

# PLEXUS



safer performance | gas-proof | reduced costs



## ANNUAL REPORT 2018

# POS-GRIP®

## PROPRIETARY METHOD OF FRICTION GRIP ENGINEERING

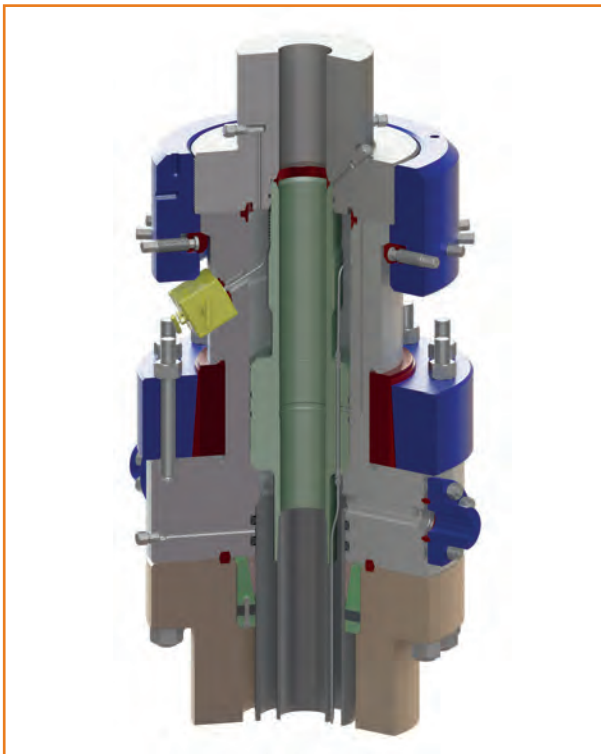
POS-GRIP friction-grip technology is based on a very simple concept. A compressive force is applied on the outside of a wellhead or pipe, to flex it inwards. As the bore of the vessel moves inwards, it makes contact with an inner pipe (or hanger) on the inside. Sufficient contact force is generated to fix the inner member (hanger) in place through friction between the two components.

In wellheads, POS-GRIP can replace the conventional load shoulder or slips to provide an improved hanger support mechanism.

Utilising our patented POS-GRIP technology, we are continually developing new wellhead equipment to meet our customers' requirements, delivering solutions for the surface, subsea and decommissioning markets.



**POS-SET Connector recently deployed for a well decommissioning project**



**A potential low cost application of POS-GRIP in an "HG" Tubing Head**

## POS-GRIP APPLICATIONS

### Wellheads

Production wellheads and surface subsea have all benefitted from POS-GRIP. Casing and tubing hangers can be gripped, but POS-GRIP can also be used to support wearbushings, BOP test tools and seal sleeves.

### Connectors

POS-GRIP is ideal for high integrity, low fatigue connector applications. Wellhead connectors, riser connectors, subsea jumper connectors, pipeline connectors, and even vessel mooring connectors can benefit from the simplicity of POS-GRIP.

### Metal-to-metal sealing

Wellheads and connectors can both benefit from the direct contact created when the POS-GRIP metal to metal HG® seal is activated, delivering an unrivalled gas-proof seal.

## Financial Results

- Following the completion on 1 February 2018 of the sale of Plexus' wellhead exploration equipment services business for jack-up applications ('the Jack-up Business') to FMC Technologies Limited ('TFMC'), a subsidiary of one of the leading oil and gas service and equipment companies TechnipFMC (Paris:FTI) (NYSE:FTI), the year-end results and comparative prior year period have been reported as required on a continuing and a discontinued operations basis.
- Continuing operations sales revenue £318k (2017: £225k)
  - Discontinued operations sales revenue £3,907k (2017: £4,524k)
- Adjusted EBITDA on continuing activities (£3.74m) loss (2017: £3.58m loss)
- Continuing operations operating loss £5,285k (2017: £5,275k)
  - Discontinued operations operating loss £1,593k (2017: £1,757k)
- Continuing operations operating loss after tax £4,694k (2017: £4,278k)
  - Discontinued operations profit after tax £4,322k (2017: £1,424k loss)
- Basic loss per share from continuing activities 4.45p (2017: 4.06p loss)
  - Basic earnings per share from discontinued activities 4.10p (2017: 1.35p loss)
- Net cash of £12.9m (2017: net cash £6.5m)
- The Group has £2.12m in financial assets, namely high-yield bonds (2017: nil).
- Whilst the Company remains committed to distributing dividends to its shareholders, the Directors believe that it is prudent to continue the suspension of the payment of dividends.

## Overview and Corporate Highlights

- Transformational sale for up to £42.5m, less certain adjustments of Plexus' wellhead exploration and equipment services business for Jack-up rigs and a Collaboration Agreement signed with TFMC, a subsidiary of top tier industry supplier TechnipFMC.
  - Represents major industry recognition of Plexus' POS-GRIP friction-grip method of engineering, which has been used on over 350 wells worldwide by blue chip customers such as BP, Equinor, Royal Dutch Shell, Spirit Energy and Total
  - As part of the transaction, Plexus and TFMC entered into a Collaboration Agreement ('CA') which establishes a framework to work together both on the development of existing POS-GRIP IP applications outside of jack-up exploration, as well as future new applications
  - Triggers strategic shift in Plexus' business to an IP-led research and development licensing model focused on rolling out POS-GRIP applications in sectors outside of jack-up exploration including surface production, subsea exploration and production and decommissioning
  - Frees up internal resources from the operational management of the Jack-up Business to developing new products and markets for POS-GRIP technology and products
  - Initial circa £14.1m cash consideration from the sale significantly strengthens cash rich balance sheet, and as part of the transaction a three year earn-out period was entered into
  - Plexus retains licensing rights for the major Russian and CIS markets
- Contracts secured for POS-GRIP products outside of jack-up exploration in line with strategy to focus on extending the adoption of POS-GRIP technology into new markets – current POS-GRIP product suite caters for all stages of the cycle from exploration to production (surface and subsea) to decommissioning:
  - September 2017 – first production well order awarded by long-standing customer Centrica North Sea Limited ('Centrica') now Spirit Energy, for a gas well in the UK Southern North Sea
  - Post period end August 2018 – award of a second rental order for the POS-SET™ Connector from Oceaneering A/S, Norway for well abandonment operations in the North Sea
- Recovery in oil prices to circa US\$70-80 per barrel level anticipated to result in pick up in investment and exploration activity as evidenced by purchase order in September 2017 from new customer Rosneft (TNK Vietnam B.V.) for the supply of POS-GRIP High Pressure/High Temperature ("HP/HT") adjustable rental jack-up wellhead equipment for an exploration well in a new territory offshore Vietnam



- Plexus well placed to benefit from an increase in exploration drilling activity post sale to TFMC via its continued exposure to jack-up exploration:
  - Three year earn-out as part of sale of Jack-up Business to TFMC up to a maximum additional payment value of £27.5m– provides exposure to TFMC’s global reach and relationships
  - Licensing Agreement with LLC Gusar (OOO Gusar) Ltd (‘Gusar’) covering the major Russian and CIS market which was excluded from the sale of the Jack-up Business
- Significant progress made by licensing partner to secure first order in Russian market:
  - February 2018 – sale of two POS-GRIP HP/HT rental wellhead sets and associated equipment and tooling for circa £1.4m to Gusar, Plexus’ partner and licensee in Russia, represents a key milestone ahead of the anticipated securing of a first contract in Russia
  - Post period end – breakthrough agreement signed by Gusar to supply Gazprom with two sets of its Tersus™
    - TRT Mudline Suspension System (‘MLS’) for gas exploration wells on the Kara Sea Shelf in 2019
- Bank facilities available to the Group with the Bank of Scotland comprise of a reducing five year £1.5m term loan (with a current balance of £0.38m) which was put in place in September 2014 to part fund the purchase of a building in Aberdeen and which runs to August 2019.

## Chief Executive Ben van Bilderbeek said:

“The year under review has seen considerable progress made in delivering our strategy. Notably there has been a step change in industry recognition of our innovative POS-GRIP technology as well as orders secured for Plexus products outside of our traditional jack-up exploration market as well as expansion into new geographies. Our strategy is centred on rolling out POS-GRIP enabled applications in larger market sectors, such as surface production, subsea, abandonment and in the process significantly raising standards across the industry, (particularly in the area of metal-to-metal sealing in the age of gas exploration, production and consumption), just as our best in class proprietary wellheads have done for jack-up exploration drilling.

“The results for the year and the comparative prior year period have been reported as required on a continuing and a discontinued operations basis. During the year to June 2018 the discontinued operation (the Jack-up Business sold to TFMC) continued to be challenging and generated sales of £3.91m compared to £4.52m in the prior year, whereas continuing operations sales revenue increased 41.3% to £318k compared to £225k in 2017. Looking forward, and in terms of industry recognition, the standout event of the year was undoubtedly the sale of our niche Jack-up Business to TFMC, a subsidiary of major oil and gas equipment and services provider TechnipFMC for up to £42.5m. Along with the signing of an agreement with TFMC to collaborate on future applications of POS-GRIP, our proprietary friction-grip method of engineering, this represents a major endorsement of our technology from a leading equipment and services supplier that we have been working hard to achieve for a number of years. Importantly, it provides us with a solid platform with which to deliver on our strategy going forward.

“The Jack-up Business was set up to showcase to the industry POS-GRIP’s capability to deliver the very highest standards of safety and also metal-to-metal sealing in terms of integrity and long-term performance in some of the most challenging HP/HT operating conditions. In this regard, the Jack-up Business has been highly successful. Over the years, a wide range of blue-chip operators have used our superior wellheads on over 350 wells worldwide, most notably the Total-operated Solaris well in 2015 which is believed to be the highest pressure well ever drilled in the North Sea. Having raised industry standards in jack-up exploration drilling, we believe POS-GRIP can do the same for production and subsea drilling, especially wherever long-term metal-to-metal sealing is required. I believe that our timing could not be better. As the world increasingly favours gas over dirtier coal and oil hydrocarbons, the need for best in class gas-proof equipment, including wellheads, to help address growing concerns over the effects on the environment of toxic methane leaks from supply chain operations is becoming all the more critical. The highest standards of metal-to-metal sealing are essential, particularly for gas and POS-GRIP is proven to deliver. I believe that the TFMC Collaboration Agreement shows that a top tier oil and gas services company shares our confidence.

“Our Jack-up Business also served another purpose. The revenues generated through the rental of POS-GRIP wellheads and associated equipment have enabled us to fund extensive R&D and the development of POS-GRIP applications for markets outside of jack-up exploration. As a result, following the sale to TFMC, not only do we have a cash rich balance sheet, but we also have a suite of POS-GRIP-enabled applications that we can now focus on promoting. Our existing family of POS-GRIP products caters for all stages of the hydrocarbon well cycle from exploration to production to abandonment. All offer operators superior performance and cost savings, especially subsea where our simple design eradicates the need for a number of trips which can potentially save millions of dollars per well. We are therefore confident that the award of a purchase order for one of our production wellheads from Centrica in September 2017, and the post period end award of a second order for our POS-SET Connector for abandonment operations in the North Sea bodes well for the future and will be followed by additional contracts going forward. Our overriding aim is to build a portfolio of multiple earnings streams for the Company on a product by product basis, either organically or with partners including licencees.

“Another potentially important revenue generator is our exclusive licensing agreement with independent Russian oil and gas equipment providers, Gusar and CJSC Konar, to manufacture and rent Plexus’ proprietary jack-up exploration wellhead and associated equipment within the Russian Federation and the other CIS states. This agreement falls outside the scope of the sold Jack-up Business, and significant progress is being made. Specifically, the sale of two wellhead systems and associated equipment to Gusar for circa £1.4 million to seed an initial rental inventory of wellheads is a key step towards POS-GRIP equipment being used in Russia for shallow water jack-up gas exploration drilling for the first time. This was followed by the post period end announcement that Gusar has secured an initial agreement to supply Gazprom with two sets of its Tersus – TRT Mudline Suspension System (‘MLS’) for the construction of shallow water exploration gas

wells on the Kara Sea Shelf in 2019. Both are breakthrough developments and we continue to work with Gusar to secure a follow on first contract for our wellheads in Russia.

“Our Russian licensing agreement serves as a template for Plexus’ business model post the TFMC sale. For a company of our size with a ground-breaking technology, securing licensing agreements with established partners offers a capital light route to monetising our intellectual property (‘IP’). Without the need to fund the Jack-up Business, the majority of revenues generated from licensing agreements and the ongoing earn-out as part of the deal with TFMC can be used to further grow our POS-GRIP family of products. We are focused on signing similar licensing agreements with suitable partners both on a geographic and a product application basis. Alternatively, we will consider selling individual products to larger groups, particularly if we believe they will benefit from being part of a turnkey solution.

“The sale of our Jack-up Business and the signing of a Collaboration Agreement with TFMC represent major strategic milestones that have enabled Plexus to move onto the next phase of its growth strategy, one which is focused on developing and rolling-out POS-GRIP-enabled applications across the energy sector. Today Plexus has a strong balance sheet, a track record of delivering superior equipment to a blue-chip roster of customers and industry recognition of our technology from a top tier supplier. Together with a more positive market backdrop fuelled by a circa 50% plus increase in the price of Brent Crude over the last 12 months, an uptick in activity and investment across the sector, and in particular gas’ growing status as the preferred hydrocarbon fuel, Plexus is well placed to benefit. Furthermore, other industry dynamics provide additional encouragement, particularly in relation to subsea. Wood Mackenzie recently reported that “For all big majors, deep-water is a growth element”, and that “Deepwater is where all the big discoveries are made...But is only accessible for those with cash reserves and technical capability”. I look forward to providing further updates on our progress as we focus on monetising our technology and delivering significant value for shareholders.”

## Summary of Results for the year ended 30 June 2018

	<b>2018</b>	2017
	<b>£'000</b>	£'000
Revenue (continuing operations)	<b>318</b>	225
Adjusted EBITDA (continuing operations) (Page 12)	<b>(3,737)</b>	(3,578)
Operating Loss (continuing operations)	<b>(5,285)</b>	(5,275)
Loss after taxation (continuing operations)	<b>(4,694)</b>	(4,278)
Profit/(loss) after taxation (discontinued operation)	<b>4,322</b>	(1,424)
Profit/(loss) after taxation (combined)	<b>372</b>	(5,702)
Basic loss per share (pence) (continuing operations)	<b>(4.45p)</b>	(4.06p)
Basic earnings/(loss) per share (pence) (discontinued operation)	<b>4.10p</b>	(1.35p)

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# Chairman's Statement

## Business progress

The Summary of Results table reflects the significant corporate changes that took place during the year under review with discontinued activity revenues accounting for £3.91m, down from £4.52m, whilst revenues from continuing operations were up 41.3% to £318k from £225k. Cash balances improved significantly, and at the year-end were £13.3m with a further £2.1m invested in financial assets, namely high-yield bonds. This compares to last year-end cash balance of £7.2m. The sale of our Jack-up Business to TFMC, is what has driven these changes, and underlines a major strategic shift in our business model from that of a jack-up exploration rental wellhead operating company to an IP-led research and development licensing business focused on applications beyond jack-up such as surface production and subsea wellhead supply.

Up until February 2018, a large proportion of the Company's time and cash resources were taken up by the everyday management of our jack-up exploration wellhead rental business. From a standing start, and under our watch, over 350 jack-up exploration wells were drilled by blue chip operators all over the world using our best-in-class POS-GRIP wellheads. Proven to provide superior performance, reliability and safety in the field, whilst at the same time delivering considerable savings for operators, our wellheads have been deployed in some of the most challenging environments, specifically in terms of ultra-high temperatures and pressures. As well as generating cash for the Company, the Jack-up Business was set up to showcase and prove to the industry the nature and advantage of our ground-breaking technology. As the sale to TFMC demonstrates, we have clearly achieved this goal.

Now, following the sale of the Jack-up Business, Plexus can revert to focusing on what it does best – developing applications based on our proprietary POS-GRIP technology for use in the larger market segments within the energy industry. We believe that our patented HG metal-to-metal sealing technology will play an important role in delivering this strategy, specifically where gas-proof sealing capabilities are required, an area that the industry, regulators, and scientists are now calling for across the supply chain from the wellhead through to consumption. We intend to achieve this both independently and, where appropriate, with partners. Thanks to the Collaboration Agreement we signed with TFMC, which represents a major endorsement of our friction-based method of engineering from a top three circa US\$12 billion oil and gas services provider, we now have the attention of a top tier partner. Once new products are ready for roll-out, we will then look to monetise these either via licensing agreements, similar to the one we have in place in Russia and the CIS, or potentially via an outright sale, just as we did with the Jack-up Business.

Importantly, Plexus already has developed several POS-GRIP-enabled products outside of jack-up exploration which have been successfully used by blue chip operators out in the field, including our production wellhead and POS-SET Connector for the abandonment market. As exploration and production activity across the industry plays catch-up with oil prices that have rallied by more than 50% over the last 12 months, we will continue to pursue contracts for both these products and also for our Python® subsea wellhead. In parallel with this, we will be looking to secure additional licensing agreements and outright sales both on a geographic and product level, as we focus on fully monetising our technology to fund further R&D and product roll-out.

Post period end progress continued to be made in terms of continuing operations. In August 2018 Plexus was awarded a second order for the POS-SET Connector from Oceaneering A/S Norway for well abandonment operations in the North Sea, and in September 2018 a breakthrough agreement was signed by our licensee Gusar to supply Gazprom with two sets of Tersus-TRT Mudline Suspension Systems for gas exploration in shallow water wells on the Kara Sea Shelf in 2019. It is anticipated that Gazprom will place an inaugural wellhead order in due course.

## Overview

In recent years, our POS-GRIP technology has raised performance, reliability and safety standards for wellheads and associated equipment used in jack-up exploration drilling. When a major operator recently issued a new set of higher test and performance standards for the industry, POS-GRIP wellheads were the first, and to date as far as we are aware are the only ones, to have exceeded, let alone pass them without exceptions. Following the Macondo tragedy in 2010, our growing reputation for supplying the industry with



## Chairman's Statement continued

best-in-class wellheads, led a group of leading operators to approach us to develop a subsea wellhead based on POS-GRIP. This resulted in the launch of our Python subsea wellhead in September 2015. In the same year, Total elected to drill the Solaris well, believed to be the highest pressure well ever drilled in the North Sea with a POS-GRIP exploration wellhead. The common thread behind all the above is that as oil and gas companies increasingly explore in ever more challenging environments, and environmental considerations become increasingly important to address climate change, they are looking to and are having to deploy the best technology available. When it comes to metal-to-metal sealing, as we have demonstrated many times over, we believe POS-GRIP is starting to establish itself as the go-to technology solution.

POS-GRIP was designed by Plexus to raise wellhead standards for HP/HT applications, and by default for standard pressure operations. It has proved itself as being able to equal or exceed the standard of premium couplings, thereby overcoming the shortcomings that can be demonstrated to be associated with conventional wellhead technology. POS-GRIP is a friction-grip method of engineering which can be applied to a diverse range of tubular connections. By applying an external hydraulic force to squeeze housing until it engages a special-design end connection (casing or tubing hanger in wellheads), a gripping force is generated which initially eliminates assembly tolerances and eventually merges the two members with such force that, for practical purposes, the parts become one. The process is accurately controlled by hydraulic pressure, is calibrated to deliver monitored results and occurs within the elastic limits of material, so that the connection is reversible.

Our friction-grip technology enables design improvements to be made that cannot be matched by conventional technologies. Most importantly from a risk-analysis perspective, POS-GRIP technology limits the number of seals and leak paths. For example, the number of leak paths past a hanger with integral annular seals is halved, as only one contact area exists between hanger and housing. No penetrations are required to energise the system, and conventional outlet connections can be made redundant by alternative annulus pressure management procedures. This is a major departure from conventional technologies which typically are comprised of many more individual components, each of which has the potential to compromise seal integrity. Importantly this method of engineering also delivers a lifetime gas-proof metal seal solution which we believe is the only true long-term wellhead metal seal available to the industry.

