifications, detailed guidance on determination of the customer and treatment in relation to combining contracts.

IFRS 9 'Financial Instruments'

IFRS 9, which will be adopted by the Group with effect from 1 December 2018, introduces new requirements for classification and measurement of financial assets and financial liabilities, impairment and hedge accounting. Management's assessment of the impact of IFRS 9 is ongoing. The key change to the Group is expected to be in relation to impairment.

The Group will apply the simplified version of the expected credit loss model for trade receivables and contract balances, which involves assessing lifetime expected credit losses on all balances. It is not practicable to provide a reasonable estimate of the impact of this at this stage.

IFRS 16 'Leases'

The Group will adopt IFRS 16 with effect from 1 December 2019. The standard eliminates the classification of leases as either operating or finance leases and introduces a single accounting model requiring lessees to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is twelve months or less.

Lessees will be required to recognise on the balance sheet "right-of-use" assets which represent the right to use underlying assets during the lease term and a lease liability representing the minimum lease payment for all leases. Depreciation of "right-of-use" assets and interest on lease liabilities will be charged to the Income Statement, replacing the corresponding operating lease rentals.

The Group will take the elections available under IFRS 16 not to apply the lease accounting model to leases which are considered low value or which have a term of less than twelve months.

The Group has continued to progress with its impact assessment; however, it is not currently practicable to provide a reasonable estimate of the impact of the standard at this stage.

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 6 to 35 and on pages 56 and 57.

As detailed in note 21, the Group has secured banking facilities in place which are used to meet the day-to-day working capital requirements. The Directors have considered the financial position of the Group at 30 November 2018 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.

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.

1 Principal accounting policies continued

Revenue continued

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.

1 Principal accounting policies continued

Taxation continued

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.

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 so as to facilitate comparison with prior periods and to assess the underlying trends in the financial performance of the Group.

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.

1 Principal accounting policies continued

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.

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 operating expenses in 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.

1 Principal accounting policies continued

Provisions continued

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 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.

1 Principal accounting policies continued

Critical accounting estimates and judgements continued

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.

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 15 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.

Provisions

Judgement is required in assessing the level of provisions required against assets, including slow-moving and potentially obsolete inventory and trade receivables, and for liabilities including onerous property obligations and warranties. The Directors use information available at the balance sheet date to determine the level of provisions required and consider whether further information received after the balance sheet date impacts these provisions.

Non-underlying items and prior period restatements

Judgement is required in determining which items, by virtue of their size, nature or incidence, should be separately identified and disclosed as non-underlying items. The Directors assess which items of a non-recurring nature detailed in the Group's internal management reporting are of sufficient significance as to warrant separate presentation to provide a better understanding of the trading performance of the Group. Where the Directors identify that non-underlying items impact on the results of previous years, judgement is required to determine whether the impact is sufficiently material to require the restatement of prior period figures.

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.

2 Segmental analysis continued

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	2018 £000	2017 £000
Systems	**48,923**	46,062
Integration & Managed Services	**24,249**	25,139
Total segmental revenue	**73,172**	71,201
Reconciliation to consolidated revenue:		
Intra-Group sales	**(1,923)**	(1,099)
	71,249	70,102

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

Underlying operating profit	2018 £000	2017 £000
Systems	**3,790**	4,238
Integration & Managed Services	**967**	994
Total segmental underlying operating profit	**4,757**	5,232
Reconciliation to consolidated underlying operating profit:		
Central costs	**(1,802)**	(2,083)
	2,955	3,149

Underlying operating profit 2018	Underlying operating profit[1] £000	UK mobile systems restructuring costs £000	Amortisation of acquired intangibles £000	Total profit from operations £000
Systems	**3,790**	**(701)**	**–**	**3,089**
Integration & Managed Services	**967**	**–**	**–**	**967**
Total segmental underlying operating profit	**4,757**	**(701)**	**–**	**4,056**
Reconciliation to consolidated underlying operating profit:				
Central costs	**(1,802)**	**–**	**(23)**	**(1,825)**
	2,955	**(701)**	**(23)**	**2,231**

Underlying operating profit 2017	Underlying operating profit[1] £000	UK mobile systems restructuring costs Restated £000	Amortisation of acquired intangibles £000	Total profit from operations Restated £000
Systems	4,238	(549)	–	3,689
Integration & Managed Services	994	–	–	994
Total segmental underlying operating profit	5,232	(549)	–	4,683
Reconciliation to consolidated underlying operating profit:				
Central costs	(2,083)	–	(23)	(2,106)
	3,149	(549)	(23)	2,577

1. Underlying operating profit represents operating profit before non-underlying items (UK mobile systems restructuring costs and stock write down and amortisation of acquired intangibles).