POS-GRIP wellheads and products can be used on a variety of oil and gas applications, not just jack-up exploration but also production, abandonment and subsea operations, areas where we already have products developed or in development. Following the sale of the Jack-up Business in February 2018, we are now able to focus on winning additional contracts for our existing product suite. Progress made to date has been encouraging. In September 2017, we secured a purchase order from Spirit Energy, a subsidiary of Centrica to supply our POS-GRIP "HG" 10,000psi adjustable production wellhead for a gas well in the UK Southern North Sea. This was followed post period end in August 2018 with the award of a second order for the POS-SET Connector™ from Oceaneering A/S, Norway for well abandonment operations in the North Sea. As with our jack-up exploration equipment, the production wellhead and the POS-SET Connector provide operators with best in class and innovative solutions for both the large and lucrative production market, as well as for abandonment operations, an area of the energy sector which we believe has significant growth potential as ageing wells reach the end of their lives. Encouragingly, the Chancellor in the recent budget launched a call for evidence on how to establish Scotland as a global hub for decommissioning and this is expected to attract billions in investment every year. In response the industry's trade body said that oil companies are expected to submit more than one hundred decommissioning plans over the next two years, and that in the next ten years oil companies are likely to spend £23.4bn closing wells.

Other POS-GRIP products within our portfolio include the potential for the subsea and surface interface points for HP/HT dual marine risers, which provide a safer, technically superior and cost-efficient solution for use on jack-up rigs; an innovative HP/HT Tie-Back connector product; and a well tree product. This, however, is not the extent of POS-GRIP's potential reach. Wherever metal-to-metal sealing is required, we are confident POS-GRIP can raise standards and optimise performance. This opens a plethora of new sub-sectors within the broader energy industry for Plexus to explore, such as geothermal and gas storage, and potential structural applications in the renewable energy sectors of wave energy and wind turbines. Following the sale of our Jack-up Business, we now have the resources in place to pursue applications in these markets and more, both independently and with partners such as TFMC.

## **Chairman's Statement** continued

In the meantime, Plexus will continue to receive revenues from contracts secured for POS-GRIP wellheads used in jack-up exploration. As part of the three year earn-out agreed with TFMC, Plexus stands to receive a third of rental revenues generated from the Jack-up Business up to a cap of £27.5 million. Furthermore, the sale to TFMC excludes the Russian and CIS states where we already have a licensing agreement in place with Gusar and Konar, two established oil and gas suppliers in what is one of the three largest hydrocarbon producing areas in the world.

Since the licensing agreement with Gusar and Konar was signed in 2016, we have been working hard with our partners to secure a first contract for our POS-GRIP equipment. As we found in other parts of the world, establishing POS-GRIP as the go-to technology is not just a matter of educating operating companies on the performance and cost-saving benefits that our equipment offers. Operators' inclination to award one-stop turnkey contracts also must be overcome. Over time we successfully achieved this in the North Sea where, prior to the downturn, Plexus became the dominant supplier of wellhead equipment to the HP/HT market and so we are confident that POS-GRIP equipment will soon gain traction in the important Russian market. With this in mind, we are encouraged by the progress made to date, particularly the £1.4 million sale of wellhead equipment to our Russian partner to kick-start its inventory, a necessary pre-cursor to being awarded a first contract. This proved to be the case as post period end in September 2018, Gusar secured a breakthrough contract to supply Gazprom with two sets of its Tersus – TRT Mudline Suspension System ('MLS') for the construction of shallow water exploration gas wells on the Kara Sea Shelf in 2019.

### **Staff**

On behalf of the Board I would like to thank all our employees both past and present for their dedication and hard work during a year that continued to remain challenging for not only Plexus but also the wider oil and gas industry. This trading environment led to Plexus, like many other E&P and service companies having to restructure and reduce staff numbers and overheads, and make a strategic decision to dispose of its niche jack-up exploration wellhead activities (with the exception of Russia and the CIS). Such measures were regrettable where job losses were concerned, but was strategically important, and I now look forward to an increasing level of activity, particularly in relation to our production wellhead applications, and I am confident that this will be positive for our existing staff, and for employment opportunities in general.

### **Outlook**

For the first time since 2014, the publication of this annual report coincides with a more favourable market backdrop, both at the structural and cyclical level: structural as a result of the ongoing shift towards cleaner fossil fuels such as natural gas, which plays to the strengths of our best in class technology; cyclical following the unwinding of what proved to be a persistent and hard to shift supply glut which led to a collapse in the oil price, exploration drilling activity and capital expenditure levels. Furthermore, following the painful realignment to lower oil prices and lower activity, participants operating at all levels of the oil and gas supply chain, from exploration and production companies to specialist and turnkey service providers, have emerged from the downturn with cost bases much better able to withstand volatile oil prices. A leaner and fitter industry, a structural shift toward gas, a pickup in sentiment and investment, and improving demand/supply fundamentals, combine to make the outlook section of this latest report a more positive read for Plexus shareholders than has been the case in recent years. It is such market factors that can act as a 'pull marketing' mechanism for proprietary technology like ours, and I am confident that this will work to Plexus' commercial advantage over the coming years.

In terms of the cycle, correcting markets tend to overshoot in both directions: on the way down as well as on the way up. There is evidence to suggest that an overdone downturn effect has occurred this time around. As PwC states in its Oil and Gas Trends 2018-19 Report: "After several years of oversupply, the oil and gas industry could very well be moving headlong into a supply crunch." This may seem hard to imagine, given the ramping up of U.S. oil production and the burgeoning sense of optimism that is sweeping the sector. In general, the industry feels much healthier than it did 12 months ago. The price of oil has rebounded. After appearing limited to a range between the mid-\$40s and \$50 per barrel (bbl), Brent crude is now trading above \$70 (at the time of writing). The industry is thus recovering from the brutal last few years of weak prices, enforced capital discipline, portfolio realignments, and productivity efficiencies."

In the same report, PwC notes how the recovery in oil prices is translating into a pickup in investment and activity: “global upstream capital expenditure, which dropped nearly 45 percent between 2014 and 2016 is now forecast to rise 6 percent year-on-year in the medium term. Oil and gas rig activity levels are rising, driven by the North American market, and major projects are being approved. To name a few examples: BP went ahead with the second phase of Mad Dog, a floating production platform, in the Gulf of Mexico. Shell reached a final decision to invest in the Penguins field redevelopment, its first new staffed installation in the northern North Sea in almost 30 years. Exploration is on the rise again for the first time since the global recession.” The IEA further reports and cautions in its World Energy Outlook that following years of sharp retrenchment, there is much ground to make up: “the world needs to find an additional 2.5 million bbls/d of new production each year, just for conventional output to remain flat”.

Following the severe downturn, the uptick in exploration activity and investment is welcome news for all companies operating in the sector. What is even more encouraging however is that at the same time, long-running structural themes have not only gained momentum but have been propelled into the mainstream. In its report, PwC acknowledges the major challenges confronting the industry: “In short, while the supply glut may have ended, its after effects will continue. In the short term, companies must maintain capital discipline and the focus on productivity improvements and applying new technology. In the long term, they need to make their portfolios profitable against low break-even prices. Moreover, they’ll need to figure out how to future-proof their overall portfolio, and make it secure amid the transition to a lower carbon world.”

The very definition of the term ‘the transition to a lower carbon world’ rightly implies that simply switching on ‘overnight’ new sources of renewable energy is not an option. Fossil fuels will also have a major role to play for many years if not decades to come. Favouring cleaner hydrocarbons such as natural gas over dirtier fossil fuels such as coal can significantly lower harmful emissions: on a CO<sub>2</sub> emitted per unit of energy output or heat content basis, the EIA has estimated natural gas emits 117 pounds of CO<sub>2</sub> per million British thermal units (‘Btu’) of energy, compared to 228.6 pounds of CO<sub>2</sub> emitted by coal; 161.3 pounds of CO<sub>2</sub> from diesel fuel and heating oil; and 157.2 pounds from gasoline. Numbers such as these help to explain the rapid increase in demand for natural gas in recent years. As Jillian Ambrose, the Daily Telegraph’s Energy Editor, wrote in August 2018: “Liquefied natural gas, or LNG, is now the world’s fastest-growing source of energy. The boom in trade has kick-started trillions of dollars of investment in export projects in the US, Qatar and Australia to meet the growing needs of super-consumers in China and Europe... The IEA expects Chinese gas demand to grow by 60pc between 2017 and 2023, as it scrambles to reduce choking air pollution by switching from coal to gas.”

To satisfy the world’s fast-growing appetite for gas, leading operators are pivoting towards gas. Arguably Royal Dutch Shell led the way with its £41bn acquisition of BG Group in 2015; Total has spent US\$1.5bn to acquire Engie’s (previously GDF Suez) LNG business and at the same time took a 10% interest in an Arctic LNG project; meanwhile Petronas has acquired a 25% interest in a Royal Dutch Shell LNG project in Canada. To underline this trend, in an interview with the Daily Telegraph, Royal Dutch Shell’s Maarten Wetselaar put the recent deal-making into context: “Since the start of the century, the number of countries importing LNG has quadrupled, while the number of countries supplying LNG has almost doubled. The demand for LNG has gone up during that same period from 100m to nearly 300m tons a year and is expected to keep growing”.

Critically however there is a major threat to natural gas’ green credentials: gas and by default methane leaks. As the FT’s Ed Crooks wrote in June 2018: “Gas-fired power plants produce much lower carbon dioxide emissions than coal-fired plants for the same electricity generation, but methane leakage cuts that advantage and could even wipe it out altogether.” The FT was commenting on a report in the journal Science titled ‘Assessment of methane emissions from the U.S. oil and gas supply chain’ which estimates that methane leaks from the US oil and gas industry are around 60% higher than government numbers. According to the FT, the study concluded that “other research had underestimated the scale of methane leakage by missing large escapes when equipment malfunctions... The scale of methane leakage from wells, processing plants and pipelines is central to the debate over switching from coal to gas for power generation. Methane is the principal component of natural gas and is a potent contributor to global warming.” The need for gas-proof technologies and equipment has clearly never been greater.

## Chairman's Statement continued

In recognition of the scale of the problem, the industry is taking leaks seriously. A number of operators have publicly set targets to reduce the amount of gas that escapes from their operations. As Bob Dudley, BP's CEO, was reported as saying, "Some people may not be aware of the benefits of gas. Others see the benefits but are genuinely concerned about methane emissions. That's a legitimate concern and we share it – in fact, we're in action." According to a spokesman for the Environmental Defence Fund, a group which works with companies to improve environmental performance: "We have a big problem... The good news is that it is an addressable problem, which can be tackled in very cost-effective ways." We believe that one obvious and cost-effective way is to use better sealing technology to prevent leaks. Step-up POS-GRIP and its HG metal-to-metal seals. As detailed earlier, our friction-based method of engineering offers a far superior solution to containing gas than conventional technologies can offer. As we have proven many times over out in the field, Plexus provides a metal-to-metal sealing solution that not only can prevent wellhead leaks, but also offers operators considerable time and cost savings. Our technology can be used on a variety of oil and gas applications and has been successfully installed and used on ultra-high pressure and temperature projects to 20,000 psi at 375 F. Furthermore, standard HG metal-to-metal seals are as easy to use on low pressure oil applications as on high pressure methane gas service projects, either on the surface or subsea.

Interestingly, in September the Independent Energy Standards Corporation ('IES'), an independent ratings and analytics company for event risk and responsibility in the oil and gas industry, announced the completion of its first transaction under its IES TrustWell™ Responsible Gas Program. This looks at the ability to source gas responsibly, and in line with this evaluates producing wells and well sites in terms of risks and impacts including emissions, methane leaks, spills, well integrity, water sourcing, and others. As part of the programme IES assigns each well either a Silver, Gold, and Platinum rating and is open to both natural gas producers and purchasers. Speaking about the first transaction, Jory Caulkins, IES' Chief Executive Officer said, "This is an important precedent which demonstrates the growing demand from gas purchasers and end consumers for responsible gas and energy. For the first time, natural gas buyers have a credible, independent and comprehensive way to source responsibly developed natural gas as part of their energy mix via the TrustWell™ Responsible Gas Program." We believe that as well as individual wells, it would make sense to go a step further and that having equipment items certified for leak proof performance would be a logical extension. If and when this happens, we are confident our equipment would command the highest rating.

Offering the best solution is one thing, but getting it to market is another, especially for a small company such as ourselves. The sale of our Jack-up Business to TFMC promises to be the game-changer we have been working towards since our inception. Not just because it provides us with industry validation of our technology from a top tier supplier or that it significantly strengthened our already cash rich balance sheet. The sale frees up resources which enables our management and technical teams to expand our POS-GRIP family of products and at the same to further engage with potential partners, licensees, customers and even acquirers. Above all, just as our Licensing Agreement in Russia did in 2015, the sale to TFMC demonstrates that we have multiple routes to market available to us. We are focused on capitalising on these opportunities to raise industry standards, help the industry minimise methane leaks and at the same time monetise the substantial potential of POS-GRIP for the benefit of all our shareholders.

**J Jeffrey Thrall**

*Non-Executive Chairman*

7 November 2018



# Strategic Report

## Principal Activity

The Group markets oil and gas industry equipment that utilises its patented friction grip method of engineering, including wellheads and connectors known as POS-GRIP. This involves deforming one tubular member against another within the elastic range to effect gripping and sealing. This superior method of engineering for wellheads offers several important advantages to operators, particularly for HP/HT applications and can include improved technical performance, improved integrity of metal seals, significant installation time savings, reduced operating costs and enhanced safety. The year under review was dominated by the sale of the Company's niche jack-up exploration wellhead rental operations to a division of leading oil and gas service and equipment provider TechnipFMC.

The sale marks a strategic shift in Plexus' operations to a predominantly engineering and IP-led product design, development and licensing business although the Company retains the right to pursue jack-up exploration related business in Russia and the CIS, the third largest hydrocarbon producing market in the world, and where it has existing licence agreements with LLC Gusar and CJSC Konar. In addition, Plexus has upside exposure to jack-up exploration drilling activity via a three year earn-out arrangement with TFMC, which was part of the terms of the sale agreement. The Company is now focused on pursuing the much larger surface production market, the growing abandonment market and in due course the subsea market. To these ends, on 25 September 2017, Plexus secured a production equipment order from Spirit Energy for a gas production well in the UK Southern North Sea and post period end, in August 2018, it announced a purchase order for its POS-SET Connector from Oceaneering A/S, Norway for well abandonment operations in the North Sea.

The Directors believe that the Company's proprietary technology has additional wide-ranging applications both within and outside the oil and gas industry. It is therefore focused on developing additional POS-GRIP-enabled applications for new markets both independently and with partners including TFMC where in tandem with the sale of the Jack-up Business, Plexus signed a Collaboration Agreement with TFMC which envisages the two parties working together to develop new POS-GRIP products.

## Financial Results

### Revenue

Continuing revenue for the year was £318k, an increase of 41.3% from £225k in the previous year. The increase in continuing sales revenue is a result of the Group moving towards alternative revenue streams following the sale of the Jack-up Business, in particular production wellheads and the POS-SET Connector. Other payables include £773k of deferred income which will be recognised in the following accounting period, of this balance £574k relates to production related sales.

Plexus continued to invest for the future and in its technology with total R&D spend £0.23m compared to £0.63m last year.

### Margin

Gross margin on continuing operations reduced to 8.8% (compared to 20% in the previous year). The decline in margin is largely driven by decline in continuing rental revenue, falling from £119k in 2017 to £nil in 2018 and the fixed nature of the costs.

### Overhead expenses

Continuing activities administrative expenses are broadly in line with the prior year with expenditure of £5.31m (2017: £5.32m). Within this total the continuing salary component remained the largest at £2.53m which is a 4.5% increase compared to last year's total cost of £2.42m.

## Strategic Report continued

### Adjusted EBITDA

The Directors use Adjusted EBITDA on continuing operations as a non-GAAP measure to assess the Group's business. Directors consider Adjusted EBITDA on continuing operations, which approximates the operational cash generated by or used in the business, to be the most appropriate measure of the underlying performance of the Group's business in the period, given the continuing business will be the focus of the Group going forward.

Adjusted EBITDA on continuing operations for the year was a loss of £3.74m, compared to a loss of £3.58m in the previous year. Adjusted EBITDA on continuing operations is calculated as follows:

	2018 £'000	2017 £'000
Operating loss	(5,285)	(5,275)
Add back:		
–Depreciation	737	805
–Amortisation	898	885
–Fair value adjustment to asset held for sale	–	8
–Gain on disposal	(87)	(1)
Adjusted EBITDA on continuing operations	<u>(3,737)</u>	<u>(3,578)</u>

### Loss before tax

Loss before tax on continuing operations of £5.25m compared to a loss last year of £5.28m. The loss on discontinued operations before adding the gain on sale of the discontinued operation of £5.83m was £1.59m compared to a loss of £1.76m in the previous year.

### Tax

The Group shows a total income tax credit of £0.65m for the year compared to a tax credit of £1.33m for the prior year. The income tax credit has been split between continuing activities (£0.55m, 2017: £1m) and discontinued activities (£0.09m, 2017: £0.33m). The income tax credit for the year is driven by the loss incurred during the financial period.

### EPS

The Group reports basic earnings loss per share on continuing activities of 4.45p compared to a loss per share of 4.06p in the prior year. The basic earnings per share on discontinued activities of 4.10p, the calculation of which includes the £5.83m gain on disposal of the Jack-up Business, compared to a loss per share of 1.35p in the prior year.

### Cash and Statement of Financial Position

The net book value of property, plant and equipment including items in the course of construction and the property held for sale at the year-end was £4.00m compared to £12.37m last year. Capital expenditure on tangible assets increased to £0.45m compared to £0.29m last year. During the year assets, including the asset held for sale at the prior period reporting date, with a NBV of £6.77m were disposed of. The net book value of intangible assets, including IP rights, R&D and software, decreased by 15.3% to £12.24m compared to £14.45m last year. Capital expenditure on intangibles totalled £0.23m compared to £0.63m last year. Receivables increased to £11.23m compared to £1.0m last year. Net cash closed at £12.92m (cash and cash equivalents of £13.30m less bank loans of £0.38m compared to net cash of £6.50m last year (cash and cash equivalents of £7.18m less bank loans of £0.68m) reflecting net cash inflow for the year of £6.42m (net increase in cash of £6.12m per Statement of Cash Flows plus net decrease in bank borrowings of £0.30m). The reduction in bank borrowing represents £0.30m of repayments on the property term loan reducing the balance from £0.68m to £0.38m. It should also be noted that the Group has invested a further £2.12m in high yield bonds that can be traded at any time for cash, these are included in non-current financial investments in the

statement of financial position. Banking facilities comprise of a reducing five year £1.5m term loan (with a current balance of £0.38m) which was put in place in September 2014 to part fund the purchase of the additional building in Aberdeen and which runs to August 2019. These facilities combined with the expected future cash inflow from the TFMC transaction and the cash balances held are anticipated to be adequate to meet current on-going working capital, capital expenditure, R&D and related project commitments.

### Intellectual Property ('IP')

The Group carries in its statement of financial position goodwill and intangible assets of £12.24m, a decrease of 15.3% from £14.45m last year. This movement represents investment of £0.23m less the annual amortisation charge of £0.98m and less the disposal of intangible assets which exclusively related to the disposed Jack-up business with a NBV of £1.46m.

The Directors have considered whether there have been any indications of impairment of its IP and have concluded, following a detailed asset impairment review, that there is no impairment. The Directors therefore consider the current carrying values to be appropriate. Indications of impairment are considered annually.

### Research and Development

R&D expenditure including patents has reduced from £0.63m in 2017 to £0.23m in 2018. This reduction must not be taken as a sign that R&D ceases to be an important and necessary part of our activities, as such investment is clearly key to protecting, developing, and broadening the range of proprietary POS-GRIP friction-grip method of engineering applications and related IP. Following the sale of the Jack-up Business it is likely that there will be an increase in R&D investment to increase the Group's product offering as it enters new target markets.

### IFRS 2 (Share Based Payments)

No IFRS 2 charges have been included in the accounts, in line with reporting standards following the completion of the vesting period of all share options. The fair value of share-based payments has been computed independently and is amortised evenly over the expected vesting period from the date of grant. The charge for the year was £nil which compares to £nil last year.

### Dividends

While the Company remains committed to distributing dividends to its shareholders, the Directors believe that it is prudent to continue the suspension of the payment of dividends. The Company will look to reinstate the normal dividend at the appropriate time and after on-going assessment of capital requirements of the business as well as potential investment opportunities.

### Operations

During the first half of the year, the Company's operational focus was centred on its Jack-up Business. In September 2017 the Company secured a contract with new customer Rosneft (TNK Vietnam B.V), a subsidiary of leading Russian oil and gas company, Rosneft, for Plexus' POS-GRIP HP/HT adjustable rental exploration wellhead equipment for an exploration well offshore Vietnam. However, in October 2017 the Company announced the conditional sale of the Jack-up Business to TFMC, and in February 2018 all the conditions were subsequently satisfied, and the transaction was successfully completed.

The sale of the Jack-up Business did not include the Russian and CIS markets where Plexus already has a licensing agreement in place with Russian oil and gas service providers, Gusar and Konar. In February 2018, the Company announced the sale of two POS-GRIP 18-3/4" rental wellhead sets and associated mudline equipment and tooling to Gusar for circa £1.4m. The wellheads will serve as the basis for Gusar's POS-GRIP rental exploration wellhead inventory and are planned to be used for gas exploration drilling within the

Russian Federation. Plexus is working closely with Gusar to secure a first contract in the Russian and CIS markets.

Beyond jack-up exploration, the Company continues to market its POS-GRIP-enabled equipment, particularly its production and subsea wellheads, and its POS-SET Connector for abandonment operations. In September 2017, Plexus announced it had been awarded a contract with Spirit Energy to supply its POS-GRIP HG 10,000psi adjustable production wellhead for a gas production well in the UK Southern North Sea. The Spirit purchase order is in line with the Company's strategy to extend the application of its POS-GRIP technology beyond jack-up exploration. Plexus has previously supplied wellheads for production wells, including on the BP Amethyst gas field in the Southern North Sea in 2006. Following the sale of the Jack-up Business, the large production market is now an area of focus for the Company.

Plexus continued to invest in R&D despite the ongoing challenging trading environment, albeit at a reduced level excluding test fixtures of £0.23m compared to £0.63m in the prior year, a reduction of 63.5%. R&D remains an important operational activity and underpins and further develops the value of our IP and ability to extend the range of applications of POS-GRIP technology. Innovation in the oil and gas industry continues to be an essential part of developing both cost saving initiatives and ever safer drilling methods, and Plexus is confident that it can continue to play an important role in delivering such solutions whilst raising wellhead standards to a level that conventional technology cannot reach, such as passing test standards equivalent to those used for premium couplings.

Staff initiatives were an important part of operations during the year, and as part of the sale of the Jack-up Business to TFMC, a consultation with employees was undertaken, resulting in 31 employees transferring under TUPE to TFMC. This process was viewed as a success with job losses from the transaction being minimal. To ensure continued efficiency, as part of the Management of Change process, a gap analysis was conducted to review personnel resources, training requirements and implement the appropriate measures for the remaining Plexus workforce.

Staff development continues to be a significant focus and to support this, a formal Training Plan process has been developed and launched. The Training Plan allows Supervisors and Managers to document the identification and closure of skills gaps or training needs of an employee, and provides clear evidence of informal, "on the job" type training, which can often be overlooked.

The restructuring of the business has created an opportunity to review and improve the OPITO accredited competency system, allowing the technical standards to better reflect the equipment operated and to be more closely aligned with the strategy of the business going forward. Following this review of the standards, Plexus will also conduct an evaluation of the in-house training modules to ensure they continue to provide the necessary underpinning knowledge and skills which is required of those fulfilling technical roles. In light of the review of the existing competency system and the reduced headcount, plans to implement the office-based competency framework have been postponed until 2019.

Staffing figures at the end of June 2018 were 35 employees including 2 international employees, which compares to a total of 68 in the prior year.

Health and Safety is a pivotal part of the business and remains at the centre of everything we do. Plexus remains fully committed to continually improving safety standards and the safety culture across the business, this is reflected in the business being lost time injury (LTI) free for the third consecutive year, and the lost time case frequency (LTCF) and total recordable case frequency (TRCF) percentages remaining at zero. Plexus also retained OHSAS 18001:2007 accreditation during the recent surveillance audit with no major findings being raised.

As part of the Group's continued commitment to provide staff with suitable work and welfare facilities, Plexus is currently working on several site improvement projects including the relocation of the workshop and R&D testing facilities to better fit the business going forward following the sale of the Jack-up Business to TFMC.



Quality remains an integral focus for Plexus, ensuring the Group consistently provides products and services that meet customers' requirements. December 2017 saw a smooth transition to ISO 9001:2015 and in February 2018 Plexus successfully completed the recertification audit of the API Monogram Licences for 6A and 17D products.

Following the sale of the exploration Jack-up Business to TFMC, Plexus conducted a full review of the Business Management System ensuring it met the requirements of the Group going forward whilst also identifying any areas requiring improvement.

The IT Department provides technology leadership for Plexus, including governance, information security, software development and expertise in deploying modern information technologies to improve company efficiency. During these challenging times for the oil and gas industry Plexus has continued to develop its in-house systems to ensure the Company is able to react swiftly to changing market requirements.

With major cyber-attacks increasingly on the rise, the ongoing risk to Plexus as with other companies increases year on year. Defending against cyber-attacks and keeping up-to-date with evolving policies and regulations is a complex and time-consuming task. To guarantee that the confidentiality, integrity and accessibility of information is maintained, Plexus has continually evolved its security defences to minimise all cyber risks.

To ensure that the Plexus IT infrastructure, systems and data are as secure as possible Plexus is currently working to the ISO 27002 standard and will, soon work towards achieving ISO 27001 accreditation. This will give added confidence to both customers and key stakeholders that Plexus takes security risks seriously and has put sufficient measures in place to deal with such risks.

## Strategy and Future Developments

### Technology

Plexus' proprietary POS-GRIP technology involves applying compressive force to the outside of a wellhead or pipe, to flex it inwards. As the bore of the vessel moves inwards, it makes contact with an inner pipe (or hanger) on the inside. Sufficient contact force is generated to hold the inner member (hanger) in place through friction between the two components and creates a superior metal-to-metal seal. The Company's strategy is primarily focused on delivering the highest standard of wellhead design for the upstream oil and gas markets around the world, and one which is already proven to be uniquely advantageous in terms of safety features, operational efficiency, and cost savings for jack-up drilling especially HP/HT applications, and which will now focus on production and subsea wellheads as well as other initiatives such as a POS-GRIP Crown Plus and POS-GRIP Lateral Trees.

POS-GRIP wellhead designs deliver many advantages over conventional "slip and seal" and "mandrel hanger" wellhead technologies for surface exploration and land and platform production applications. These include larger metal-to-metal seal contact areas, virtual elimination of movement between parts, fewer components, simplified design and assembly, enhanced corrosion resistance, simpler manufacture, long term integrity, annulus management, and reduced installation cost. Key components of Plexus wellheads can include proprietary superior HG seals; robust gas-proof metal-to-metal seals which can be machined directly into the hanger and are energised by use of the external POS-GRIP mechanism.

Plexus' POS-GRIP enabled product suite also includes the Python subsea wellhead as well as the POS-SET Connector for use in the growing decommissioning market. Importantly the Python subsea wellhead eliminates the need for wear bushings, pack-offs, lock-rings, and lockdown sleeves, whilst delivering instant rigid lock-down in all directions, fully reversible for ease of workover, side-tracking or abandonment. These design simplifications and features not only reduce the risk of installation problems and safety issues, they also significantly reduce installation time and the number of trips that are needed such that it has been independently estimated that over ten days of savings per well can be achieved in deep-water under certain conditions which, depending on water depth Plexus estimates would result in a saving of over \$10m for the operator. The POS-SET Connector, which is designed to re-connect to bare conductor pipe for well re-entry or permanent abandonment operations, creates a solid connection with reliable sealing directly against the pipe, and retains bend and load capabilities at 80% of pipe strength. The directors believe Plexus' wellhead

equipment sets and delivers a new standard. Apart from the operational time saving and related safety benefits, at an engineering level the Company has demonstrated that its technology can raise the integrity of wellhead testing and sealing to that of premium couplings, which supports its claim that wellheads no longer need to be the weak link in the well architecture chain.

POS-GRIP friction-grip technology has wide ranging applications both within and outside the oil and gas industry. As POS-GRIP is a method of engineering and not a product in its own right, where there is an opportunity for the technology to improve the performance of conventional products, the Company will look to integrate POS-GRIP so that the benefits together with HG sealing can be realised organically or in conjunction with partners.

### Business Model and Markets

The Company is proprietary technology driven and its extensive patent protected IP and many years' worth of know-how has been successfully deployed in hundreds of wells around the world. Its superior performance, safety and operational advantages led to the Company becoming established initially as a leading equipment and services provider to the niche jack-up exploration market. The Directors believe that following the sale of the Jack-up Business to TFMC that this success can be replicated and extended to the wider energy sector including production, subsea, geothermal and fracking applications based on its POS-GRIP technology.

Historically Plexus has focused on supplying adjustable exploration wellhead equipment and associated running tools on a rental basis for the relatively niche jack-up exploration drilling market in the UK Continental Shelf ('UKCS'), achieving a near 100% market share. Over the years, Plexus' equipment has been deployed in the ECS (Norway, Netherlands and Denmark) as well as China, Russia, Egypt, Cameroon, Trinidad, Venezuela, and Morocco. The exploration wellhead contracts were supplied from a rental fleet of owned inventory of which the majority are for 15,000psi HP/HT; and the remainder are 10,000psi wellheads.

Following the sale of the Jack-up Business to TFMC, the Directors believe Plexus is well placed to pursue its strategy of breaking into the significantly larger and more mainstream volume production wellhead and subsea markets both organically and in conjunction with partners including licensees. In line with this strategy, the Company announced in September 2017 that it had been awarded a contract with Centrica North Sea Limited to supply its POS-GRIP HG 10,000psi adjustable production wellhead for a gas production well in the UK Southern North Sea. Plexus had previously supplied Centrica with equipment for several exploration wells in the North Sea. This latest order was particularly encouraging for the Company, as production wellheads are required for entire field life conditions particularly suited to POS-GRIP technology and metal seals, and the size of the market for production wellheads is many times that of jack-up exploration.

### Strategy

Plexus' long-term goal is to establish POS-GRIP technology as a new industry standard for wellhead and metal sealing designs, whilst continuing to develop new products, which can also offer multiple benefits and advantages to the industry in terms of improved safety, functionality, and cost and time savings. An example of such extensions for POS-GRIP technology is the Company's connector technology which is ideal for high integrity, low fatigue applications. The Directors believe wellhead connectors, riser connectors, subsea jumper connectors, pipeline connectors, tether tensioners and even vessel mooring connectors can all benefit from the simplicity of POS-GRIP.

The sale of the Jack-up Business to TFMC represents a clear endorsement of Plexus' proprietary technology and marks a significant strategic step for the Company. It realigns Plexus as an IP-led research and development business and enables greater resources and focus on the development of new and existing POS-GRIP applications outside jack-up drilling, including through the collaboration agreement signed with TFMC, which establishes a framework for the two parties to work together on potential new applications.

Having proven the significant advantages of Plexus POS-GRIP wellheads for jack-up exploration applications to a wide range of mostly international oil companies ('IOCs'), and having completed the sale of the Jack-up Business to TFMC, Plexus is now focused on extending its business activities into the volume land, platform

and subsea sectors. This strategy will be pursued both organically (as highlighted by the Spirit Energy production wellhead order in September 2017) and also through licensees and partners.

Following the completion of the sale of the Jack-up Business to TFMC in February 2018, Plexus is focused on:

**(a) Continued operation of remaining business, contracts and products**

The Company will continue to focus on current projects which are not part of the sale to TFMC and will pursue the development of opportunities with existing and new products such as POS-GRIP HG production wellheads. Plexus will continue to target international customers in territories including Gulf of Mexico, India, Middle East and Russia, where it is thought there will be opportunities beyond jack-up drilling. In addition, it is hoped that the recent award of an exploration contract with new customer Rosneft Vietnam, a subsidiary of leading Russian oil and gas company Rosneft, is anticipated to help raise the profile of Plexus with Rosneft and other operators in Russia and the CIS (which is a territory that Plexus has retained the rights to).

**(b) Maximisation of Earn-out from the Jack-up Business**

The Company intends to prioritise the maximisation of three years' worth of earn-out revenues from the Jack-up Business through the provision of, *inter alia*, sales and technical support to TFMC.

**(c) Work with TFMC through the scope of the Collaboration Agreement and the joint steering committee on key POS GRIP products**

The Company and TFMC have reviewed certain topics that can be suited for joint work under the Collaboration Agreement. Should such initiatives progress successfully this could lead to further commercial IP-led opportunities.

**(d) Design/Development of new and existing POS-GRIP products/applications**

The Company has identified several products and applications which it believes would benefit from the integration of POS-GRIP technology. The Company intends to selectively apply its resources to capitalise on these opportunities, examples of which include:

- Existing applications of POS-GRIP HG Wellheads, such as HP/HT Production Wellheads and Adjustable Production Wellheads
- New applications of POS-GRIP and other IP, such as land wellheads, fracking heads, geothermal systems and well abandonment and decommissioning
- Existing applications for the Python subsea wellheads system, such as deep-water exploration drilling and HP/HT subsea production
- Further developments around the Python subsea system, such as Annulus Access remedial capability and subsea Xmas Trees.

**(e) Research & Development**

Plexus has always been an innovative IP-led business and the Board intends to devote appropriate resources to continue its ongoing innovative and proprietary technology driven approach.

## Key Performance Indicators

The Directors monitor the performance of the Group by reference to certain financial and non-financial key performance indicators. The financial indicators include revenue, EBITDA, profit and loss, earnings per share, cash balances, and working capital resources and requirements. The analysis of these is included in the financial results section of this report. Non-financial indicators include Health and Safety statistics, equipment

utilisation rates, geographical diversity of revenues and customers, geo political considerations, effectiveness of various research and development initiatives; for example, in relation to new patent activity and inventions, and appropriate employee headcount numbers and turnover rates.

Following the sale of the Jack-up Business described in Note 9 the key performance indicators of the Group will change to reflect the strategy of the business in relation to the exploitation of its proprietary technology, with focus for example on non-financial key performance indicators expected to be on research and development initiatives and commercialisation objectives.

### Principal Risks and Risk Management

There are a number of potential risks and uncertainties that could have an impact on the Group's performance which include the following.

#### (a) Political, legal and environmental risks

Plexus participates in a global market where the exploration and production of oil and gas reserves, and even the access to those reserves can be adversely impacted by changes in political, operational, and environmental circumstances. The current global political landscape continues to demonstrate how any combination of such factors can generate risks and uncertainties that can undermine stable trading conditions, such as Iran making efforts to return to the world hydrocarbon supply stage, America continuing to aggressively pursue its fracking activities, extreme financial and economic deterioration in Venezuela, the speed and scale of reform recently announced in Saudi Arabia together with recent events in Turkey and wide ranging sanctions on Russia. A specific example of political risk are the aforementioned sanctions, and in extreme circumstances even regime change or a military coup. As a supplier to the global oil and gas industry it is clear that Plexus can be adversely impacted by such events, which can disrupt the markets and compromise the ability to execute work for customers and/or collect payment for services performed. Such risks also extend to legal and regulatory issues and it is important to understand that these can change at short notice. To help address and balance such risks, the Group is seeking to broaden its geographic footprint and customer base, as well as actively looking to forge commercial relationships with large industry players.

Looking closer to home, 'BREXIT' continues to generate much speculation and uncertainty about its timing and eventual impact in terms of for example staff recruitment from abroad, export negativity if duties were to apply and potentially volatile exchange rates. Our current thinking is that staff recruitment when activity levels pick up is not currently a major concern, and weaker Sterling makes our products and services cheaper to customers outside of the UK. In addition, some of our sales are in Euros and this could generate a small currency gain opportunity when converted to Sterling, although of course the converse is true. Also, as we see our equipment as being a unique option for customers we would anticipate that BREXIT is likely to have a lesser impact for Plexus than it may have on other companies and industries. However, if we need to manufacture more equipment for rent or sale, the cost of raw material, and in particular steel, may increase if Sterling's weakness continues.

#### (b) Oil and Gas Sector Trends

It is readily understood that the world continues to move away from coal as part of the COP21 and other climate change objectives in relation to the ongoing need to urgently reduce CO<sub>2</sub> and CH<sub>4</sub> (methane) emissions. However, the commercial and environmental dynamics between traditional hydrocarbons in terms of coal, oil and gas is not the only trend to consider. New technologies, particularly in relation to renewables, alternative energies and developments such as the increasing use of electric vehicles and corresponding improvements in battery storage life, wind and wave energy, could all in the future prove very disruptive to the traditional oil and gas industry and therefore demand for exploration and production equipment and services. It is however also recognised that the world will need hydrocarbons as an energy source, and in particular gas for many years to come.



**(c) Technology**

The Group is now focusing on the commercialisation, marketing and application of its POS-GRIP friction-grip technology beyond jack-up rental exploration wellhead equipment, both with regard to expanding into the surface land and platform production market sector, as well as the target subsea market where the Plexus POS-GRIP Python subsea wellhead offers numerous operational and performance benefits. Current and future contract opportunities may be adversely affected by technology related factors outside the Group's control, especially where new product developments are concerned. These may include unforeseen equipment design issues, test delays during a contract and final testing, and delayed acceptances of deliveries, as well as the slow uptake by operators which could lead to possible abortive expenditure and write downs, reputational risk and potential customer claims or onerous contractual terms. Such risks may materially impact on the performance of the Group. To help mitigate this risk, the Group continues to invest in developing and proving the technology and has a policy of on-going training of our own personnel and where appropriate our partners and customers.

**(d) Competitive risk**

The Group operates in highly competitive markets and often competes directly with large multi-national corporations who have greater resources and are more established, and who are more resilient to extended adverse trading conditions. This risk has become more concentrated over the past few years as the large oil service companies have merged. These major oil service and equipment company consolidations that have taken place over the last few years have therefore magnified such issues as competitors reduce in number but increase in size reach. Unforeseen product innovation or technical advances by competitors could adversely affect the Group and lead to a slower take up of the Group's proprietary technology. To mitigate this risk Plexus maintains an extensive suite of patents and trademarks, and actively continues to develop and improve its IP to ensure that it continues to be able to offer unique superior wellhead design solutions.

**(e) Operational**

Plexus, like many other oil service companies, has had to make significant reductions in its workforce numbers over the past few years as a result of a lower oil price and corresponding reduction in drilling. Therefore, when the anticipated upturn comes in drilling activity, it is possible that the industry and Plexus could experience difficulties in rehiring past or new employees and this could deprive Plexus of the key personnel necessary for expanding operational activities, as well as research and development initiatives at the rate that may be required. To help mitigate this risk Plexus has developed effective recruitment and training procedures, which combined with the appeal of working in a company with unique technology and engineering solutions will hopefully minimise such risks.