2 Segmental analysis continued

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	**2018 Net assets £000**
Systems	22,741	(10,676)	**12,065**
Integration & Managed Services	9,872	(9,330)	**542**
Total segmental net assets	32,613	(20,006)	**12,607**
Reconciliation to consolidated net assets:			
Goodwill	20,066	–	**20,066**
Cash and borrowings	8,114	–	**8,114**
Unallocated	492	(559)	**(67)**
	61,285	(20,565)	**40,720**

	Assets Restated £000	Liabilities Restated £000	2017 Net assets Restated £000
Systems	27,366	(12,351)	15,015
Integration & Managed Services	10,682	(9,723)	959
Total segmental net assets	38,048	(22,074)	15,974
Reconciliation to consolidated net assets:			
Goodwill	19,979	–	19,979
Cash and borrowings	4,721	(900)	3,821
Unallocated	920	(1,123)	(203)
	63,668	(24,097)	39,571

By geographical segment Geographical location of contract	**2018 Revenue £000**	**2018 Total assets £000**	**2018 Capital additions £000**	2017 Revenue £000	2017 Total assets Restated £000	2017 Capital additions £000
UK and Europe	**43,624**	**51,472**	**157**	46,934	49,364	197
North America	**10,923**	**3,204**	**186**	5,206	2,692	65
Middle East	**2,221**	**251**	**–**	3,046	2,069	–
Africa	**570**	**661**	**–**	723	874	–
Asia-Pacific	**13,911**	**5,697**	**83**	14,193	8,669	47
	71,249	**61,285**	**426**	70,102	63,668	309

3 Net operating expenses

	2018 £000	2017 £000
Distribution costs	**310**	246
Administrative expenses (before non-underlying items)	**20,662**	20,554
Non-underlying items (note 4)	**214**	23
Total administrative expenses	**20,876**	20,577
	21,186	20,823

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4 Non-underlying items

	2018 £000	2017 Restated £000
UK mobile systems restructuring costs (see below)	**701**	549
Amortisation of acquired intangible assets	**23**	23
	724	572

The restructuring costs incurred during the year relate to restructuring costs and a stock write down in the UK mobile systems business. In 2018 £0.5 million relates to the write down of stock (2017: £0.5 million (restated)) and £0.2 million (2017: £nil) relates to the severance costs incurred from the review of the cost base of this business. See note 5 for full details.

5 Restatement of primary statements for the year ended 30 November 2017

Due to the continued pressure on the UK on-vehicle sector, caused by a further significant decline in new bus registrations, combined with the lost renewal of a long-term installation and support contract with a major customer, management has performed a review of the business and its cost base. This review flagged some inappropriate procedures within this business, resulting in the re-assessment of the value of the stock used in on-vehicle activities and their accounting treatment. The re-evaluation of stock has led to a significant one-off write down and management has determined that an element of the write down should have been included in the results of previous years.

It was determined by the Board of Directors that adjustments should be made to restate the results for the year ended 30 November 2017 to reflect the actual position and performance of the Group for that year. A third Statement of Financial Position has also been presented, at 30 November 2016, in order to reflect the restated opening position.

The adjustments to the financial statements for the year ended 30 November 2017 are as follows:

1. Exceptional write down of inventory relating to UK on-vehicle of £549,000.

2. Exceptional tax credit in relation to the write down of inventory of £98,000.

The adjustments to the financial statements for the years ended on or before 30 November 2016 are as follows:

1. Exceptional write down of inventory relating to UK on-vehicle of £732,000.

Extract from restated Consolidated Income Statement for the year ended 30 November 2017

	As previously stated		Adjustment	Restated
	Before exceptional items £000	Non-underlying items (note 4) £000	Non-underlying items (note 4) £000	Total £000
Revenue	70,102	–	–	**70,102**
Gross profit	23,949	–	(549)	**23,400**
Profit from operations	3,149	(23)	(549)	**2,577**
Profit before tax	3,019	(23)	(549)	**2,447**
Income tax expense	(451)	8	98	**(345)**
Profit for the year attributable to equity holders of the Parent	2,568	(15)	(451)	**2,102**
Basic earnings per share	15.6p	15.5p	(2.7)p	**12.8p**
Diluted earnings per share	15.2p	15.1p	(2.7)p	**12.4p**

Extract from restated Consolidated Statement of Financial Position for the year ended 30 November 2016

	As previously stated £000	Adjustment £000	Restated £000
Current assets			
Inventories	9,997	(732)	**9,265**
Total assets	66,815	(732)	**66,083**
Net assets	39,581	(732)	**38,849**
Total equity	39,581	(732)	**38,849**

5 Restatement of primary statements for the year ended 30 November 2017 continued

Extract from restated Consolidated Statement of Financial Position for the year ended 30 November 2017

	As previously stated £000	2016 Adjustment £000	2017 Adjustment £000	2017 Adjustment £000	Restated £000
Non-current assets					
Deferred tax assets	159	–	–	62	**221**
Current assets					
Inventories	10,739	(732)	(549)	–	**9,458**
Total assets	64,887	(732)	(549)	62	**63,668**
Current liabilities					
Tax liabilities	(328)	–	–	36	**(292)**
Total liabilities	(24,133)	–	–	36	**(24,097)**
Net assets	40,754	(732)	(549)	98	**39,571**
Total equity	40,754	(732)	(549)	98	**39,571**

6 Auditor's remuneration

	2018 £000	2017 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**55**	37
Fees payable to the Company's auditor for other services to the Group:		
– the audit of the Company's subsidiaries pursuant to legislation	**99**	112
– tax compliance services	**2**	8
– other services	**42**	9
	198	166

7 Profit from operations

	2018 £000	2017 Restated £000
Profit from operations is stated after charging:		
Amortisation of intangible assets	**873**	1,090
Depreciation of property, plant and equipment	**505**	564
Net foreign exchange losses/(gains)	**96**	(105)
Write down of inventories recognised as an expense	**1,179**	549
Cost of inventories recognised as an expense	**34,799**	33,836
Research & development costs	**2,607**	2,186
Rental payments under operating leases:		
– plant, machinery and vehicles	**717**	743
– other	**792**	959

8 Staff costs and Directors' remuneration

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

	2018 Number	2017 Number
Reportable segment (see note 2)		
Systems	**275**	270
Integration & Managed Services	**147**	182
Central	**14**	13
	436	465

8 Staff costs and Directors' remuneration continued

	2018 £000	2017 £000
Staff costs		
Wages and salaries	**17,019**	17,550
Social security costs	**1,768**	1,769
Pension costs	**1,009**	635
Share-based payment charge (note 25)	**66**	111
	19,862	20,065

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 50. Details of the remuneration for key management personnel are set out in note 27.

9 Finance income

	2018 £000	2017 £000
Interest income on pension scheme assets	**167**	183

10 Finance costs

	2018 £000	2017 £000
Interest payable on bank overdrafts	**85**	112
Interest payable on bank loans	**22**	37
Interest on pension scheme liabilities	**159**	164
	266	313

11 Taxation

Tax charge	2018 £000	2017 Restated £000
Current taxation		
UK tax	**14**	–
Overseas tax	**567**	344
Adjustments in respect of prior periods	**(62)**	(60)
Total current tax	**519**	284
Deferred taxation		
Origination and reversal of temporary differences	**174**	223
Adjustments in respect of prior periods	**(96)**	(162)
Total deferred tax	**78**	61
Total tax charge for the year	**597**	345
Further analysed as tax relating to:		
Underlying profit	**738**	451
Non-underlying items	**(141)**	(106)

11 Taxation continued

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% (2017: 19.33%). The differences are explained below:

	2018 £000	2017 Restated £000
Profit on ordinary activities before tax	**2,132**	2,447
Tax on profit on ordinary activities before tax at standard rate of 19% (2017: 19.33%)	**405**	473
Effects of:		
Expenses not deductible for tax purposes	**55**	60
Net effect of different rates of tax in overseas businesses	**(20)**	(106)
Tax losses not recognised	**244**	146
Net permanent differences	**(60)**	–
Effect of changes in tax rates and tax laws	**131**	(6)
Adjustment in respect of prior periods	**(158)**	(222)
Total tax charge for the year	**597**	345

The Group's tax rate is sensitive to a geographic mix of profits and reflects a combination of higher rates in the US and lower rates in Singapore and Macau. The Group's effective tax rate in 2018 has been impacted by the change in tax rates in the US, due to the significant US tax reform, tax losses not recognised in relation to legal entities which have suffered a tax loss and the truing up of tax provisions booked in the previous years. Over the medium term, the effective tax rate is expected to decrease 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 2016	(187)	(81)	(137)	419	14
Credited/(charged) to the Income Statement	92	(48)	–	(105)	(61)
Credited to the Statement of Comprehensive Income	–	–	88	–	88
Currency translation adjustment	(1)	20	–	–	19
At 30 November 2017 (restated, see note 5)	(96)	(109)	(49)	314	60
(Charged)/credited to the Income Statement	(71)	(223)	–	216	(78)
Credited to the Statement of Comprehensive Income	–	–	18	–	18
Currency translation adjustment	(1)	16	–	(2)	13
At 30 November 2018	**(168)**	**(316)**	**(31)**	**528**	**13**

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 2016 financial year. Accordingly deferred tax has been provided for at the rate at which it is expected to be settled.

Deferred tax assets of £0.5 million (2017: £0.3 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 £5.0 million (2017: £4.8 million). No deferred tax asset (2017: £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 (2017: £17.8 million) available for offset against future taxable gains. No deferred tax asset in respect of these losses has been recognised in these financial statements as there is insufficient certainty that the asset will be recovered against future capital gains.

12 Dividends

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

	2018		2017	
	Pence per share	**£000**	Pence per share	£000
Final dividend paid in respect of prior year but not recognised as a liability in that year	**3.0**	**506**	2.0	340
Interim dividend paid in respect of current year	**1.2**	**205**	1.0	170
	4.2	**711**	3.0	510
Total dividend paid, net of treasury share dividends	**–**	**699**	–	498
Proposed final dividend for the year ended 30 November	**3.5**	**597**	3.0	506

The proposed final dividend for the year ended 30 November 2018 has not yet been approved by shareholders and as such has not been included as a liability as at 30 November 2018. Subject to approval, this is expected to be paid on 7 May 2019 to shareholders on the register as at close of business on 5 April 2019. This will give a total dividend for the year of 4.7p per share (2017: 4.0p per share).

13 Earnings per share

	2018 Pence per share	2017 Restated Pence per share
Basic earnings per share	**9.2**	12.8
Diluted earnings per share	**9.1**	12.4
Underlying basic earnings per share	**12.7**	15.6
Underlying diluted earnings per share	**12.6**	15.2

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.