**(f) Liquidity and finance requirements**

In an economic climate that remains in many ways uncertain it has become increasingly possible for both existing and potential sources of finance to be closed to businesses for a variety of reasons that have not been an issue in the past. Some of these may even relate to the lender itself in terms of its own capital ratios and lending capacity. Furthermore, after a sustained period of record low interest rates, signs are emerging that the cost of money will begin to increase, and this could also have a negative impact on business activity. Although access to capital could be an issue, the successful completion of the disposal of the Jack-up Business delivered additional cash to add to existing reserves. In addition, the Group maintains bank facilities with Bank of Scotland.

**(g) Credit**

The main credit risk is attributable to trade receivables. As the majority of the Group's customers are large international oil companies the risk of non-payment is significantly reduced, and therefore is more likely to be related to client satisfaction and/or trade sanction issues. Customer payments can potentially therefore involve extended periods of time especially from countries where exchange control regulations

can delay the transfer of funds outside those countries. As Plexus begins to establish international licensee relationships there may be instances whereby certain capital payments could be due some way into the future and as such greater credit risk than exists under normal payments terms could apply. The Group's exposure to credit risk is monitored continuously.

(h) **Risk assessment**

The Board has established an on-going process for identifying, evaluating and managing the more significant risk areas faced by the Group. One of the Board's control documents is a detailed "Risks assessment & management document" which categorises risks in terms of – business (including IT), compliance, finance, cash, debtors, fixed assets, other debtors/prepayments, creditors, legal, and personnel. These risks are assessed and updated on a regular basis and can be associated with a variety of internal and external sources including regulatory requirements, disruption to information systems including cyber-crime, control breakdowns and social, ethical, environmental and health and safety issues.

**G Stevens**

*Director*

7 November 2018

## Board of Directors

### ***Jerome Jeffrey Thrall BBA MBA (aged 68), Non-Executive Chairman***

Jeff joined Thrall Enterprises, Inc. ('TEI'), a family owned holding company headquartered in Chicago, USA, in 1980 as vice president of corporate development of TEI's subsidiary, Nazdar Company, a manufacturer and distributor of ink jet, screen printing, flexo inks and supplies. Jeff was named President of TEI in 1995. Prior to joining TEI, Jeff's professional career included a number of appointments in investment banking, commercial lending and administration.

### ***Bernard Herman van Bilderbeek BSc M.Eng (aged 70), Chief Executive***

Ben founded the Plexus business in 1986. He has over 40 years' experience in the industry in both engineering and management roles, and previously held senior positions with Vetco Offshore Industries, Dril-Quip, and Ingram Cactus. Following a career at Vetco, where Ben rose to the position of General Manager of UK Engineering, he went on to found his own oil and gas consultancy company, VBC Consultants, in 1982. During this time, his clients included Amoco, Marathon Oil, FMC Corporation and Dril-Quip. In 1986, Ben founded Plexus and went on to merge the wellhead division of his company with Ingram Cactus where he became President Eastern Hemisphere. In 1996 Ben regained the Plexus Ocean Systems Limited name through which POS-GRIP technology was invented and then developed and commercialised for the oil services wellhead equipment market.

### ***Graham Paul Stevens BA (Hons) (aged 60), Finance Director***

Graham has broad experience in financial, corporate, and operational management within both public and private companies including J Sainsbury plc, BSM Group Limited, Sketchley Group plc, and Fii Group plc. He has been involved in a range of industries as a director, investor, and advisor, and overseen a number of acquisitions and disposals, as well as the implementation of turn around and growth strategies. Graham was, until its successful sale to Betsson AB in 2017, a non-executive director of Netplay TV PLC, the AIM listed largest UK interactive TV gaming company. He was previously a non-executive director of NRX Global Inc. a worldwide Asset Information Management solutions provider used by leading companies in asset intensive industries, including oil and gas.

### ***Craig Francis Bryce Hendrie M.Eng (Oxon) (aged 45), Technical Director***

After gaining a Master's Degree in Engineering Science from the University of Oxford, Craig began his career with ICI plc in 1996 as a machines engineer. He joined Plexus in 1998 and was instrumental in the development, testing and analysis of the original POS-GRIP products. As Technical Director, Craig is responsible for overseeing new technology and concept development, product testing and analysis, as well as pursuing new applications for POS-GRIP technology both internally and externally.

### ***Charles Edward Jones BSc M.Eng (Age 59), Non-Executive Director***

Charles has over 30 years of senior management and Board experience in the energy sector. In 2007, Charles was CEO of Houston-based Forum Oilfield Technology, a global oilfield products company which he successfully merged with three other companies in 2010 to create Forum Energy Technologies (NYSE: FET) and where he remained as President until 2013. Prior to Forum, Charles was COO of privately owned Hydril Company LP, where he played a leading role in the US based drilling and downhole products company's IPO in 2000 and subsequent sale for USD\$2.1 billion. Before joining Hydril, Charles served as Director of Subsea Businesses for Cooper Cameron Corporation where he developed the global subsea production business. Charles is a former Chairman of the Petroleum Equipment Suppliers Association, a Distinguished Alumni of the Cullen College of Engineering at the University of Houston and graduate of the Advanced Management Program at Harvard Business School.

## **Board of Directors** continued

### ***Kunming Liu (Aged 41), Non -Executive Director***

Kunming has over 21 years' experience in corporate finance and financial accounting. She currently holds the position of Vice President and Chief Administrator of HITIC Energy, an emerging oil and gas development company based in Canada, which is a subsidiary of Jereh Oilfield Services Group, a multi-billion dollar Chinese oil services provider. Prior to this, Ms Liu was the Financial Director of Jereh Energy Services Corporation, a wholly owned subsidiary of Jereh. Additionally, Ms Liu holds a major in financial accounting from Shandong Cadres Institute of Economics and Management in China.

## Directors' Report

The directors present their annual report together with the audited financial statements for the year ended 30 June 2018.

### Business review

A review of the development and performance during the year consistent with the size and complexity of the business together with commentary on future developments including the main trends and factors likely to affect the business is given in the Chairman's Statement on page 6 and the Strategic Report on page 11. In addition, the Strategic Report on page 11 includes references to and additional explanations of amounts included in the annual accounts. Where guidelines make reference to the provision of key performance indicators the directors are of the opinion certain financial and non-financial indicators included in the highlights on page 1, the Strategic Report on page 11, and the Directors' Report on page 23 meet this requirement. The directors have provided a description of the principal risks and uncertainties facing the Group in the Strategic Report on page 18.

### Directors who served during the year

J. Jeffrey Thrall  
Ben van Bilderbeek  
Graham Stevens  
Craig Hendrie  
Geoff Thompson (retired 4 May 2018)  
Charles Edward Jones  
Kunming Liu

### Research and development

The Group actively engages in various on-going research and development initiatives designed to expand and develop the range of commercial applications deriving from its proprietary POS-GRIP technology. For the year research and development expenditure including capitalised wage and salary costs totalled £0.2m (2017: £0.65m) being amounts capitalised on the Statement of Financial Position during the year.

### Results and dividends

The results for the year, showing a loss from continuing operations before taxation of £5.25m (2017: loss £5.28m), and a loss from discontinued operations before taxation and before the gain on sale of the discontinued operation (£5.83m) of £1.59m (2017: loss £1.76m) and are set out on page 50.

The directors do not recommend the payment of a final dividend for the year ended 30 June 2018 (2017: nil).

### Corporate governance

This is the subject of a separate report set out on page 27. This is now expanded following the recent adoption of the Quoted Companies Alliance Corporate Governance Code in line with changes to the AIM Rules of the London Stock Exchange that now require all AIM-listed companies to adopt a recognised corporate governance code against which they must comply, or explain why there is any divergence in complying with that code.

### Related party transactions

Details of related party transactions are set out in Note 27 in the financial statements.



## Directors' Report continued

### Financial instruments and risk management

The Group maintains a commercial objective of contracting in sterling whenever possible. In circumstances where this is not possible, the Group converts foreign currency balances into sterling on receipt so far as they will not be used for future payments in the foreign currency. The Group maintains risk management policies which are set out in more detail in note 24 to the accounts.

### Going concern

The directors, having made appropriate enquiries, believe that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group continues to adopt the going concern basis in preparing the financial statements.

### Directors' interests

The directors who served during the year and to the date of this report are listed below.

The interests of the directors who held office during the year in the shares of the Company at 30 June 2018 were as follows:

	Number of Ordinary Shares of 1p each 2018	Number of Ordinary Shares of 1p each 2017
J. Jeffrey Thrall <sup>1</sup>	44,295,513	44,295,513
Ben van Bilderbeek <sup>2</sup>	58,077,461	58,077,461
Graham Stevens	15,100	15,100
Craig Hendrie	12,600	12,600
Geoff Thompson (retired 4 May 2018)	—	—
Charles Edward Jones	—	—
Kunming Liu	—	—

1. J. Jeffrey Thrall, has an indirect beneficial interest in a company which controls 32.477% of Mutual Holdings Limited. The number of Ordinary shares held by Mutual Holdings Limited in the Company at 30 June 2018 was 42,700,001 (2017: 42,700,001). Additionally, J. Jeffrey Thrall has an indirect beneficial interest in Nazdar Limited, a company which holds 1,591,512 Ordinary shares in the Company and he holds 4,000 Ordinary shares directly.
2. Ben van Bilderbeek is settlor of a trust which controls 59.962% of the shares of Mutual Holdings Limited and the entire issued share capital of OFM Investment Limited. At 30 June 2018, Mutual Holdings Limited held 42,700,001 shares and OFM Investment Limited held 15,069,767. Additionally, Ben van Bilderbeek holds 307,693 Ordinary shares directly.

### Retirement and re-election of Directors

Mr van Bilderbeek and Mr Hendrie will retire by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-election.

## Directors' Report continued

### Substantial shareholdings and interests

#### Shares

At the date of this Annual Report the Company is aware of the following shareholdings in excess of 3% of the Company's issued ordinary share capital:

	% issued share capital
Mutual Holdings Limited 42,700,001	40.52%
Liontrust Investment Partners LLP 15,991,668	15.17%
OFM Investment Limited 15,069,767	14.30%
LLC Gusar 6,790,393	6.42%
Hargreave Hale 5,126,582	5.11%
Jereh International (Hong Kong) Co., Ltd 4,468,537	4.24%

### Executive 2005 Share Option Scheme and Non-Executive 2005 Share Option Scheme

Details of the Executive and Non-Executive Schemes can be found in the Remuneration Committee Report on page 42.

### Employees

Plexus is a non-discriminatory employer which aims to eliminate unfair discrimination, harassment, victimisation and bullying. The Group is committed to ensuring that all individuals are treated fairly, with respect and are valued irrespective of disability, race, gender, health, social class, sexual preference, marital status, nationality, religion, employment status, age or membership or non-membership of a trade union.

### Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Annual General Meeting

The Annual General Meeting of the Company will be held on 13 December 2018. The Notice convening the meeting may be found on the Company's website [www.plexusplc.com](http://www.plexusplc.com) under the Investors tab.

In addition to the ordinary business of the meeting which is set out in the proposed resolutions numbered 1 to 6 (inclusive) there are three items of special business, namely the proposed resolutions numbered 7, 8 and 9, the effects of which are to renew the authority given to the directors to allot shares in the capital of the Company, to authorise the Company to make market purchases of shares and, to dis-apply pre-emption rights. Your attention is drawn to the Notes on each of these resolutions at the foot of the Notice and to the Notes generally.

### Auditors

Crowe U.K. LLP has indicated its willingness to be reappointed as statutory auditor. In accordance with Section 489 of the Act, two resolutions for the re-appointment of Crowe U.K. LLP as auditor of the Company and authorising the directors to determine its remuneration will be proposed at the forthcoming Annual General Meeting.

## **Directors' Report** continued

### **Company number**

The Company is registered in England and Wales under Company Number 03322928.

By order of the Board

**G Stevens**

*Director*

7 November 2018

# Corporate Governance

## Chairman's Introduction

Plexus' long-term goal is to establish POS-GRIP® friction grip technology as a new industry standard for wellhead and metal sealing systems, whilst continuing to develop new POS-GRIP based products, which can also offer multiple benefits and advantages to the industry in terms of improved safety, functionality, and cost and time savings. In doing so, it is establishing itself in new geographical areas and expanding the range of applications to which such technology may be applied. Core to all of this is the Board ensuring the Company is managed for the long-term benefit of all shareholders, by effective and efficient decision making which may only happen where a culture of strong corporate governance is engendered.

The Board has recently adopted the Quoted Companies Alliance Corporate Governance Code in line with changes to the AIM Rules of the London Stock Exchange that now require all AIM companies to adopt a recognised corporate governance code against which they must comply or explain why there is any divergence in complying with that code. The Board considers Plexus complies in all material respects with the principles of the QCA Corporate Governance Code although as indicated in the summary below, the adoption of certain informal procedures rather than formal procedures to reflect the size of the Company and the composition of the Board, does not constitute full compliance in all respects. The disclosures made within the principles comprising the QCA Corporate Governance Code are anticipated to evolve over time.

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

Plexus has developed a range of products and applications based on its patent-protected POS-GRIP® friction-grip method of wellhead engineering. Included among these are the Company's POS-GRIP friction-grip exploration wellhead equipment and associated tooling. Up until now, the Company's core business has been the rental of this equipment to major oil and gas operators for use on jack-up exploration wells around the world, particularly for HP/HT applications. To date, Plexus wellheads have been used on hundreds of wells operated by a customer base, which includes blue-chip customers such as BP, Equinor, ENI, Maersk, Royal Dutch Shell, Spirit Energy and Total. This application was sold to TFMC in February 2018, with the exception of the CIS where Plexus retained its licensing arrangement with its local partner.

Since it was established, Plexus has focused on being an innovative, IP-led company built around its proprietary POS-GRIP technology. POS-GRIP was designed to address a number of limitations associated with conventional wellhead technology particularly in terms of metal sealing and has subsequently raised standards for HP/HT wellhead applications. POS-GRIP enables Plexus to provide operators with superior solutions, offering unique safety and operational advantages, while at the same time delivering significant time and cost savings on the surface and, the Board anticipates, in due course and even more significantly, subsea. Thanks to POS-GRIP, Plexus has successfully raised wellhead test standards to equal or exceed those of premium couplings and there are numerous applications and products beyond jack-up exploration drilling which the Board believes could benefit from the POS-GRIP method of engineering now and in the future.

The Company has invested extensively in research & development and IP development and areas and applications outside of jack-up exploration, include surface production and subsea wellhead equipment, as well as proprietary connector technology. This suite of new products and applications has grown significantly and now, following a Joint Industry Project, includes: the Python™ Subsea Wellhead (a new standard for subsea wellheads – supported by BG, Royal Dutch Shell, Wintershall, Maersk, Total, Tullow Oil, Eni, Senenergy, and Oil States Industries Inc); the development and launch of the POS-SET™ Connector ('POS-SET') product for the growing de-commissioning and abandonment market; development of HP/HT dual marine barrier risers to provide an efficient, safe and cost effective solution for use on jack-up rigs; an innovative HP/HT Tie-Back connector product; and a new Well Tree product. Plexus is also assessing opportunities in geothermal drilling.

One of the challenges that Plexus needs to overcome either organically, or with partners, where the volume production market is concerned is that production wellheads have in the past been sold as a package together with a production Xmas Tree and side outlet valves. Therefore, Plexus is looking to develop the capability of offering a complete Wellhead, Valve and Xmas tree package, preferably under Plexus branding and design

control. However, in view of the increasing focus on gas and methane leak issues it may be that the focus changes and will be more on sourcing the best and most gas proof equipment, whether as a package or as individual items.

In the past Plexus found the oil & gas sector to be resistant to new technology and has experienced push back from industry participants at the early stage of introducing POS-GRIP technology. Consequently, Plexus took the decision to initially apply POS-GRIP technology to jack-up exploration drilling, in order to showcase and prove the technology and obtain industry acceptance, before developing and commercialising a wider range of products. The dynamics of exploration drilling enabled the Company to avoid the relatively high and often fixed costs of becoming a manufacturer, allowing Plexus to build a wellhead inventory which could be rented out to customers on a temporary basis for use on exploration drilling projects.

Prior to the sale of the Jack-up Business, Plexus successfully expanded its focus as part of its strategy to raise the awareness of its superior technology with contracts extending to Asia, Australia, China, Egypt, Middle East, Russia, and West Africa from the UKCS and in the process became a supplier to a wide customer base, including blue-chip customers. An Asian business hub was established to increase the supply of POS-GRIP wellhead equipment and services to the Australian, Brunei, Indonesian, Malaysian, Thai, and Singaporean oil and gas exploration and production markets. Strategic licence agreements were pursued, including in 2016 with Gusar, and Konar, two independent Russian oil and gas equipment manufacturers, for the rental, manufacture and servicing of Plexus' jack-up drilling wellhead exploration equipment into the Russian Federation and the other CIS states' oil and gas markets.

One of the key challenges faced by the Company continues to be the impact of the significant fall in the oil price in 2015, from circa US\$120 per barrel, which resulted in a significant decline in capital spending and exploration activity by the major E&P operators.

The Company is proprietary technology driven and the challenge now is to build on the value achieved and recognition gained for POS-GRIP technology as part of the TFMC transaction. The superior performance, safety and operational advantages of the Plexus jack-up exploration drilling wellhead designs give the Directors confidence that this success can be extended to the wider energy sector including production, subsea, geothermal and fracking applications based on its POS-GRIP technology.

Plexus' long-term goal is to establish POS-GRIP technology as a new industry standard for wellhead and metal sealing designs, whilst continuing to develop new products, which can also offer multiple benefits and advantages to the industry in terms of improved safety, functionality, and cost and time savings. An example of such extensions for POS-GRIP technology is the Company's connector technology which is ideal for high integrity, low fatigue applications. The directors believe wellhead connectors, riser connectors, subsea jumper connectors, pipeline connectors, tether tensioners and even vessel mooring connectors can all benefit from the simplicity of POS-GRIP.

In line with this strategy, the Company announced earlier this year that it had been awarded a contract with Spirit Energy to supply its POS-GRIP "HG" 10,000psi adjustable production wellhead for a gas production well in the UK Southern North Sea. This was particularly encouraging for the Company:

- As production wellheads are required for the entire field life, and the size of the market for production wellheads is many times that of jack-up exploration. At the same time as the market shows signs of recovery there is a major shift from coal and even oil to cleaner gas production. This is a positive trend for Plexus as it is widely recognised that gas leaks are very damaging to the atmosphere in terms of climate change, the need for superior and reliable long-term metal-to-metal sealing technology and integrity has never been greater.
- In terms of performance the Board monitors the Group by reference to certain financial and non-financial key performance indicators. The financial indicators include revenue, EBITDA, profit and loss, earnings per share and working capital resources and requirements. Non-financial indicators include Health and Safety statistics, geographical diversity of revenues and customers, geo political considerations, effectiveness of various research and development initiatives; for example, in relation to new patent activity and inventions and appropriate employee headcount numbers and turnover rates. Following the sale earlier this year of the jack-up exploration wellhead equipment and services business, the key performance



indicators of the Group are likely to change to reflect the strategy of the business in relation to the exploitation of its proprietary technology, with the focus on non-financial key performance indicators expected to be on research and development initiatives and commercialization objectives. It may also be that for example licence income rather than sales revenue becomes more relevant.