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

	2018 £000	2017 Restated £000
Earnings for basic and diluted earnings per share	**1,535**	2,102
Non-underlying items	**724**	572
Impact of non-underlying items on tax charge for the year	**(141)**	(106)
Earnings for underlying basic and underlying diluted earnings per share	**2,118**	2,568

	2018 000	2017 000
Weighted average number of ordinary shares – basic calculation	**16,643**	16,480
Dilutive potential ordinary shares arising from share options	**221**	466
Weighted average number of ordinary shares – diluted calculation	**16,864**	16,946

14 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 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
Additions	–	56	370	426
Disposals	(2)	–	(1,320)	(1,322)
Currency translation adjustment	–	8	71	79
At 30 November 2018	**1,698**	**1,415**	**3,718**	**6,831**
Depreciation				
At 1 December 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
Charge for the year	34	69	402	505
Disposals	(2)	–	(1,311)	(1,313)
Currency translation adjustment	–	5	54	59
At 30 November 2018	**157**	**996**	**2,950**	**4,103**
Net book value				
At 30 November 2018	**1,541**	**419**	**768**	**2,728**
At 30 November 2017	1,575	429	792	2,796

15 Intangible assets

	Goodwill £000	Acquired intangibles £000	Capitalised development costs £000	Purchased software £000	Total £000
Cost					
At 1 December 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
Additions	–	–	461	68	529
Disposals	–	–	(50)	(16)	(66)
Currency translation adjustment	210	6	3	2	221
At 30 November 2018	**24,724**	**765**	**7,811**	**1,900**	**35,200**
Amortisation and impairment					
At 1 December 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
Charge for the year	–	23	652	198	873
Disposals	–	–	(46)	(16)	(62)
Currency translation adjustment	123	6	3	2	134
At 30 November 2018	**4,658**	**703**	**6,670**	**1,681**	**13,712**
Net book value					
At 30 November 2018	**20,066**	**62**	**1,141**	**219**	**21,488**
At 30 November 2017	19,979	85	1,336	349	21,749

15 Intangible assets continued

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:

	2018 £000	2017 £000
Systems	15,486	15,399
Integration & Managed Services	4,580	4,580
	20,066	19,979

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 8.5 (2017: 9) times multiple; and
- pre-tax discount rates as follows:

	2018 %	2017 %
Systems	15.0	13.1
Integration & Managed Services	12.9	12.9

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 potential impact of Brexit has been factored into the increase in the Systems discount rate.

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 the 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 (2017: no impairment).

16 Inventories

	2018 £000	2017 Restated £000
Raw materials and consumables	3,424	4,257
Work in progress	296	460
Finished goods for resale	3,912	4,741
	7,632	9,458

The cost of inventories recognised as an expense during the year was £36.0 million (2017: £34.4 million).

The cost of inventories recognised as an expense includes £1.2 million (2017: £0.5 million (restated)) in respect of write downs of inventory to net realisable value.

17 Contracts

	2018 £000	2017 £000
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in trade and other receivables	**8,654**	9,344
Amounts due to contract customers included in trade and other payables	**(3,001)**	(4,043)
	5,653	5,301

	2018 £000	2017 £000
Contract costs incurred plus recognised profits to date	**33,924**	33,047
Less: progress billings	**(28,271)**	(27,746)
	5,653	5,301

18 Trade and other receivables

	2018 £000	2017 £000
Trade receivables	**10,594**	13,864
Allowance for doubtful debts	**(312)**	(271)
	10,282	13,593
Amounts recoverable on contracts	**8,654**	9,344
Other receivables	**693**	617
Prepayments	**766**	864
	20,395	24,418

Trade receivables are non-interest bearing and generally have 30 to 90-day terms. At 30 November 2018 the Group had 52 days' sales outstanding in trade receivables (2017: 53 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

	2018 £000	2017 £000
At 1 December	**271**	144
Provided for in the year	**54**	179
Amounts utilised in the year	**(13)**	(52)
At 30 November	**312**	271

As at 30 November 2018, trade receivables of £3,913,000 (2017: £3,670,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2018 £000	2017 £000
Up to three months past due	**3,037**	2,742
Three to six months past due	**650**	208
Over six months past due	**226**	720
	3,913	3,670

19 Cash and cash equivalents

	2018 £000	2017 £000
Cash at bank and in hand	**8,114**	4,721

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

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

20 Trade and other payables

	2018 £000	2017 £000
Trade payables	**7,249**	8,140
Other taxation and social security	**776**	1,218
Other payables	**295**	367
Accruals	**8,003**	8,725
Deferred income	**3,001**	4,043
	19,324	22,493

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

21 Loans and borrowings

	2018			2017		
	Current £000	**Non-current £000**	**Total £000**	Current £000	Non-current £000	Total £000
Bank term loans	–	–	–	900	–	900
Bank overdraft	–	–	–	–	–	–
Total	–	–	–	900	–	900

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	–	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 £900,000 balance of the term loan was repaid in full.

Loans and borrowings, excluding bank overdrafts, comprise the liabilities included in the financing activities section of the Consolidated Cash Flow Statement. Their movements are analysed as follows:

	At 1 December 2017 £000	Cash flows £000	**At 30 November 2018 £000**
Bank term loan	900	(900)	–

22 Provisions

	Restructuring £000	Property £000	Total £000
At 1 December 2016	275	379	654
Utilised in the year	(275)	(185)	(460)
Charged to the Income Statement	–	57	57
At 30 November 2017	–	251	251
Utilised in the year	(191)	(125)	(316)
Charged to the Income Statement	191	2	193
At 30 November 2018	**–**	**128**	**128**

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

	2018 £000	2017 £000
Current	**121**	149
Non-current	**7**	102
	128	251

The Group has certain 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 2018 will be utilised within a year.

23 Called up share capital and reserves

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

	2018		2017	
	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 1,051,265 shares (2017: 1,263,351) held under the Group Executive Shared Ownership Plan ('ExSOP') at 30 November 2018 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 £2,471,149 (2017: £2,908,332) has been deducted from other reserves. The nominal value of these shares is £210,253 (2017: £252,670).

24 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.

24 Options over shares of Synectics plc continued

Quadnetics Employees' Share Acquisition Plan continued

The scheme holds 63,535 (2017: 76,625) ordinary shares at 30 November 2018, 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	2018 Number of shares	2017 Number of shares
14 October 2010	Partnership	15 October 2015	147.5p	**1,297**	2,514
7 April 2011	Partnership	8 April 2016	177.5p	**1,787**	3,306
25 July 2011	Dividend	26 July 2014	200.0p	**25**	50
2 November 2011	Partnership	3 November 2016	185.5p	**1,718**	3,013
2 November 2011	Dividend	3 November 2014	205.0p	**36**	68
20 April 2012	Partnership	21 April 2017	200.0p	**1,590**	2,640
17 May 2012	Dividend	18 May 2015	289.0p	**76**	140
9 October 2012	Partnership	10 October 2017	272.5p	**1,199**	1,969
9 October 2012	Dividend	10 October 2015	272.5p	**58**	104
3 April 2013	Partnership	4 April 2018	282.5p	**1,220**	2,229
8 May 2013	Dividend	9 May 2016	445.0p	**87**	154
4 October 2013	Dividend	5 October 2016	488.0p	**55**	97
14 October 2013	Partnership	15 October 2018	393.0p	**1,223**	1,978
4 April 2014	Partnership	5 April 2019	404.0p	**1,195**	1,930
7 May 2014	Dividend	8 May 2017	430.0p	**126**	223
2 October 2014	Partnership	3 October 2019	350.0p	**2,356**	3,205
17 April 2015	Partnership	18 April 2020	153.0p	**5,675**	6,954
22 October 2015	Partnership	23 October 2020	123.5p	**7,559**	10,570
29 April 2016	Partnership	30 April 2021	162.0p	**5,938**	8,728
6 May 2016	Dividend	7 May 2019	154.0p	**208**	288
20 October 2016	Partnership	21 October 2021	154.0p	**6,850**	10,413
27 April 2017	Partnership	28 April 2022	212.5p	**4,863**	7,445
24 May 2017	Dividend	25 May 2020	223.0p	**382**	545
13 October 2017	Dividend	14 October 2020	285.0p	**166**	239
27 October 2017	Partnership	28 October 2022	210.0p	**5,256**	7,823
25 April 2018	Partnership	26 April 2023	185.0p	**5,576**	–
10 August 2018	Dividend	11 August 2021	207.0p	**785**	–
26 October 2018	Partnership	27 October 2023	190.0p	**5,858**	–
26 November 2018	Dividend	27 November 2021	192.0p	**371**	–
Shares held at the end of the year				**63,535**	76,625

At 30 November 2018 the shares held by the ESAP had a market value of £120,717 (2017: £166,659).

Movements during the year were as follows:

	Number of shares
Shares held at 1 December 2017	76,625
Shares acquired during the year	15,148
Withdrawals from the scheme during the year	(28,238)
Shares held at 30 November 2018	**63,535**

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.

24 Options over shares of Synectics plc continued

Quadnetics Executive Shared Ownership Plan continued

ExSOP shares outstanding at 30 November 2018 are exercisable as follows:

Date awarded	Exercise dates	Relevant share price at date of award	2018 Number of shares	2017 Number of shares
7 July 2009	8 July 2012 onwards	147.5p	**206,743**	216,743
7 March 2011	8 March 2014 onwards	178.0p	**108,000**	117,400
Balance of shares in respect of leavers			**736,522**	929,208
			1,051,265	1,263,351

Movements during the year were as follows:

	Number of shares
Shares held at 1 December 2017	1,263,351
Vested shares sold or transferred in the year	(212,086)
Shares held at 30 November 2018	**1,051,265**

Dividends have been waived in respect of the 736,522 (2017: 929,208) 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 2018 are exercisable as follows:

Date awarded	Exercise dates	Relevant share price at date of award	2018 Number of shares	2017 Number of shares
30 March 2015	30 March 2018 onwards	125.0p	**42,300**	252,000
1 March 2016	1 March 2019 onwards	117.5p	**114,500**	145,000
1 March 2017	1 March 2020 onwards	225.0p	**66,000**	82,500
28 March 2018	28 March 2021 onwards	181.6p	**30,000**	–
			252,800	479,500

Nil (2017: 14,000) options under the PSP expired during the year.