### **2: Seek to understand and meet shareholder needs and expectations**

The Company remains committed to regular dialogue and communications with its shareholders to ensure that its strategy, business model and performance are understood by the market. Understanding what analysts and investors think about Plexus, and helping these audiences understand our business, is an important part of driving our business forward and we actively seek dialogue with the market with the support of our broker Cenkos and Investor Relations advisors St Brides. Such communications include investor roadshows, RNS updates, responding to specific phone calls and emails, ad hoc meetings as required and results period meetings, and our regular reporting. The Company also maintains a dedicated email address which investors can use to contact the Company which is displayed on the website together with the Company's address and phone number – <http://www.plexusplc.com/contact-us>

As the Company is too small to have a dedicated investor relations department, the Finance Director is responsible for reviewing all communications received from members and in conjunction as necessary with the CEO and if appropriate the Board determining the most appropriate response.

Such communications by email or letter with shareholders are sent in a timely manner and to date all such communications have been to the satisfaction of the recipient.

#### ***Private shareholders***

Our AGM is the main forum for dialogue with private shareholders. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. The chairs of the Board and all committees, together with all other Directors, routinely attend the AGM and are available to answer questions raised by shareholders. Time is set aside specifically to allow such questions from attending members to any board member. For each vote, the number of proxy votes received for, against and withheld is announced at the meeting. The results of the AGM are subsequently published on the Company's corporate website under the Stock Exchange (RNS) Announcements tab – <http://www.plexusplc.com/investors/aim-rule-26/stock-exchange-rns-announcements>

#### ***Institutional shareholders***

The Directors actively seek to build a relationship with institutional shareholders. Shareholder relations are managed primarily by the CEO and Finance Director, and supported by the Technical Director, as appropriate. The Chief Executive Officer and Finance Director make presentations as required to institutional shareholders and analysts each year immediately following the release of the full-year and half-year results.

The Board as a whole is kept informed as necessary of the views and concerns of major shareholders. Any significant investment reports from analysts are also circulated to the Board. The Non-Executive Chairman and Independent Directors are available to meet with major shareholders if required to discuss issues of importance to them.

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

The Plexus business model changed emphasis in February 2018 with the sale of our jack-up exploration drilling activities (with the exception of the CIS) to TFMC, one of the three largest oil services companies in the world. This disposal not only succeeded in raising the profile of Plexus and delivered a clear endorsement of our patented POS-GRIP technology but generated an initial circa £14.1m of cash with three further earn-out payments to follow (on an annual basis).

This strong balance sheet position enables Plexus to focus on leveraging its IP into other market areas such as surface production, subsea, and other Plexus products either organically or with partners.

Despite this change of business model, the key stakeholders (both internal and external) and the way we engage with them has not changed, with the exception of the addition of our earn-out and new collaboration partner TFMC. Stakeholders continue to consist of shareholders, employees, suppliers, customers, advisers.

Engaging with all our stakeholders as constructively as possible is important to Plexus, and we understand that good relations and sound business practices and principles all contribute to a successful business.

Where necessary the Board is updated on stakeholder engagement feedback should any issues arise, to stay abreast of stakeholder insights into what matters most to them and our business, and to enable the Board to understand and consider such issues in relevant decision-making. Aside from our shareholders, suppliers and customers, our employees are one of our most important stakeholder groups and the Board monitors relevant employee issues through regular operating company operations reports.

### *Employees*

Plexus is a non-discriminatory employer which aims to eliminate unfair discrimination, harassment, victimisation and bullying. The Group is committed to ensuring that all individuals are treated fairly, with respect and are valued irrespective of disability, race, gender, health, social class, sexual preference, marital status, nationality, religion, employment status, age or membership or non-membership of a trade union.

Staff and staff development continues to be important to the Group and following a sustained period of depressed operational activity there was concern the technical skills of those who fulfil specific technical roles would diminish and would find it challenging to perform their role effectively and efficiently when activity increased again. To ensure this is not the case, a full review of each individual's abilities was completed during the past twelve months, highlighting areas that have not been refreshed during low levels of operational activity, and suitable in-house training modules were made available to ensure the necessary skill levels were maintained. The training programme was received very well by the technical staff and noted as beneficial and a worthwhile refresher of the skills they have already developed.

Competency across the business has continued to evolve and broaden; particularly within workshop and office-based staff areas. The workshop competency system has been developed under the OPITO standards with a view to being accredited by OPITO. The office-based competency system will not be developed under the OPITO standard as it is a concise system that supports the requirements of the ISO9001:2015, which Plexus is currently transitioning to.

Importantly Health and Safety is an operational area for employee stakeholders where Plexus remains fully committed to delivering the highest practical safety standards in everything we do each and every day. We continue to maintain a positive safety culture which is aligned with our Company Safety Values and are pleased to report our HSE culture remains strong across the business and this is reflected by our LTCF and TRCF percentages both being zero, with no major findings during our most recent LRQA certification surveillance audits set against the OHSAS 18001:2007 standard.

### *Suppliers*

The Plexus business model has been built around the conscious decision of not having its own manufacturing facilities, and thereby avoids incurring fixed overheads associated with such activities. This means that manufacturing is sub-contracted to carefully selected and assessed manufacturers and machine shops who must operate to prescribed high standards and requirements for delivering Plexus' products' high quality threshold levels. Such relationships are of course important to Plexus and tend to be of a long-term nature reflecting the professional manner in which business is conducted.

### *Customers*

We continue to seek opportunities for continual improvement regarding our relationships with customers, and have fully revised our Business Management System not only to comply with our current certification standards but also to meet the new ISO 9001:2015 standard, demonstrating our relentless commitment to attain and sustain the highest standards possible and allow us to respond quickly to client demands.

Quality also remains a key focus in the delivery of our products and services demonstrated by no major findings in our recent LRQA ISO 9001:2008 surveillance audit and the successful recertification of our API monogram licences for 6A and 17D products.

### *Modern Slavery*

In light of the increasingly concerning activities and resultant human misery that have brought about the much needed Modern Slavery Act 2015, in the last year a review of the requirements was carried out and a focus group was formed (HR, Executive Assistant, Contracts & Supply Chain) to create a Business Code of Conduct, Supplier Code of Conduct, Modern Slavery Statement and Whistleblowing procedure suitable for the business needs. Plexus takes such matters very seriously, and it is considered good practice that Plexus manages its supply chain in line with the Modern Slavery Act to support the legislative requirement placed on the majority of our clients. In addition, these business tools have proven to be essential in recent tendering processes as companies' awareness levels about this pernicious crime increase.

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

### *Audit, risk and internal control*

#### *Financial controls*

The Company has an established framework of internal financial controls. These are reviewed by the Executive Management, the Audit Committee and the Board as part of an ongoing assessment of significant risks by category facing the Company.

The Group does not currently have an internal audit function due to the small size of the administrative function and the high level of Director review and authorisation of transactions.

The Board is responsible for reviewing and approving overall Company strategy, approving revenue and capital budgets and plans, and for determining the financial structure of the Company including treasury, tax and if relevant dividend policy. Monthly results and variances from plans and forecasts are reported to the Board. In addition the Board has a formal schedule of matters reserved for its decision which includes the setting of Company goals, objectives, budgets and other plans. All directors have access to independent professional advice at the Company's expense, if required, as well as to the advice and services of the company secretary.

The Audit Committee assists the Board in discharging its duties regarding the interim and full year results, financial statements, accounting policies, and operational and financial controls. Duties include:

- (A) to consider and recommend to the Board the approval of the appointment of the external auditors of the Company, the audit fee and other external remuneration of the auditors, and any questions of resignation or dismissal;
- (B) to ensure the independence and objectivity of the external auditors;
- (C) to discuss with the external auditors before each annual audit commences the nature and scope of the audit, and other relevant matters;
- (D) to review the half year and annual financial statements before submission to the Board, focusing particularly on:
  - (1) any changes in accounting policies and practices;
  - (2) major judgmental areas;
  - (3) significant adjustments resulting from the audit;
  - (4) the going concern assumption;
  - (5) compliance with accounting standards; and
  - (6) compliance with legal requirements.

- (E) to discuss problems and reservations arising from final audits, interim audits or otherwise, and any matters the external auditors may wish to discuss (in the absence of the executive directors where necessary);
- (F) to review the external auditor's management letter and management's response;
- (G) to review the nature and extent of non-audit services provided by the external auditors and be satisfied that the auditors' objectivity is maintained;
- (H) to keep under review the effectiveness of the Company's internal controls and risk management systems;
- (I) to undertake an annual assessment of internal controls and risk management;
- (J) to review the Company's statement on internal control systems prior to endorsement by the Board;
- (K) to consider the major findings of any internal investigations and management's response;
- (L) to review any internal audit programme and ensure that it is adequately resourced;
- (M) to consider other topics, as defined by and referred to the Audit Committee by the Board; and
- (N) to review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

### *Risk assessment & management controls*

The Board recognises that maintaining sound controls and discipline is key to managing the downside risks to our plan. The Board has ultimate responsibility for the Group's internal controls and for reviewing its effectiveness. However, any such system of internal control can provide only reasonable, but not absolute, assurance against material misstatement or loss. The Board considers that the internal controls in place, as summarised and explained below are appropriate for the size, complexity and risk profile of the Group. The principal elements of the Group's internal control system include:

- Management of the day-to-day activities of the Group by the Executive Directors
- An organisational structure with defined levels of responsibility, which promotes responsible decision-making and implementation while minimising risks
- A comprehensive annual budgeting process producing a detailed integrated profit and loss, balance sheet and cash flow, which is approved by the Board
- Detailed monthly reporting of performance against budget
- Control over key areas such as capital expenditure authorisation and banking facilities
- The Group continues to review its system of internal control to ensure compliance with best practice, while also having regard to its size and the resources available. As part of such controls the Company maintains a "Risk assessment & management document" which reviews both financial and non-financial controls areas and risks including Business; Compliance; Finance; Cash; Debtors; Fixed Assets; Other Debtors/Pre-payments; Creditors; Legal and Personnel. Such risks are assessed and reviewed and changes made where appropriate. The key elements of the non-financial controls are set out below.

### *Standards and policies*

The Board is committed to maintaining appropriate standards for all the Company's business activities and ensuring that these standards are set out in written policies. Key examples of such standards and policies include the 'Anti Modern Slavery Policy' and 'Employee Code of Conduct'. Operating procedures for control of operations are clearly documented and set out in operation manuals where a key emphasis is on the Company actively assessing and minimising health and safety risks in all areas of the business and educating the workforce to provide as safe a working environment as possible. Managers are responsible for the implementation of these procedures and compliance is monitored.

## Corporate Governance continued

### *Approval process*

All material contracts are required to be reviewed and signed by a senior Director of the Company and where necessary reviewed by external legal Counsel.

### *Code of Conduct*

Our internal Code of Conduct includes guidance to employees on business integrity, anti-bribery, gifts, intellectual property and design rights. Every year senior managers and above declare compliance to this code.

### *Legal controls*

Contracting with customers that include large international oil companies inevitably requires the entering into at times complex contracts where the need to address such issues as limitation of liability need careful review and negotiation. The Company's commercial personnel have full access to external legal advice to ensure that appropriate steps are taken to help mitigate the damage that can result from poorly negotiated contracts.

### **5: Maintain the board as a well-functioning, balanced team led by the chair.**

The Board currently comprises the Non-Executive Chairman, J. Jeffrey Thrall; three Executive Directors comprising Ben van Bilderbeek (CEO), Graham Stevens (FD); and Craig Hendrie (Technical Director); and two Non-Executive Directors, Kunming Liu and Charles Jones; and a Company Secretary (non-director) is in attendance at board meetings.

The Audit Committee comprises two Non-Executive Directors, J. Jeffrey Thrall and Charles Jones and is scheduled to meet twice a year. It is the Audit Committee's role to provide formal and transparent arrangements for considering how to apply financial reporting and internal control best practice, whilst maintaining an appropriate relationship with the independent auditors of the Group. In order to comply with best practice that at least one member has relevant financial experience, the Chairman of the Board sits on the Audit Committee.

The Remuneration Committee comprises two Non-Executive Directors, J. Jeffrey Thrall and Charles Jones and meets when required. It is the Remuneration Committee's role to set remuneration packages for individual Directors. Where necessary the Remuneration Committee obtains advice and research material from external remuneration specialists.

The Board considers that the Non-Executive Directors bring an independent judgement to bear. The Board is satisfied that it has a suitable balance between independence on the one hand, and knowledge of the Company on the other, to enable it to discharge its duties and responsibilities effectively. In view of the specialist nature of the Company's technology and IP, knowledge gained over time is considered an important part of the Non-Executives understanding and therefore contribution to the business.

All Directors are encouraged to apply their independent judgement and to challenge all matters, whether strategic or operational.

During the last financial year seven Board meetings took place (including Board Committee meetings, but excluding meetings of the Audit Committee and the Remuneration Committee), and key Board activities included but are not exclusively:

- Discussed strategic priorities
- Discussed the Group's capital structure and financial strategy, including capital investments, shareholder returns and the dividend policy
- Reviewed the performance of the company's licensee
- Discussed actual and potential M&A activity



## Corporate Governance continued

- Discussed internal risk management and assessment report
- Reviewed feedback where relevant from shareholders post full and half year results

Details of the dates of meetings during the last financial year of the Board, Board Committee, Audit Committee, and Remuneration Committee together with attendees is set out in the table below.

All members of the Board are expected to attend all scheduled main Board meetings, but for practical purposes, the completion of the interim or full year accounts, or certain corporate transactions are delegated to a committee of the board to which all directors are entitled to attend by whatever practical means possible. The directors receive timely notice of each meeting along with an agenda and supporting papers which they are expected to spend an appropriate amount of time reviewing in advance of each meeting.

### *Directors' conflict of interest*

The Company has effective procedures in place to monitor and deal with conflicts of interest. The Board is aware of the other commitments and interests and if necessary the relevant Board member will recuse themselves from the matter at hand so as to avoid any conflicts for the individual or the Company.

Directors and Non-Executive Directors are expected to be available whenever required where non-routine course of business activity is going on, such as the sale of the Jack-up Business which concluded in February 2018.

Details of the Directors may be found here <http://www.plexusplc.com/investors/aim-rule-26/board-of-directors>

	<b>Board Committee</b>	<b>Board</b>	<b>Board</b>	<b>Audit Committee</b>	<b>Remuneration Committee</b>	<b>Board Committee</b>
<b>2017</b>	<b>10.08.17</b>	<b>10.10.17</b>	<b>08.11.17</b>	<b>08.11.17</b>	<b>09.11.17</b>	<b>15.11.17</b>
Jeff Thrall		✓	✓	✓	✓	
Ben van Bilderbeek		✓	✓			
Graham Stevens	✓	✓	✓			✓
Craig Hendrie	✓	✓	✓			✓
Kunming Liu		✓	✓			
Charles Jones		✓	✓	✓	✓	
<b>2018</b>			<b>Board Committee</b>	<b>Board</b>	<b>Audit Committee</b>	<b>Board Committee</b>
			<b>30.01.18</b>	<b>22.03.18</b>	<b>22.03.18</b>	<b>23.03.18</b>
Jeff Thrall				✓	✓	
Ben van Bilderbeek				✓		
Graham Stevens			✓	✓		✓
Craig Hendrie			✓	✓		✓
Kunming Liu				✓		
Charles Jones				✓	✓	

### **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 finance, governance, commercial experience, public markets, oil and gas industry, and international trade. 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 Board and Committee meetings. The business reports monthly on its headline performance against its agreed budget, and the Board reviews the monthly update on performance and any significant variances are reviewed at each meeting. Contracts are available for inspection at the Company's registered office and at the Annual General Meeting ("AGM").

The Directors are very experienced in their own fields and they act on their own initiative in ensuring they remain up-to-date in their respective skills. The Board does not at the current time undertake specific due diligence on, or carry out a formal review of an individual Director's skills and training, but is comfortable with such experience being appropriate from regular engagement and dialogue with each Director.

All Directors retire by rotation at regular intervals in accordance with the Company's Articles of Association.

### *Appointment, removal and re-election of Directors*

The Board makes decisions regarding the appointment and removal of Directors. Suitable candidates are identified and put forward for consideration and additionally external views are sought, and, if relevant, background checks are undertaken. The process is formal and transparent and consideration is given to what skills the candidate brings to the Board and how they will work and fit with other Board members. The Company's Articles of Association require that one-third of the Directors must stand for re-election by shareholders annually in rotation and that any new Directors appointed during the year must stand for re-election at the AGM immediately following their appointment. Ben van Bilderbeek and Craig Hendrie will retire by rotation this year, and, being eligible, offer themselves for re-election.

### *Independent advice*

All Directors can take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense. In addition, the Directors have direct access to the advice and services of the Company Secretary, Chief Financial Officer and the Company's nominated adviser.

The Company has not had to engage external advisers to the Board other than its usual professional advisers during the normal course of business.

The Company out-sources the company secretarial duties and responsibilities to a firm of professional company secretaries, ("the Out-Sourced Provider"), which engagement is overseen by the Finance Director. In addition to the routine company secretarial compliance work, the Out-Sourced Provider fulfils a wide-ranging support role to the FD on matters pertaining to the Companies Act, regulatory matters, transactional support, and ad hoc assistance generally. Its services are also available to any other board director who may wish to make an approach for independent advice which the Out-Sourced Provider strives to deliver in an impartial manner.

### **7: Evaluate board performance based on clear and relevant objectives, seeking continuous improvement**

On an informal basis the Chairman Jeff Thrall and CEO Ben van Bilderbeek assess the individual contributions of each of the members of the team to ensure that:

- Their contribution is relevant and effective
- That they are committed
- Where relevant, they have maintained their independence
- The skills of the board members are appropriate for the size and complexity of the Group

The responsibilities of the Chairman and CEO are summarised below:-

The Chairman's primary responsibility is to lead the board effectively and to oversee the adoption, delivery and communication of the company's corporate governance model. The chair has sufficient separation from the day-to-day business to be able to make independent decisions. The chair is also responsible for making sure that the board agenda concentrates on the key issues, both operational and financial, including reviews of the company's strategy and its overall implementation.

The CEO is responsible for the delivery of the business model within the timetable agreed by the board. Keeps the chair and board up-to-date with operational performance, risks and other issues to ensure that the business remains aligned with the agreed strategy.

Because of the relative size of the Company, the composition of the Board and the level of experience of each Board member, the Company has not adopted a formal board evaluation process although keeps the topic under review and would conduct one if it were considered beneficial.

The Board is mindful of the subject of succession planning, although has yet to adopt a formal process and, the Company being in transition since the disposal of the rental jack-up business, any succession planning deemed necessary would be carried out on an ad hoc basis. The Board keeps this subject under review. The Board is aware of the current shareholding structure and the importance of the founder's shareholding and is always mindful of the need to balance all shareholders and stakeholders interests.

### **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 Company and stakeholders. For example during the challenging trading conditions over the last few years in the oil and gas industry, the Board has taken temporary salary cuts, has not been awarded or accepted any annual salary review or inflationary increase, or been awarded any share options. The Remuneration Committee however considers that goal orientated bonus arrangements subject to performance and milestones are to be considered from time to time.

The culture of the Group is to treat all of our customers, suppliers, shareholders and staff fairly and with respect and to be responsive and professional in all that we do whilst at all times being aware of the critical nature of the industry we operate in and the importance of monitoring and managing a range of risks that include political, legal and environmental; IP infringement, competitive risk, operational, liquidity and financial requirements, and credit. Such an approach has successfully resulted in relationships with stakeholders that have avoided any conflicts or legal action.

The risk assessment of such areas is an ongoing process and the Board has established a process for identifying, evaluating and managing the more significant risk areas faced by the Group. One of the Board's control documents is a detailed "Risks assessment & management document" which categorises risks in terms of – business (including IT), compliance, finance, cash, debtors, fixed assets, other debtors/prepayments, creditors, legal, and personnel. These risks are assessed and updated on a regular basis and can be associated with a variety of internal and external sources including regulatory requirements, disruption to information systems including cyber-crime, control breakdowns and social, ethical, environmental and health and safety issues.