25 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 2015 awards	March 2016 awards	March 2017 awards	**March 2018 awards**
Number of share options awarded	335,000	155,000	88,500	**30,000**
Exercise price	nil	nil	nil	**nil**
Share price on date of award	£1.25	£1.175	£2.25	**£1.816**
Expected volatility	30%	30%	30%	**35%**
Expected dividend yield	4.0%	3.0%	3.0%	**3.5%**
Risk-free interest rate	1.8%	1.8%	1.4%	**1.6%**
Vesting period	3 years	3 years	3 years	**3 years**
Expected life of option	5 years	5 years	5 years	**4 years**

The weighted average fair value of options granted during 2018 is £1.58 (2017: £1.94).

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:

	2018 £000	2017 £000
Equity-settled share-based payments	**66**	111

26 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 £0.3 million at 30 November 2018 (2017: £0.4 million).

27 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$4,320 for provision of accommodation to an external consultant engaged by the company (2017: S$2,640).

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 (2017: S$78,150).

Transactions with key management personnel are as follows:

	2018 £000	2017 £000
Salary and fees	**547**	557
Bonuses	**18**	126
Benefits	**40**	46
PSP awards	**132**	–
Total short-term remuneration	**737**	729
Post-employment benefits	**36**	34
Share-based payments	**21**	31
	794	794

28 Capital commitments

At the year end capital commitments not provided for in these financial statements amounted to £170,000 (2017: £nil).

29 Operating lease commitments

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

	2018 £000	2017 £000
Within one year	**1,441**	1,618
Within two to five years	**2,394**	3,361
In excess of five years	**313**	428
	4,148	5,407

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

30 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 2018. The major assumptions used by the actuary are shown below.

The Group has paid contributions of £1,000 (2017: £1,000) 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 93.

Net defined benefit asset

	2018 £000	2017 £000
Fair value of scheme assets	**6,272**	6,812
Present value of scheme liabilities	**(6,090)**	(6,523)
Net defined benefit asset recognised in the Statement of Financial Position	**182**	289
Associated deferred tax liability	**(31)**	(49)

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

	2018 £000	2017 £000
Defined benefit obligations at the start of the year	**6,523**	5,986
Interest cost	**159**	164
Remeasurements:		
– losses due to scheme experience	**6**	523
– gains due to changes in demographic assumptions	**(81)**	(68)
– (gains)/losses due to financial assumptions	**(220)**	228
Benefits paid	**(297)**	(310)
Defined benefit obligations at the end of the year	**6,090**	6,523

30 Pension commitments continued

a) Defined benefit scheme continued

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

	2018 £000	2017 £000
Fair value of plan assets at the start of the year	**6,812**	6,706
Interest income	**167**	183
Return on plan assets, excluding amounts recognised in interest income	**(411)**	232
Contributions by the Company	**1**	1
Benefits paid	**(297)**	(310)
Fair value of plan assets at the end of the year	**6,272**	6,812

Assets

	2018 Fair value of plan assets £000	2017 Fair value of plan assets £000	2016 Fair value of plan assets £000
UK equities	**20**	22	17
Overseas equities	**–**	–	–
Government bonds	**1,100**	1,194	1,151
Corporate bonds	**5,121**	5,557	5,497
Cash	**31**	39	41
Total assets	**6,272**	6,812	6,706

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 2018, the fair value of the assets shown above include holdings of £19,523 (2017: £22,348) 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 2018 was a loss of £(244,000) (2017 profit: £415,000).

Principal actuarial assumptions

	2018 % per annum	2017 % per annum	2016 % per annum
Inflation	**3.50**	3.40	3.50
Inflation (CPI)	**2.60**	2.50	2.60
Rate of discount	**2.80**	2.50	2.80
Allowance for revaluation of deferred pensions of CPI or 5% pa if less	**2.60**	2.50	2.60

The mortality assumptions adopted at 30 November 2018 imply the following life expectancies at age 65:

	2018 Years	2017 Years
Male currently age 45	**22.8**	23.5
Female currently age 45	**24.9**	25.4
Male currently age 65	**21.8**	22.1
Female currently age 65	**23.7**	23.9

30 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 2018 is twelve years (2017: twelve 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 4.2%

The Company estimates that no additional contributions will be paid to the plan during the year ending 30 November 2019.

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 (2017: £nil).

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 £1,009,000 (2017: £635,000).

31 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 19), loans and borrowings on fixed terms (note 21), bank overdrafts (note 21) and equity attributable to equity holders of the Parent, comprising issued share capital (note 23), 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. 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. At 30 November 2018 the Group had the following commitments in respect of forward exchange contracts:

	2018		2017	
	$000	**Average rate $:£**	$000	Average rate $:£
Forward sales	**–**	**–**	–	–
Forward purchases	**99**	**1.29**	–	–

The fair value of these forward exchange contracts is not considered to be material. Hedge accounting has not been applied.

At 30 November 2018, certain subsidiaries within the Group had the following forecast foreign currency transactions during the next two years which have not been hedged. This is due to the following: the amounts relate to intercompany transactions whereby payment and receipts will be closely matched, natural hedges on external transactions are available of receipts against payments or there is significant uncertainty over the timing of the transactions:

	2018		2017	
	€000	**$000**	€000	$000
Receipts	**240**	**18,100**	550	4,250
Payments	**(1,320)**	**(15,955)**	(1,160)	(4,865)

31 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 (2.9)% (2017: (0.6)%) of the Group's net assets as follows:

Functional currency of entity	2018 %	2017 %
United States dollars	**8.9**	9.0
Euros	**(11.8)**	(9.6)
Total	**(2.9)**	(0.6)

Translation exposure in respect of these assets is not hedged.

At 30 November 2018 the Group held foreign currency cash balances of $1,024,000 (2017: $2,818,000) and S$489,000 (2017: S$161,000).

The following table details the Group's sensitivity to a 10% fall in the relevant foreign currencies:

	USD impact		Euro impact	
	2018 £000	2017 £000	**2018 £000**	2017 £000
Profit/(loss)	**384**	208	**(61)**	(32)
Other equity	**786**	645	**(327)**	(195)
Total	**1,170**	853	**(388)**	(227)

The table below shows the extent to which the Group had significant monetary assets and liabilities in currencies other than the functional 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.

	2018		2017	
	Sterling £000	**USD £000**	Sterling £000	USD £000
Sterling	**–**	**180**	–	525
US dollars	**(991)**	**–**	(424)	–
Euros	**(43)**	**–**	(40)	–
Singapore dollars	**–**	**73**	–	2
Total	**(1,034)**	**253**	(464)	527

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.

31 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:

	2018 £000	2017 £000
Current accounts (note 19)	**8,114**	4,721
Loans and borrowings (note 21)	–	(900)
	8,114	3,821

The level of the Group's bank overdraft facilities is reviewed annually, and at 30 November 2018 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 (2017: 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 0.50% from 1 December 2017 to 2 August 2018 and 0.75% from 2 August 2018 to the end of the year (2017: 0.25% to 2 November 2017 and 0.50% from 2 November 2017 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 on page 94/opposite.

Interest rates charged for the bank overdraft and term loan are set out in note 21.

The Group's funding position did not carry any significant interest rate risk at 30 November 2018 or 30 November 2017.

A 0.5% rise or fall in interest rates would not have a material impact on the results of the Group.

32 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 2018

	2018 £000	2017 £000
Profit for the year	**2,666**	5,666
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement loss on defined benefit pension scheme, net of tax	**(97)**	(363)
	(97)	(363)
Total comprehensive income for the year	**2,569**	5,303

Company statement of changes in equity
For the year ended 30 November 2018

	Called up share capital £000	Share premium account £000	Merger reserve £000	Other reserves £000	Retained earnings £000	Total £000
At 1 December 2016	3,559	16,043	9,971	(1,393)	6,976	35,156
Profit for the year	–	–	–	–	5,666	5,666
Other comprehensive loss						
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
Profit for the year	–	–	–	–	2,666	2,666
Other comprehensive loss						
Remeasurement loss on defined benefit pension scheme, net of tax	–	–	–	–	(97)	(97)
Total other comprehensive loss	–	–	–	–	(97)	(97)
Total comprehensive income for the year	–	–	–	–	2,569	2,569
Dividends paid	–	–	–	–	(699)	(699)
Credit in relation to share-based payments	–	–	–	–	66	66
Share scheme interests realised in the year	–	–	–	475	(442)	33
At 30 November 2018	**3,559**	**16,043**	**9,971**	**(913)**	**13,386**	**42,046**

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Company statement of financial position

As at 30 November 2018

	Note	2018 £000	2017 £000
Non-current assets			
Plant and equipment	5	**108**	175
Intangible assets	6	**71**	52
Investments in subsidiary undertakings	7	**19,630**	19,583
Retirement benefit asset	16	**182**	289
		19,991	20,099
Current assets			
Other receivables	8	**29,794**	30,928
Deferred tax assets		**9**	–
		29,803	30,928
Total assets		**49,794**	51,027
Current liabilities			
Loans and borrowings	9	**(645)**	(3,769)
Trade and other payables	10	**(7,093)**	(7,136)
Tax liabilities		**(6)**	(32)
Provisions	11	**(4)**	–
		(7,748)	(10,937)
Non-current liabilities			
Provisions	11	**–**	(2)
Deferred tax liabilities	11	**–**	(11)
		–	(13)
Total liabilities		**(7,748)**	(10,950)
Net assets		**42,046**	40,077
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		**(913)**	(1,388)
Retained earnings		**13,386**	11,892
Total equity		**42,046**	40,077

The financial statements on pages 96 to 104 were approved and authorised for issue by the Board of Directors on 26 February 2019 and were signed on its behalf by:

Paul Webb
Director

Simon Beswick
Director

Company number: 1740011

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 £2.7 million (2017: £5.7 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 54 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 25 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	70
Pension schemes	71
Dividends	72
Loans and borrowings	74

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.

1 Company accounting policies continued

Significant estimates continued

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 15 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 £55,000 (2017: £37,000).

3 Directors and employees

The remuneration of the Directors is set out below:

Directors' emoluments	2018 £000	2017 £000
Salaries, bonuses and benefits	**550**	523
Pension allowance*	**36**	34
	586	557

* Pension allowance includes both contributions to the Group's defined contribution pension scheme and cash payments in lieu of contributions.

Detailed information on the emoluments, pensions, option holdings and shareholdings for each Director is shown in the Remuneration Committee Report on pages 48 to 51.