The Company ensures that ethical values and behaviours are recognised and respected by the adoption of appropriate policies which all members of staff are required to read and to which have constant access.

### **9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the board**

#### ***Board programme***

The Board meets at least seven times each year in accordance with its scheduled meeting calendar. The Board sets direction for the Company through a formal schedule of reserved matters for its decision.

#### **Companies Act Requirements**

1. Approval of interim and final financial statements.
2. Approval of the interim dividend and recommendation of the final dividend.
3. Approval of any significant changes in accounting policies or practices.
4. Appointment or removal of the company secretary.
5. Remuneration of the auditors and recommendations for the appointment or removal of auditors, following recommendation of the Audit Committee.
6. Resolutions and corresponding documentation to be put forward to shareholders at a General Meeting.

## **Corporate Governance** continued

### **Stock Exchange/Financial Services Authority**

7. Approval of all circulars, listing particulars and announcements.
8. Approval of press releases concerning matters decided by the board.

### **Board membership and board committees**

9. Board appointments and removals, the overall remuneration policy and any special terms and conditions attached to the appointment (subject to the recommendations of the Remuneration committee).
10. Selection and terms of reference of chairman, chief executive and other executive directors.
11. Terms of reference and membership of board committees.
12. Where applicable, appointment of the senior independent director.
13. Succession planning for the board and senior management.
14. Continuance in office of directors at the end of their office, where they are due to be re-elected by shareholders in general meeting or at any other time, subject to the law and the director's service contract.
15. Reviewing reports from committees on activities and progress.

### **Strategy and Management**

16. Overall management of the group.
17. Approval of the group's long term objectives and commercial strategy.
18. Approval of the annual group budgets and any material changes to them.
19. Changes relating to the group's capital structure, listing or its status as a plc.
20. Oversight of the group's operations to ensure competent management, sound planning, adequate systems of internal control, adequate accounting and other records are kept, and compliance with statutory and regulatory obligations are achieved.
21. Review of performance against strategy, budgets, business plans and set objectives and implementation of necessary corrective action.
22. Extending the group's activities into new business or geographic areas or ceasing all or any material part of the group's business.
23. Changes to the group's management and control structure.
24. Capital expenditure projects.
25. Material, either by reason of size or strategically, contracts of the company in the ordinary course of business (defined as the rental and sale of wellhead equipment), above £750,000 for rental equipment, or above £350,000 p.a. for contracts of one year or more.
26. Major investments including the acquisition or disposal of interests of more than 5 percent in the voting shares of any company or the making of any takeover bid.
27. Risk management strategy and review.
28. Treasury policies including foreign currency exposure.

### **Miscellaneous**

29. Review of the company's overall corporate governance arrangements and performance of the board, its committees and the individual directors.
30. Determining 'independence' of the directors.
31. Investor relations management.
32. Major changes in the rules of the company pension scheme.
33. Major changes in employee share schemes.
34. Formulation of policy regarding charitable donations.
35. Political donations.

36. Approval of the company's principal professional advisers.
37. Litigation of any nature to be notified to the board and any settlements above £5,000.
38. Internal control arrangements, annual review and statement in the annual report, subject to recommendations of the Audit Committee as appropriate.
39. Directors' & Officers' liability insurance.
40. Approval of the group's share dealing, code of conduct, health and safety, environmental and corporate social responsibility policies.
41. Approval of third party guarantees

Prior to the start of each financial year, a schedule of Key Dates for that year's Board and associated meetings is compiled to align as far as reasonably practicable with the Company's financial calendar, while also ensuring an appropriate spread of meetings across the financial year.

The Key Dates schedule is updated throughout the year as necessary. This may be supplemented by additional meetings as and when required, for example in relation to corporate activity. 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. Any Director may challenge Company proposals and decisions are taken democratically after discussion. Any Director who feels that any concern remains unresolved after discussion may ask for that concern to be noted in the minutes of the meeting, which are then circulated to all Directors. Any specific actions arising from such meetings are agreed by the Board or if relevant by a Committee, and then followed up by the Company's management.

### ***Roles of the Board, Chairman and Chief Executive Officer.***

The Board is responsible for the long-term success of the Company. There is a formal schedule of reserved Board matters, and it is responsible for overall Group strategy; approval of major investments (whether Capex or Opex); approval of the annual and interim results; annual budgets; dividend policy; and Board structure. It also monitors the exposure to key business risks. There is a clear division of responsibility at the head of the Company. The Chairman is responsible for running the business of the Board and for reviewing appropriate strategic focus and direction. The Chief Executive Officer is responsible for proposing the strategic focus to the Board, implementing it once it has been approved and overseeing the management of the Company through the Executive Team.

All Directors receive regular 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 agreed budget, and the Board reviews the monthly update on performance and any significant variances are reviewed at each meeting. Senior executives below Board level attend Board meetings where appropriate to present business updates.

### ***Executive Team***

The Executive Team consists of Ben van Bilderbeek CEO, Graham Stevens CFO and Craig Hendrie Technical Director, with input from the subsidiary directors and teams. They are responsible for the day-to-day management of the Group's businesses and its overall trading, operational and financial performance in fulfilment of that strategy, as well as plans and budgets approved by the Board of Directors. They in conjunction with the Board manage and oversee key risks, and where appropriate management development. Graham Stevens is responsible for overseeing shareholder communications, and Craig Hendrie leads on R&D and engineering development activities. The Chief Executive Officer reports to the plc Board on issues, progress and recommendations for change. The controls applied by the Executive Team to financial and non-financial matters are set out earlier in this document.

### ***Board Committees***

The Board is supported by the Audit Committee and where necessary the Remuneration Committee. Each committee has access to such resources, information and advice as it deems necessary, at the cost of the



Company, to enable the committee to discharge its duties. The duties of the Audit Committee have been outlined in the detail on Principal 4 in this report. The overall duties of the Remuneration Committee are determining the policy and all elements of the remuneration of the executive directors of the Company and other senior executives (“the Executives”) of the Group and the duties of the Remuneration Committee are:

- to consider the basic salary paid to the Executives and any recommendations made by the Chairman of the Company for changes to that basic salary
- to consider any bonuses to be paid to the Executives and, in respect of any element of remuneration of an Executive which is performance related, to formulate suitable performance related criteria and monitor their operation, and to consider any recommendations of the Chairman of the Company regarding bonuses or performance related remuneration
- to advise on and determine all performance-related formulae relevant to the remuneration of the directors of the Company and to consider the eligibility of directors for annual bonuses and benefits under long term incentive schemes
- to administer all aspects of any executive share option scheme operated by or to be established by the Company including but not limited to (subject always to the rules of that scheme and any applicable legal and Stock Exchange requirements):
  - (1) the selection of those eligible directors of the Company and its subsidiary companies to whom options should be granted
  - (2) the timing of any grant
  - (3) the numbers of shares over which options are to be granted
  - (4) the exercise price at which options are to be granted
  - (5) the imposition of any objective condition which must be complied with before any option may be exercised
- to have regard in the performance of the duties set out in this clause to any published guidelines or recommendations regarding the remuneration of directors of listed companies and formation and operation of share option schemes (in particular the guidelines published by the Association of British Insurers and National Association of Pension Funds) which the Remuneration Committee considers relevant or appropriate
- to consider and make recommendations to the directors of the Company concerning disclosure of details of remuneration packages and structures in addition to those required by law
- to consider other benefits granted to the Executives and any recommendations of the Chairman of the Company for changes in those benefits
- to consider the pension arrangements applicable to the Executives
- to consider and make recommendations in respect of the terms of the service contracts of the Executives and any proposed changes to these contracts (including, without limitation, any compensation payments, notice periods, or other entitlements under these contracts)
- to consider other matters relating to the remuneration of or terms of employment applicable to the Executives and referred to the Remuneration Committee by the Board

The governance framework is subject to review on an ongoing basis. No changes to the governance framework are currently planned.

### **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 Regulatory News Service announcements, the Annual Report and Accounts, full-year and half-year announcements, the Annual General Meeting (AGM) and one-to-one meetings with existing or potential institutional new shareholders.

Most day to day shareholder interaction and communication is the responsibility of the CEO and the CFO.

## Corporate Governance continued

A range of corporate information (including all Company announcements) is also available to shareholders, investors and the public on the Company's corporate website, [www.plexusplc.com](http://www.plexusplc.com)

The Board receives updates on the views of shareholders through briefings and reports from the Company's brokers, Cenkos.

The Company communicates with institutional investors where requested through briefings with management. In addition, analysts' notes and brokers' briefings are reviewed to achieve a wide understanding of investors' views.

Regular and open communication is encouraged between all layers of management to ensure that any issues or concerns can be raised.

Because of the volume of commercially sensitive information contained within Audit Committee Reports, the Board considers it inappropriate to make public such reports. The Board highlights that since the incorporation of the Company and the listing of its shares on the Alternative Investment Market of the London Stock Exchange, the Company's auditors have signed unqualified reports in respect of the audited accounts for each financial year and have not raised any concerns regarding the interim reports.

Similarly, with regard to Remuneration Reports, the Board considers it inappropriate to make public such reports. The Board also highlights that it is pleased to note the maturity of the shareholder base comprising as it does both long term private investors and a number of blue-chip institutional investors which the Directors interpret as an endorsement of the medium to long term strategy of the Company. A resolution is proposed at every AGM for the approval of the Directors' Remuneration Report and to date only a small minority of votes are cast against such a resolution.

The Company announces the results of all votes on resolutions proposed at any general meeting of the members of the Company by releasing a RNS to the London Stock Exchange immediately upon the conclusion of the meeting. It has not had occasion to announce where a significant proportion of votes (e.g. 20% or more of independent votes) has been cast against any particular resolution, although intends to include this information in the future, where applicable, including a summary of the actions it would take to understand the reasons behind such a voting result. The Company maintains on its website an increasing library of documents including all circulars to shareholders, RNS news releases and historic documents which the Board considers adequate – <http://www.plexusplc.com/investors/aim-rule-26>

# Remuneration Committee Report

## Introduction

Companies trading on AIM are not required to provide a formal remuneration report. However, in line with current best practice this report provides information to enable a greater level of understanding as to how Directors' remuneration is determined.

The Remuneration Committee of the Board is responsible for considering Directors' remuneration packages. The Committee comprises two Non-Executive Directors J. Jeffrey Thrall and Charles Jones.

## Remuneration policy

The Group's policy is to attract, retain and motivate high calibre executives capable of achieving the Group's objectives. Executive Directors receive salaries, annual bonuses (as and when appropriate), medical cover, and pension scheme contributions.

The Committee determines the policy of the overall remuneration package for Executive Directors and other senior executives. Basic salaries and benefits of all employees are normally reviewed every year, and the Group and the Committee as part of this process may seek advice from external remuneration consultants as and when appropriate. In reviewing salaries, consideration is given to personal performance, the Group's overall performance and external comparative information.

An annual performance or transaction related bonuses may be payable to Executive Directors and senior staff, and when appropriate an exercise is undertaken, again in conjunction where appropriate with external remuneration consultants to look at market comparisons, benchmarks, relative performance as well as consideration of strategic progress in addition to simply financial ones. Comparator group analysis includes oil and gas exploration companies with broadly similar market capitalisations and numbers of employees, as well as oil and gas service companies where, although the market capitalisation range is wide, it is still relevant as these are the sort of companies with which Plexus may compete for talent.

## Service contracts

The Executive Directors have service agreements with the Company dated 25 November 2005 subject to termination upon twelve months' notice being given by either party.

## Pensions

The Group offers a contributory group stakeholder pension scheme, into which the Group makes matching contributions up to a pre-agreed level of base salary; the scheme is open to Executive Directors and permanent employees. Directors may alternatively choose to have contributions paid into existing personal pension plans.

## Non-executive Directors

The Non-Executive Chairman, J. Jeffrey Thrall, entered into a Letter of Appointment with the Company dated 25 November 2005 for an initial term through to the first AGM and having been re-elected as a director either party can terminate upon three months' notice being given. The subsequently appointed Non-Executive Directors, Geoff Thompson, Charles Jones and Kunming Liu, entered into their Letters of Appointment with the Company dated 8 June 2010, 18 September 2014, and 17 December 2015 respectively, and having been re-elected as a director at the first respective AGM following their appointment, are subject to the same termination conditions as those applicable to Mr Thrall. Mr Thompson retired from the board in May 2018.

## Remuneration Committee Report continued

### Directors' remuneration

Details of Directors' remuneration for the year are set out below:

	Short-Term Employee Benefits	Post- Employment Benefits	Share- Based Payment	IFRS 2 Charge for Share Options	2018 Total £	2017 Total £
	Salary & Fees (incl. annual bonus) £	Benefits £	Pension £			
<b>Executive Directors</b>						
Ben van Bilderbeek	517,406	20,613	—	—	<b>538,019</b>	249,089
Graham Stevens	259,431	13,726	—	—	<b>273,157</b>	136,182
Craig Hendrie	200,219	744	14,350	—	<b>215,313</b>	115,171
<b>Non-executive Directors</b>						
J Jeffrey Thrall	19,500	—	—	—	<b>19,500</b>	19,500
Geoff Thompson	10,160	—	—	—	<b>10,160</b>	12,000
Charles Edward Jones	18,000	—	—	—	<b>18,000</b>	18,000
Kunming Liu	18,000	—	—	—	<b>18,000</b>	18,000
<b>Total</b>	<b>1,042,716</b>	<b>35,083</b>	<b>14,350</b>	<b>—</b>	<b>1,092,149</b>	<b>567,942</b>

### Directors' interest in share options

The options and awards have been granted pursuant to the Executive 2005 Share Option Scheme and Non-Executive 2005 Share Option Scheme to the following Directors:

#### Executive 2005 Share Option Scheme

Name	No of Options At 30/06/16	Granted During 16/17	Lapsed During 16/17	Exercised During 16/17	No of Options At 30/06/17	Granted During 17/18	Lapsed During 17/18	Exercised During 17/18	No of Options At 30/06/18	Date of Grant	No of Options Vested At 30/06/18	Expiry Date	Exercise Price (£)
B. van Bilderbeek	194,152	—	—	—	194,152	—	—	—	194,152	09/12/05	194,152	08/12/25	0.59
B. van Bilderbeek	65,902	—	—	—	65,902	—	—	—	65,902	20/06/07	65,902	19/06/27	0.385
B. van Bilderbeek	332,110	—	—	—	332,110	—	—	—	332,110	17/12/09	332,110	16/12/19	0.41
B. van Bilderbeek	169,642	—	—	—	169,642	—	—	—	169,642	25/03/11	169,642	24/03/21	0.60
G. Stevens	138,407	—	—	—	138,407	—	—	—	138,407	09/12/05	138,407	08/12/25	0.59
G. Stevens	43,177	—	—	—	43,177	—	—	—	43,177	20/06/07	43,177	19/06/27	0.385
G. Stevens	217,795	—	—	—	217,795	—	—	—	217,795	17/12/09	217,795	16/12/19	0.41
G. Stevens	101,042	—	—	—	101,042	—	—	—	101,042	25/03/11	101,042	24/03/21	0.60
C. Hendrie	254,407	—	—	—	254,407	—	—	—	254,407	09/12/05	254,407	08/12/25	0.59
C. Hendrie	43,177	—	—	—	43,177	—	—	—	43,177	20/06/07	43,177	19/06/27	0.385
C. Hendrie	217,795	—	—	—	217,795	—	—	—	217,795	17/12/09	217,795	16/12/19	0.41
C. Hendrie	105,853	—	—	—	105,853	—	—	—	105,853	25/03/11	105,853	24/03/21	0.60

#### Non-executive 2005 Share Option Scheme

Name	No of Options At 30/06/16	Granted During 16/17	Lapsed During 16/17	Exercised During 16/17	No of Options At 30/06/17	Granted During 17/18	Lapsed During 17/18	Exercised During 17/18	No of Options At 30/06/18	Date of Grant	No of Options Vested At 30/06/18	Expiry Date	Exercise Price (£)
J. Thrall	40,169	—	—	—	40,169	—	—	—	40,169	09/12/05	40,169	08/12/25	0.59
G. Thompson	100,000	—	—	—	100,000	—	—	—	100,000	08/06/10	100,000	07/06/20	0.60

No options are expected to lapse at the AGM.

## **Remuneration Committee Report** continued

On 9 July 2015 the Board of Plexus approved certain amendments to the rules of the Plexus Holdings plc 2005 Share Option Scheme (the “Plan”) such that the Company is permitted to extend the exercise period for options granted under the Plan by a further ten years. Subsequently on 8 June 2017 the Company entered into deeds of amendment with Ben van Bilderbeek, Graham Stevens, Craig Hendrie, and eleven employees in respect of options granted to them on 20 June 2007 under the scheme, to enable each holder to exercise these particular options up until 19 June 2027, subject to all other terms of the scheme rules.

The lowest mid-market price of the Company’s shares in the year to 30 June 2018 was 46.90p on 27 June 2018, and the high in the period to 30 June 2018 was 81.50p on 11 January 2018. The mid-market price on 30 June 2018 was 50.00p.



## Statement of Directors' Responsibilities

The directors are responsible for preparing the Directors' Report, Strategic Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Company and of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have a 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.

The directors are further responsible for ensuring that the Strategic Report and the Report of the Directors and other information included in the Annual Report and Financial Statements is prepared in accordance with applicable law in the United Kingdom.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website ([www.plexusplc.com](http://www.plexusplc.com)). The work carried out by the auditors does not involve the consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred in the accounts since they were initially presented on the website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

**G Stevens**

*Director*

7 November 2018

# Independent Auditor's Report to the Shareholders of Plexus Holdings plc

## Opinion

We have audited the financial statements of Plexus Holdings Plc (the “Parent Company”) and its subsidiaries (the “Group”) for the year ended 30 June 2018, which comprise:

- the Group statement of comprehensive income for the year ended 30 June 2018;
- the Group and Parent Company statements of financial position as at 30 June 2018;
- the Group and Parent Company statements of cash flows and statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the Group and Parent Company financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 June 2018 and of the Group's loss for the period then ended;
- the Group's financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Parent Company's financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union as applied in accordance with the requirements of the Companies Act 2006; 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 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, 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 ISAs (UK) require us to report to you when:

- 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 and 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.

# Independent Auditor's Report to the Shareholders of Plexus Holdings plc contd

## Overview of our audit approach

### *Materiality*

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £500,000, based on approximately 8% of the Group's normalised loss before taxation for the period.

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

Where considered appropriate performance materiality may be reduced to a lower level, such as, for related party transactions and directors' remuneration.

We agreed with the Audit Committee to report to it all identified errors in excess of £20,000. Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

### *Overview of the scope of our audit*

The Group and its subsidiaries are accounted for from one central operating location, the group's registered office. Our audit was conducted from the main operating location and all group companies were within the scope of our audit testing.

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

#### **Key audit matter**

#### **How the scope of our audit addressed the key audit matter**

##### *Impairment of intangible assets, including goodwill*

The Group carries intangible assets at a net book value of £12.24 million (2017: £14.45 million). This balance is primarily represented by intellectual property, patent and other development expenditure.

Management prepares annual impairment calculations to assess the carrying value of intangible assets as set out in the accounting policy in note 1f and 1g to the financial statements.

Our procedures included:

- Considering the appropriateness of the accounting policy and methodology applied in the impairment testing against the requirements of the accounting framework;
- Obtaining management's impairment reviews, challenging the basis of preparation and recalculating the mathematical accuracy of the computations;

## Independent Auditor's Report to the Shareholders of Plexus Holdings plc contd

The performance of the impairment review requires management to make key judgements and assumptions. As a result, we identified the impairment of intangible assets, including goodwill, as a significant risk, which was one of the most significant assessed risks of material misstatement.

- Considering the appropriateness of the discount rate applied and the forecast period; and
- Tracing the key data used in the impairment calculations to underlying accounting records and reviewing forecast assumptions with management.

We also considered the adequacy of the disclosures in the financial statements in relation to this as a significant area of judgement.

### *Treatment of business disposal*

The group completed the sale of its Jack-up exploration application business, a significant part of the business, during the year and recorded a gain of £5.825 million on the disposal.

The calculation of the gain on disposal required management to make key judgements and assumptions in relation to the fair value of accrued consideration.

Our procedures included:

- Obtaining documentation in relation to the business disposal;
- Obtaining management's computation of the gain on disposal and recalculating the mathematical accuracy of the computations and the allocation of the statement of comprehensive income items between continuing and discontinued operations; and
- Tracing the key data used in the gain on sale calculations and reviewing the assumptions used in allocating revenue and costs between continuing and discontinued operations.

We also considered the adequacy of the disclosures in the financial statements in relation to the disposal.

### *Revenue recognition*

Revenue is recognised in accordance with the accounting policy set out in the accounting policy in note 1d to the financial statements.

Our procedures included:

- Testing a sample of orders and contracts to ensure the appropriate amount of income had been recognised;
- Testing revenue cut off around the reporting date.

Our testing of revenue indicated that revenue is being recognised appropriately and in the correct accounting period.

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

### **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.

## **Independent Auditor's Report to the Shareholders of Plexus Holdings plc** contd

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.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion based on the work undertaken in the course of our 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 Directors' Report and Strategic Report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception:**

In light of the knowledge and understanding of the group and 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 where 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 the directors for the financial statements**

As explained more fully in the directors' responsibilities statement on page 44, 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 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.



## **Independent Auditor's Report to the Shareholders of Plexus Holdings plc** contd

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: [www.frc.org.uk/auditorsresponsibilities](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.

**Stephen Bullock** (Senior Statutory Auditor)

for and on behalf of

**Crowe U.K. LLP**

*Statutory Auditor*

London

7 November 2018

# Consolidated Statement of Comprehensive Income

for the year ended 30 June 2018

	Notes	2018 £'000	2017 £'000
<b>Revenue</b>	2	318	225
Cost of sales		(290)	(180)
<b>Gross profit</b>		28	45
Administrative expenses		(5,313)	(5,320)
<b>Operating loss</b>	4	(5,285)	(5,275)
Finance income	6	73	59
Finance costs	7	(37)	(61)
<b>Loss before taxation</b>		(5,249)	(5,277)
Income tax credit	8	555	999
<b>Loss after taxation from continuing operations</b>		(4,694)	(4,278)
Profit/(loss) after taxation from discontinued operations	9	4,322	(1,424)
Loss for year		(372)	(5,702)
Other comprehensive income		–	–
<b>Total comprehensive income for the year attributable to the owners of the parent</b>		(372)	(5,702)
<b>(Loss)/earnings per share</b>	10		
Basic from continuing operations		(4.45p)	(4.06p)
Diluted from continuing operations		(4.45p)	(4.06p)
Basic from discontinued operations		4.10p	(1.35p)
Diluted from discontinued operations		4.08p	(1.35p)

All income arises from continuing operations

# Consolidated Statement of Financial Position

at 30 June 2018

	Notes	2018 £'000	2017 £'000
<b>Assets</b>			
Goodwill	11	767	767
Intangible assets	12	11,469	13,678
Property, plant and equipment	14	4,004	11,976
Non-current financial assets	15	2,124	–
Deferred tax asset	8	984	287
Other receivables	9	6,337	–
<b>Total non-current assets</b>		<b>25,685</b>	<b>26,708</b>
Asset held for sale	16	–	396
Inventories	17	1,871	6,840
Trade and other receivables	18	4,888	1,008
Current income tax asset		414	966
Cash and cash equivalents		13,296	7,178
<b>Total current assets</b>		<b>20,469</b>	<b>16,388</b>
<b>Total Assets</b>		<b>46,154</b>	<b>43,096</b>
<b>Equity and Liabilities</b>			
Called up share capital	20	1,054	1,054
Share premium account		36,893	36,893
Share based payments reserve	21	674	767
Retained earnings		2,295	2,575
<b>Total equity attributable to equity holders of the parent</b>		<b>40,916</b>	<b>41,289</b>
<b>Liabilities</b>			
Other non-current liabilities	9	493	–
Bank loans	23	75	375
<b>Total non-current liabilities</b>		<b>568</b>	<b>375</b>
Trade and other payables	19	4,370	1,132
Bank loans	23	300	300
<b>Total current liabilities</b>		<b>4,670</b>	<b>1,432</b>
<b>Total liabilities</b>		<b>5,238</b>	<b>1,807</b>
<b>Total Equity and Liabilities</b>		<b>46,154</b>	<b>43,096</b>

These financial statements were approved and authorised for issue by the board of directors on 7 November 2018 and were signed on its behalf by:

**G Stevens**  
Director

**C Hendrie**  
Director

Company Number: 03322928

## Consolidated Statement of Changes in Equity

for the year ended 30 June 2018

	Called Up Share Capital £'000	Share Premium Account £'000	Share Based Payments Reserve £'000	Retained Earnings £'000	Total £'000
<b>Balance as at 30 June 2016</b>	<b>1,054</b>	<b>36,893</b>	<b>766</b>	<b>8,277</b>	<b>46,990</b>
Total comprehensive income for the year	–	–	–	(5,702)	(5,702)
Net deferred tax movement on share options	–	–	1	–	1
<b>Balance as at 30 June 2017</b>	<b>1,054</b>	<b>36,893</b>	<b>767</b>	<b>2,575</b>	<b>41,289</b>
Total comprehensive income for the year	–	–	–	(372)	(372)
Net deferred tax movement on share options	–	–	(1)	–	(1)
Reallocation following lapse/expiry/forfeit of share options		–	(92)	92	–
<b>Balance as at 30 June 2018</b>	<b>1,054</b>	<b>36,893</b>	<b>674</b>	<b>2,295</b>	<b>40,916</b>

## Consolidated Statement of Cash Flows

for the year ended 30 June 2018

	Notes	2018 £'000	2017 £'000
<b>Cash flows from operating activities</b>			
Loss before taxation from continuing activities		(5,249)	(5,277)
Profit/(loss) before taxation from discontinued activities		4,232	(1,757)
Loss before tax		(1,017)	(7,034)
Adjustments for:			
Depreciation, amortisation charges		3,030	4,472
Gain on disposal of property, plant and equipment		(87)	(1)
Gain on sale of discontinued operation		(5,825)	–
Fair value adjustment on financial assets		21	–
Investment income		(73)	(59)
Interest expense		37	61
Changes in working capital:			
Decrease in inventories		(1,860)	(114)
(Increase)/decrease in trade and other receivables		(1,377)	739
Increase/(decrease) in trade and other payables		2,667	(413)
<b>Cash used in operating activities</b>		<b>(4,484)</b>	<b>(2,349)</b>
Income taxes refunded/(paid)		500	(160)
<b>Net cash used from operating activities</b>		<b>(3,984)</b>	<b>(2,509)</b>
<b>Cash flows from investing activities</b>			
Funds invested in financial instruments		(2,145)	–
Net initial proceeds from sale of discontinued operation		14,050	–
Associated costs on sale of discontinued operation		(1,585)	–
Purchase of intangible assets		(231)	(632)
Purchase of property, plant and equipment		(447)	(287)
Proceeds of sale of property, plant and equipment		329	45
Net proceeds from sale of asset held for sale		395	–
Interest received		73	59
<b>Net cash generated/(used) in investing activities</b>		<b>10,439</b>	<b>(815)</b>
<b>Cash flows from financing activities</b>			
Repayment of loans and banking facilities		(300)	(5,300)
Interest paid		(37)	(61)
<b>Net cash outflow from financing activities</b>		<b>(337)</b>	<b>(5,361)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>6,118</b>	<b>(8,685)</b>
Cash and cash equivalents at 1 July 2017		7,178	15,863
<b>Cash and cash equivalents at 30 June 2018</b>	23	<b>13,296</b>	<b>7,178</b>



# Notes to the Consolidated Financial Statements

## 1. Summary of significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial information.

### *a. Basis of preparation*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board as adopted by the European Union and are in accordance with the Companies Act 2006.

The following new standards, interpretations and amendments, which are not yet effective and have not been adopted early in these financial statements, will or may have an effect on the group's future financial statements:

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and is effective for accounting periods beginning on or after 1 January 2018. The final standard contains new requirements which cover classification and measurement, impairment, and hedge accounting. The recognition and derecognition requirements for financial assets and financial liabilities are unchanged from IAS 39. In particular IFRS 9 sets out a new forward looking expected credit loss model which replaces the incurred loss model in IAS 39. An assessment of the effect of adopting this standard is in progress. Following an initial review, the effect of adopting this standard is not expected to be significant.

IFRS 15 Revenue from contracts with customers replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations and is effective for accounting periods beginning on or after 1 January 2018. The standard establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. An assessment of the effect of adopting this standard is in progress. Following an initial review and considering the immaterial level of continuing revenues, the effect of adopting this standard is not expected to be significant.

IFRS 16, which supersedes IAS 17, sets out principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). Lessee accounting will change substantially under this new standard while there is little change for the lessor. IFRS 16 eliminates the classification of leases as either operating leases or financing leases and, instead, introduces a single lessee accounting model. A lessee will be required to recognise assets and liabilities for all leases with a term of more than 12 months (unless the underlying asset is of low value) and will be required to present depreciation of leased assets separately from interest on lease liabilities in the consolidated statement of comprehensive income. A lessor will continue to classify its leases as operating leases or financing leases, and to account for those two types of leases separately. IFRS 16 is effective for fiscal periods beginning on or after 1 January 2019. The Group is in the process of evaluating the impact of IFRS 16.

The Group financial statements are presented in sterling and all values are rounded to the nearest thousand pounds except where otherwise indicated.

The financial information has been prepared under the historical cost convention except where fair value adjustments are required.

Cost of sales includes salary and related costs for service personnel, and depreciation, refurbishment costs on rental assets and other costs which are directly attributable to revenue generating projects.

## Notes to the Consolidated Financial Statements continued

### *b. Going concern*

The Group's activities and an outline of the developments taking place in relation to its products, services and marketplace are considered in the Strategic Review on pages 11 to 20 along with an explanation of revenue, trading results and cash flows.

Note 24 to the Financial Statements sets out the company's financial risks and the management of capital risks.

At the year end, the Group had cash and cash equivalents of £13.3m and bank facilities of £5.375m comprising a £5m revolving credit facility which has not been drawn down and a term loan facility which had a balance of £0.375m, and which is repayable in quarterly instalments of £75k with the final repayment due by September 2019.

On 19 October 2017 the Group announced the sale of its wellhead exploration equipment and services business for Jack-up applications (the 'Jack-up Business') to FMC Technologies Limited ('TFMC'), a subsidiary of TechnipFMC (Paris:FTI) (NYSE:FTI) one of the leading oil & gas service and equipment companies (the 'Disposal'). This transaction was completed on 1st February 2018, with the Group receiving an initial net consideration £14.1m. An additional gross sum of up to a maximum of £27.5m is payable dependent on the future performance of the Jack-up Business during a three year earn-out period.

In addition and as part of the Transaction, Plexus, Plexus' subsidiary POSL and TFMC have also entered into a Collaboration Agreement ('CA') which establishes a framework to work together both on the development of existing POS-GRIP IP for applications outside of Jack-up exploration, as well as future new technologies.

Accordingly, after careful enquiry and review of available financial information, including projections and cash flows for the period to 30 November 2019, the Directors believe that the company has adequate resources to continue to operate for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis of accounting in the preparation of the consolidated and company financial statements.

### *c. Basis of consolidation*

The group financial statements consolidate the financial statements of Plexus Holdings plc and the entities it controls (its subsidiaries) drawn up to 30 June each year. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct and indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. Subsidiaries are consolidated from the date of their acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from intra group transactions, have been eliminated in full. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Within twelve months of the date of acquisition of a subsidiary undertaking a re-assessment is made of the fair value of the assets and liabilities acquired in order to assess any provisional values used in initial accounting.

The financial statements of the Company and its subsidiaries are prepared in sterling (the functional currency), which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Group. Transactions and balances in foreign currencies are converted into sterling in accordance with the principles set forth by IAS 21 ("The Effects of Changes in Foreign Exchange Rates"). Accordingly, transactions and balances have been converted as follows:

- Monetary assets and liabilities – at the rate of exchange applicable at the balance sheet date; and

- Income and expense items – at exchange rates applicable as of the date of recognition of those items. Exchange gains and losses are recognised in the consolidated statement of comprehensive income.

### *d. Revenue*

Revenue represents the amounts (excluding value added tax) derived from wellhead rentals and sales of wellheads, plus associated equipment and services.

Income from rental contracts is recognised over the period of the rental on a straight-line basis. Income from equipment sales is recognised following product acceptance by the customer. Income from services is recognised over the period of performance of the services. Income from construction contracts is recognised in accordance with paragraph (m) below.

### *e. Income taxes and deferred taxation*

The income tax credit for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax credit is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

As set out in note 21 the Group operates a share option scheme. Where the market price of the shares at the year-end exceeds the option price there is a potential tax deduction. This is treated as a deferred tax asset. The portion of the expected future tax deduction which is less than or equal to the associated cumulative IFRS2 charge is recognised in the income statement. The balance of the credit is recognised directly in equity.

### *f. Goodwill*

Goodwill is monitored by management at the operating segment level. All goodwill has been allocated to the single operating segment, which is considered to be a group of similar cash generating units (CGU's) for impairment purposes.

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable assets acquired) arising on business combinations in respect of acquisitions is capitalised.

Goodwill is not amortised; it is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually.

The recoverable amount of the goodwill has been determined on a value in use basis.

## Notes to the Consolidated Financial Statements continued

The key assumptions on which the valuation is based are that:

- Industry acceptance will over time result in growth of the business above long term industry growth rates. Management consider this to be appropriate for a new technology still gaining industry acceptance,
- Prices will rise with inflation,
- Staff wage inflation will be higher than general inflation but will not rise in line with sales.

These assumptions were determined from the directors' knowledge and experience.

The cash flows are based upon a 20-year period which is the period covered by the relevant patents, and, in accordance with historical trends and current expectations. In making these calculations Management have not included an assessment of the terminal value. The company's Weighted Average Cost of Capital for discounting purposes has been measured at 10.87%. A discounted cashflow model has been prepared for both an organic sales model and a licensing sales model. The cashflows are based upon approved budgets for the following 12 months, beyond this they are based upon management's expectations of future developments.

Management regularly assesses the sensitivity of the key assumptions and the probability that any of them would change to the degree that the carrying value would exceed the recoverable amount. It would require a substantial movement (over 100%) in any of these assumptions before there would be any impairment to goodwill.

### *g. Intangible assets and amortisation*

Patents are recorded initially at cost and amortised on a straight-line basis over 20 years which represents the life of the patent. The Group operates a policy of continual patent enhancement in order that technology enhancements and modifications are incorporated within the registered patent, thereby protecting the value of technology advances for a full 20-year period.

Intellectual Property rights are initially recorded at cost and amortised over 20 years on a straight-line basis. The technology defined by the Intellectual Property is believed to be able to generate income streams for the Group for many years; key Intellectual Property is protected by patents; the lowest common denominator in terms of economic life of the intangible assets is the life of the original patents and therefore the life of the Intellectual Property has been matched to the remaining life of the patents protecting it.

Development expenditure is capitalised in respect of development of patentable technology at cost including an allocation of own time when such expenditure is incurred on separately identifiable technology and its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised on a straight-line basis over its useful economic life, which the directors consider to be 20 years.

Computer software is amortised over 2 to 5 years on a straight-line basis.

In all cases the amortisation period represents the expected useful life of the asset.

Amortisation is charged to the Administrative Expenses line of the Statement of Comprehensive Income.

Expenditure on research and development, which does not meet the capitalisation criteria, is written off to the Statement of Comprehensive Income in the period in which it is incurred.

The carrying value of intangible assets is reviewed on an on-going basis by the directors and, where appropriate, provision is made for any indication of impairment in value. Where impairment arises, 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, an estimate is made of the recoverable amount of the cash-generating unit to which the asset belongs.

## Notes to the Consolidated Financial Statements continued

The 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 discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

The key assumptions on which the valuation is based are that:

- Industry acceptance will result in continued growth of the business above long term industry growth rates, Management consider this to be appropriate for a new technology gaining industry acceptance,
- Prices will rise with inflation,
- Staff wage inflation will be higher than general inflation but will not rise in line with sales.

These assumptions were determined from the directors' knowledge and experience.

The value in use calculation is based on cash flow forecasts derived from the most recent financial model information available. Although the Group's technology is proven and has proven commercial value the exploitation of opportunities beyond the rental wellhead exploration equipment services market are at a relatively early stage and the commercialisation process is expected to be a long term one. The cash flow forecasts therefore extend to 2037 to ensure the full benefit of all current projects is realised. The rationale for using a timescale up to 2037 with growth projections which increase in the first five years and decline thereafter, is that as time progresses, Plexus expects to gain an increasing foothold in the subsea and other equipment markets which are already well established.

The key assumptions used in these calculations include discount rate, revenue projections, growth rates, expected gross margins and the lifespan of the Group's technology. Management estimates the discount rates using pre-tax rates that reflect current market assessments of the time value of money and risks specific to the Group and the markets in which it operates. Revenue projections, growth rates, margins and technology lifespans are all estimated based on the latest business models and the most recent discussions with customers, suppliers and other business partners.

It would require a substantial movement (over 100%) in any of these assumptions before there would be any impairment to intangible assets.

Any impairment loss would be recognised immediately in the Statement of Comprehensive Income.

### *h. Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation. Cost represents the cost of acquisition or construction, including the direct cost of financing the acquisition or construction until the asset comes into use.

Depreciation is provided to write off the cost or valuation of property, plant and equipment less the estimated residual value by equal instalments over their estimated useful economic lives as follows:

Buildings	Over the remaining life of the lease on the land on which the building is constructed
Tenant improvements	Over the remaining life of the lease of the relevant building
Equipment	7% – 50% per annum
Motor vehicles	20% per annum

The expected useful lives and residual values of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful life or residual value are accounted for prospectively.



## Notes to the Consolidated Financial Statements continued

The carrying value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of Comprehensive Income in the period the item is derecognised.

### *i. Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand form an integral part of the Group's cash management and are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### *j. Foreign currencies*

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the statement of financial position date and the gains or losses on translation are included in the Statement of Comprehensive Income.

The functional currency of the Group is pounds sterling.

### *k. Leases*

Operating lease rentals are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

### *l. Inventory*

Inventory is stated at the lower of cost and net realisable value. Cost is determined on a first in first out basis and includes all direct costs incurred and attributable production overheads. Net realisable value is based on estimated selling price allowing for all further costs to completion and disposal.

### *m. Construction contracts and work in progress*

The amount of profit attributable to the stage of completion of a long-term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Revenue for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the Statement of Comprehensive Income, after deducting foreseeable losses and payments on account not matched with revenue.

Construction work in progress is included in debtors and represent revenue recognised in excess of payments on account. Where payments on account exceed revenue a payment received on account is established and included within creditors.

The stage of completion for contracts is determined according to the level of progress of each item that is included in the contract and the estimated cost to complete.

### *n. Pensions*

The Group offers a contributory Group stakeholder pension scheme, into which the Group will make matching contributions up to a pre-agreed level of base salary; the scheme is open to executive directors and permanent employees. Directors may choose to have contributions paid into personal pension plans.