The average number of persons (including Executive Directors) employed by the Company during the year was 14 (2017: 13).

4 Dividends

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

	2018		2017	
	Pence per share	£000	Pence per share	£000
Final dividend paid in respect of prior year but not recognised as a liability in that year	**3.0**	**506**	2.0	340
Interim dividend paid in respect of current year	**1.2**	**205**	1.0	170
	4.2	**711**	3.0	510
Total dividend paid, net of treasury share dividends	**–**	**699**	–	498
Proposed final dividend for the year ended 30 November	**3.5**	**597**	3.0	506

The proposed final dividend for the year ended 30 November 2018 has not yet been approved by shareholders and as such has not been included as a liability as at 30 November 2018. Subject to approval, this is expected to be paid on 7 May 2019 to shareholders on the register at 5 April 2019. This will give a total dividend for the year of 4.7p per share (2017: 4.0p per share).

5 Plant and equipment

	£000
Cost	
At 1 December 2017	549
Additions	26
At 30 November 2018	**575**
Depreciation	
At 1 December 2017	374
Charge for the year	93
At 30 November 2018	**467**
Net book value	
At 30 November 2018	**108**
At 30 November 2017	175

6 Intangible assets

	£000
Cost	
At 1 December 2017	223
Additions	62
At 30 November 2018	**285**
Amortisation	
At 1 December 2017	171
Charge for the year	43
At 30 November 2018	**214**
Net book value	
At 30 November 2018	**71**
At 30 November 2017	52

7 Investments in subsidiary undertakings

	£000
Cost	
At 1 December 2017	27,765
Share-based payments capital contribution	47
At 30 November 2018	**27,812**
Provision for impairment at 1 December 2017 and 30 November 2018	(8,182)
Net book value	
At 30 November 2018	**19,630**
At 30 November 2017	19,583

Details of the Company's subsidiaries at 30 November 2018 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
QSG Limited	5	UK	Ordinary shares	100%	Dormant
Quadnetics Employees' Trustees Limited	5	UK	Ordinary shares	100%	Dormant

Financial statements

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
Directly held by Synectics plc continued					
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
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. 6398 Cindy Lane, Suite 200, Carpinteria, California, 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

	2018 £000	2017 £000
Other receivables	**285**	302
Amounts due from subsidiaries	**29,405**	30,542
Prepayments	**104**	84
	29,794	30,928

9 Loans and borrowings

	2018			2017		
	Current £000	**Non-current £000**	**Total £000**	Current £000	Non-current £000	Total £000
Bank term loan	–	–	–	900	–	900
Bank overdraft	**645**	–	**645**	2,869	–	2,869
Total	**645**	–	**645**	3,769	–	3,769

Loans and borrowings comprise the Company's 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
£8.0 million overdraft	645	On demand	Base +2.0%	Group assets

During the year the remaining £0.9 million balance of the sterling term loan was repaid in full.

The bank overdrafts are part of a Group offset arrangement.

10 Trade and other payables

	2018 £000	2017 £000
Trade payables	**234**	268
Amounts owed to subsidiaries	**6,643**	6,617
Other taxation and social security	**54**	40
Other payables	**11**	7
Accruals	**151**	204
	7,093	7,136

11 Provisions

	Restructuring £000	Deferred tax £000	Property £000	Total £000
At 1 December 2017	–	11	2	13
Utilised in the year	–	–	–	–
Charged to the Income Statement	–	(6)	2	(4)
Charged to the Statement of Comprehensive Income	–	(14)	–	(14)
At 30 November 2018	**–**	**(9)**	**4**	**(5)**

The deferred taxation balances relate to the following:

	2018 £000	2017 £000
Retirement benefit asset	**31**	49
Fixed asset timing differences	**(58)**	(55)
Other timing differences	**44**	41
Tax losses	**(26)**	(24)
	(9)	11

12 Called up share capital and reserves

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

	2018		2017	
	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 £0.3 million at 30 November 2018 (2017: £0.4 million).

14 Capital commitments

At 30 November 2018 capital commitments not provided for in these financial statements amounted to £nil (2017: £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:

	2018 £000	2017 £000
Within one year	**36**	46
Within two to five years	**7**	48
	43	94

16 Pension commitments

The Company participates in all of the Group's pension schemes. Full disclosures relating to these schemes are given in note 30 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 (2017: £nil).

In addition, the Company's total expense for other defined contribution pension schemes during the year was £56,000 (2017: £60,000).

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.

	2018 £000	2017 £000
Fair value of scheme assets	**6,272**	6,812
Present value of scheme liabilities	**(6,090)**	(6,523)
Net defined benefit asset recognised in the Statement of Financial Position	**182**	289
Associated deferred tax liability	**(31)**	(49)

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.

Principal subsidiaries

The principal subsidiaries and divisions within the Group during the year were as follows:

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

6398 Cindy Lane, Suite 200
Carpinteria
California
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 Nacional
P14-04
Macau
Tel: +853 2855 5178

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

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Rhodes Way
Radlett Road
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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

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Birmingham B3 3SF

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London EC2V 7AN

Auditor

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St Philips Point
Temple Row
Birmingham B2 5AF

Registrars and transfer office

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