*o. Dividends*

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when they are paid. In the case of final dividends, this is when approved by the shareholders at the AGM. Dividends unpaid at the statement of financial position date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

*p. Classification of financial instruments issued by the Group*

In accordance with IAS 32, financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

*q. Share based payments*

The Group issues share options to directors and employees, which are measured at fair value at the date of grant. The fair value of the equity settled options determined at the grant date is expensed on a straight-line basis over the vesting period based on an estimate of the number of options that will actually vest. The Group has adopted a Stochastic model to calculate the fair value of options, which enables the Total Shareholder Return (TSR) performance condition attached to the awards to be factored into the fair value calculation.

*r. Management of capital*

The Group's capital is composed of share capital and retained earnings along with a share premium account. The share premium account represents amounts received for shares issued in excess of the nominal share capital less any issue costs.

The Group's objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns to shareholders.

The Group sets the amount of capital in proportion to its assessment of the risks that it faces. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid or issue new equity.

## Notes to the Consolidated Financial Statements continued

### *s. Significant judgements made by management*

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The principal areas in which significant judgements have been made by management are as follows:

- (a) Included within the gain on the sale of the Jack-up business is accrued consideration of £8,840k. The accrual is based on TFMC's most recent revenue forecasts and has been recorded at fair value. This consideration will be revalued at fair value each reporting date for its 3-year term.
- (b) The directors have prepared projections of future revenues expected to be derived from exploiting the Group's intangible assets in future periods (following the disposal of the wellhead rental exploration equipment services business) as part of their consideration of impairment. Although the core technology is proven and has proven commercial value, the projections are subject to a significant degree of judgement because of the relative lack of track record of commercial exploitation outside the wellhead exploration equipment services business.
- (c) The directors have considered the recognition of a deferred tax asset in relation to future utilisation of trading losses. That recognition is predicated on a judgement in relation to the probable extent that sufficient taxable profit will be available against which the unused tax losses can be utilised.

### *t. Key assumptions and sources of estimation*

The estimated life of the Group's rental assets for depreciation purposes is of significance to the financial statements. The life used is with reference to engineering experience of the probable physical and commercial lifespans of the assets. Changes to these estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of comprehensive income in specific periods.

The life of the Group's Intellectual Property is estimated with reference to the lifespan of the patents which help protect the knowledge and the Group's ability to generate income from it. Changes to these estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of comprehensive income in specific periods.

Provisions require management estimates and judgements. Provision has been made against slow moving inventory based upon historical experience of the viability of the older parts as technological improvements have been made. Changes to these estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of comprehensive income in specific periods.

When measuring goodwill and intangible assets for impairment a range of assumptions are required and these are detailed in the Goodwill and Intangible Asset notes 1 (f) and 1 (g).

## **2. Revenue**

	<b>2018</b>	2017
	<b>£'000</b>	£'000
<b>By geographical area</b>		
UK	<b>269</b>	185
Europe	–	2
Rest of World	<b>49</b>	38
	<hr/> <b>318</b> <hr/>	<hr/> 225 <hr/>

## Notes to the Consolidated Financial Statements continued

The revenue information above is based on the location of the customer. Substantially all of the revenue in the current and previous periods derives from the rental of equipment and the provision of related services.

### 3. Segment reporting

The Group derives revenue from the sale of its POS-GRIP technology and associated products, the rental of wellheads utilising the POS-GRIP technology and service income principally derived in assisting with the commissioning and on-going service requirements of our equipment. These income streams are all derived from the utilisation of the technology which the Group believes is its only segment.

Per IFRS 8, the operating segment is based on internal reports about components of the group, which are regularly reviewed and used by the board of directors being the Chief Operating Decision Maker ("CODM").

All of the Group's non-current assets are held in the UK.

The following customers each account for more than 10% of the Group's continuing revenue:

	2018 £'000	2017 £'000
Customer 1	230	167
Customer 2	49	38
Customer 3	39	–

### 4. Group operating loss

(Loss)/profit on ordinary continuing activities before taxation is stated after charging/(crediting).

	2018 £'000	2017 £'000
Depreciation of tangible assets	737	805
Amortisation of intangible assets:		
– Intellectual property rights	238	238
– Research and development	632	647
– Computer software	28	36
Operating lease charges:		
– Land and buildings	–	64
– Other	17	40
Group restructuring costs	–	69
Foreign currency exchange loss	11	8
Gain on disposal of property, plant and equipment	(87)	(1)
Directors' emoluments	1,078	568
Inventories recognised as expense	45	7
Inventory write down provision	(47)	81
Auditors' remuneration:		
Fees payable to the Company's auditors for:		
The audit of the Company's annual accounts	10	10
The audit of the Company's subsidiary pursuant to legislation	30	30
Audit related assurance services	3	3
Total audit fees	43	43

## Notes to the Consolidated Financial Statements continued

### 5. Staff numbers and costs

The average number of persons, including executive directors, during the year was:

	2018 Number	2017 Number
Management	10	11
Technical	35	47
Administrative	9	15
	<u>54</u>	<u>73</u>

The aggregate payroll costs of these persons were as follows:

	2018 £'000	2017 £'000
Wages and salaries	3,947	3,841
Social security costs	384	306
Redundancy and termination payments	–	69
Pension contributions to defined contribution plans	118	150
	<u>4,449</u>	<u>4,366</u>

The total payroll costs noted above include £1,406k (2017: £1,919k) of discontinued payroll costs.

Key management are considered to be the Board of Directors and details of Directors' remuneration are given in the remuneration report on page 41 and this forms part of the financial statements.

### 6. Finance income

	2018 £'000	2017 £'000
Bank interest receivable	63	55
Investment income	7	–
Other interest receivable	3	4
	<u>73</u>	<u>59</u>

### 7. Finance costs

	2018 £'000	2017 £'000
On bank loans and overdraft	16	61
Fair value adjustment on financial assets	21	–
	<u>37</u>	<u>61</u>

## Notes to the Consolidated Financial Statements continued

### 8. Income tax expense

<i>(i) The taxation charge for the year comprises:</i>	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
<b>UK Corporation tax:</b>		
Current tax on income for the year	–	–
Adjustment in respect of prior years	(434)	(526)
	<u>(434)</u>	<u>(526)</u>
<b>Foreign tax</b>		
Current tax on income for the year	45	2
Adjustment in respect of prior years	440	(52)
	<u>485</u>	<u>(50)</u>
<b>Total current tax charge/(credit)</b>	<u>51</u>	<u>(576)</u>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	(690)	(1,054)
Adjustment in respect of prior years	(6)	299
	<u>(696)</u>	<u>(755)</u>
<b>Total deferred tax</b>	<u>(696)</u>	<u>(755)</u>
<b>Total tax credit</b>	<u>(645)</u>	<u>(1,331)</u>
The effective rate of tax is 19% (2017: 19%)		
Tax credit on discontinued activities	(90)	(332)
Tax credit on continuing activities	(555)	(999)
	<u>(645)</u>	<u>(1,331)</u>
<b>Total tax credit</b>	<u>(645)</u>	<u>(1,331)</u>
<i>(ii) Factors affecting the tax charge on continuing activities for the year</i>	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Loss on ordinary activities before tax	(5,249)	(5,277)
Tax on (loss)/profit at standard rate of UK corporation tax of 19% (2017: 19.75%)	(997)	(1,042)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	259	172
Effect of change in tax rate	112	86
Tax adjustments on share-based payments	70	(6)
Adjustments in respect of prior year	1	(209)
Group income not subject to tax	–	–
	<u>(555)</u>	<u>(999)</u>
<b>Total tax credit on continuing activities</b>	<u>(555)</u>	<u>(999)</u>
<i>(iii) Movement in deferred tax (asset)/liability balance</i>	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Deferred tax (asset)/liability at beginning of year	(287)	468
Credit to Statement of Comprehensive Income	(696)	(756)
Deferred tax movement on share options recognised in equity	(1)	1
	<u>(984)</u>	<u>(287)</u>
<b>Deferred asset at end of year</b>	<u>(984)</u>	<u>(287)</u>



## Notes to the Consolidated Financial Statements continued

<i>(iv) Deferred tax asset balance</i>	<b>2018</b>	2017
	<b>£'000</b>	£'000
The deferred tax liability balance is made up of the following items:		
Difference between depreciation and capital allowances	<b>854</b>	643
Share based payments	<b>(27)</b>	(96)
Tax losses	<b>(1,811)</b>	(705)
Tax provisions	<b>–</b>	(129)
<b>Deferred tax asset at end of year</b>	<b>(984)</b>	(287)

### 9. Discontinued Operations

On 1st February 2018 the Group sold its Jack-up Business to TFMC for an initial gross consideration of £15m, with an additional sum of up to £27.5m payable dependent on the future performance of the Jack-up Business during a three year earn-out period.

Based on current revenue forecasts provided by TFMC, the earn-out has been accrued at £8,839k, £6,337k of this balance is receivable in a period greater than one year and has been included in non-current assets.

Included in the consideration adjustment is a balance of £986k, which relates to the refurbishment of the sold rental fleet which is deductible from the earn-out payments. Half of this balance (£493k) is repayable in a period greater than one year and is included within other non-current liabilities.

The gain on sale on disposal of discontinued operation was determined as follows:

	<b>2018</b>	2017
	<b>£'000</b>	£'000
Initial gross consideration received	<b>15,000</b>	–
Accrued consideration	<b>8,840</b>	–
Consideration adjustment	<b>(2,695)</b>	–
<b>Total consideration</b>	<b>21,145</b>	–
<i>Net assets disposed</i>		
Equipment	<b>(6,122)</b>	–
Assets under consideration	<b>(5)</b>	–
Motor vehicles	<b>(3)</b>	–
Intellectual property	<b>(706)</b>	–
Patent and other development	<b>(750)</b>	–
Inventories	<b>(5,957)</b>	–
Trade and other payables	<b>(400)</b>	–
Associated cost of sale	<b>(1,377)</b>	–
	<b>(15,320)</b>	–
<b>Gain on disposal of discontinued operation</b>	<b>5,825</b>	–

The gain on sale of the Jack-up Business did not give rise to a corporation tax charge.

## Notes to the Consolidated Financial Statements continued

### 9. Discontinued Operations (continued)

The loss after tax from discontinued operation was calculated as follows:

	2018 £'000	2017 £'000
Revenue	3,907	4,524
Expenses	(5,500)	(6,281)
Loss before tax of discontinued operations	(1,593)	(1,757)
Income tax credit	90	333
Loss after tax of discontinued operations	(1,503)	(1,424)
Profit/(Loss) after taxation from discontinued operations	4,322	(1,424)

The Statement of cash flows includes the following amounts related to discontinued operations:

	2018 £'000	2017 £'000
Operating activities	(231)	(747)
Investing activities	12,424	(155)
Financing activities	–	–
Net cash generated/(used) from discontinued activities	12,193	(902)

### 10. Loss per share

	2018 £'000	2017 £'000
Loss attributable to shareholders – continuing operations	(4,694)	(4,278)
Profit/(loss) attributable to shareholders – discontinued operations	4,322	(1,424)
Loss attributable to shareholders	(372)	(5,702)
	<b>Number</b>	<b>Number</b>
Weighted average number of shares in issue	105,386,239	105,386,239
Dilution effects of share schemes	486,979	1,108,692
Diluted weighted average number of shares in issue	105,873,218	106,494,931
<b>(Loss)/earning per share</b>		
Basic Loss per share for continuing operations	(4.45p)	(4.06p)
Diluted Loss per share for continuing operations	(4.45p)	(4.06p)
Basic Loss per share for discontinued operations	4.10p	(1.35p)
Diluted Earning per share for discontinued operations	4.08p	(1.35p)

Basic loss per share is calculated on the results attributable to ordinary shares divided by the weighted average number of shares in issue during the year.

Diluted earnings per share calculations include additional shares to reflect the dilutive effect of share option schemes. As a loss was made on continuing operations for the current year the option schemes are considered to be anti-dilutive

## Notes to the Consolidated Financial Statements continued

### 11. Goodwill

	£'000
<b>Cost</b>	
As at 30 June 2016, 2017 and 2018	767
<b>Impairment</b>	
As at 1 July 2016, 2017 and 2018	–
<b>Net Book Value</b>	
<b>As at 30 June 2017 and 2018</b>	<b>767</b>

Note 1(f) provides information on the Goodwill.

### 12. Intangible assets

	Intellectual Property £'000	Patent and Other Development £'000	Computer Software £'000	Total £'000
<b>Cost</b>				
As at 30 June 2016	6,440	13,049	331	19,820
Additions	–	632	–	632
As at 30 June 2017	6,440	13,681	331	20,452
Additions	–	231	–	231
Disposals	(1,840)	(1,088)	–	(2,928)
<b>As at 30 June 2018</b>	<b>4,600</b>	<b>12,824</b>	<b>331</b>	<b>17,755</b>
<b>Amortisation</b>				
As at 30 June 2016	3,351	2,155	234	5,740
Charge for the year	330	668	36	1,034
As at 30 June 2017	3,681	2,823	270	6,774
Charge for the year	291	665	28	984
On disposals	(1,134)	(338)	–	(1,472)
<b>As at 30 June 2018</b>	<b>2,838</b>	<b>3,150</b>	<b>298</b>	<b>6,286</b>
<b>Net Book Value</b>				
<b>As at 30 June 2018</b>	<b>1,762</b>	<b>9,674</b>	<b>33</b>	<b>11,469</b>
As at 30 June 2017	2,759	10,858	61	13,678

Patent and other development costs are internally generated. Note 1 (g) provides additional information on intangible assets.

## Notes to the Consolidated Financial Statements continued

### 13. Investments

Included within the consolidated group accounts are the following subsidiary undertakings:

Subsidiary undertaking	Country of Registration	Nature of Business	Percentage of Ordinary Shares held
Plexus Ocean Systems Limited	Scotland	Supply of wellheads and associated equipment for oil and gas drilling	100%
Plexus Limited	Scotland	Dormant	100%
Plexus Holdings USA, Inc.	USA	Investment Holding	100%
Plexus Ocean Systems US, LLC	USA	Investment Holding	100%
Plexus Deepwater Technologies Limited	USA	Dormant	100%
Plexus Response Services Limited	Turks and Caicos Islands	Commercial exploitation of subsea applications	100%
Plexus Subsea International Limited	Turks and Caicos Islands	Commercial exploitation of subsea applications	100%
Plexus Ocean Systems (Malaysia) Sdn Bhd	Malaysia	Supply of wellheads and associated equipment for oil and gas drilling	100%
Plexus Ocean Systems (Brunei) Sdn Bhd	Brunei	Supply of wellheads and associated equipment for oil and gas drilling	100%
Plexus Ocean Systems (Singapore) Pte. Ltd.	Singapore	Supply of wellheads and associated equipment for oil and gas drilling	100%
Afrotel Corporation Ltd	Turks and Caicos Islands	Investment Holding	100%
Plexus Applied Technologies Limited	Scotland	Dormant	100%

The Group's investments are unlisted.

## Notes to the Consolidated Financial Statements continued

### 14. Property, plant and equipment

	Buildings £'000	Tenant Improvements £'000	Equipment £'000	Assets under Construction £'000	Motor Vehicles £'000	Total £'000
<b>Cost</b>						
As at 30 June 2016	4,379	600	30,130	58	34	35,201
Additions	–	132	65	90	–	287
Transfers	–	–	126	(126)	–	–
Reclassified to assets held for sale	(455)	–	–	–	–	(455)
Disposals	–	(26)	(1,489)	–	(2)	(1,517)
As at 30 June 2017	3,924	706	28,832	22	32	33,516
Additions	–	10	198	222	17	447
Transfers	–	–	229	(229)	–	–
Disposals	(317)	–	(23,750)	(5)	(32)	(24,104)
<b>As at 30 June 2018</b>	<b>3,607</b>	<b>716</b>	<b>5,509</b>	<b>10</b>	<b>17</b>	<b>9,859</b>
<b>Depreciation</b>						
As at 30 June 2016	808	250	18,551	–	25	19,634
Charge for the year	250	72	3,112	–	4	3,438
On disposals	–	(26)	(1,453)	–	(2)	(1,481)
Reclassified to assets held for sale	(51)	–	–	–	–	(51)
As at 30 June 2017	1,007	296	20,210	–	27	21,540
Charge for the year	225	85	1,733	–	3	2,046
On disposals	(74)	–	(17,628)	–	(29)	(17,731)
<b>As at 30 June 2018</b>	<b>1,158</b>	<b>381</b>	<b>4,315</b>	<b>–</b>	<b>1</b>	<b>5,855</b>
<b>Net Book Value</b>						
<b>As at 30 June 2018</b>	<b>2,449</b>	<b>335</b>	<b>1,194</b>	<b>10</b>	<b>16</b>	<b>4,004</b>
As at 30 June 2017	2,917	410	8,622	22	5	11,976

### 15. Financial assets

	2018 £'000	2017 £'000
Financial instruments held at fair value	2,124	–
	<b>2,124</b>	<b>–</b>

The financial asset relates to cash invested in high-yield bonds held at fair value in the statement of financial position. The bonds can be redeemed for cash at any time. Included in the statement of comprehensive income is a write-down in the carrying value of the financial asset of £21k. The fair value of the investment is evaluated by reviewing a portfolio summary at the reporting date.

## Notes to the Consolidated Financial Statements continued

### 16. Asset held for sale

	2018 £'000	2017 £'000
Cost	–	455
Accumulated depreciation	–	(51)
Net book value	–	404
Fair value adjustment	–	(4)
Cost of sale	–	(4)
	<hr/>	<hr/>
	–	396

The asset held for sale in the prior year related to a property that was sold on 14 July 2017. The Group had entered into a sale agreement prior to the 2017 year end. In line with IFRS 5 the asset was held for sale at fair value less costs of sale.

### 17. Inventories

	2018 £'000	2017 £'000
Raw materials and consumables	360	1,773
Work in progress	125	60
Finished goods and goods for resale	1,386	5,007
	<hr/>	<hr/>
	1,871	6,840

### 18. Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	1,822	565
Prepayments and other amounts	3,066	443
	<hr/>	<hr/>
	4,888	1,008

Trade and other receivables are classified as loans and receivables and are held at amortised cost. The carrying value approximates fair value.

### 19. Trade and other payables

	2018 £'000	2017 £'000
Trade payables	1,350	259
Non trade payables and accrued expenses	3,020	873
	<hr/>	<hr/>
	4,370	1,132

Trade and other payables are held at amortised cost. The carrying value approximates fair value.



## Notes to the Consolidated Financial Statements continued

### 20. Share Capital

	2018 £'000	2017 £'000
Authorised:		
Equity: 110,000,000 (2017: 110,000,000) Ordinary shares of 1p each	<b>1,100</b>	1,100
Allotted, called up and fully paid:		
Equity: 105,386,239 (2017: 105,386,239) Ordinary shares of 1p each	<b>1,054</b>	1,054

### 21. Share based payments

Share options have been granted to subscribe for ordinary shares, which are exercisable between 2006 and 2027 at prices ranging from £0.385 to £1.18. At 30 June 2018 there were 3,677,899 options outstanding.

The Company has an unapproved share option scheme for the directors and employees of the Group. Options are exercisable at the quoted mid-market price of the Company's shares on the date of grant. The options may vest in three equal portions, at the end of each of three assessment periods, provided that the option holder is still employed by the Group at vesting date and that the Total Shareholder Return (TSR) performance conditions are satisfied. Options that do not meet the TSR criteria at the first available vesting date may vest at the end of the complete assessment period, provided that the compounded TSR performance is met over the complete assessment period. Vested but unexercised options ordinarily expire on the tenth anniversary of the date of grant. The options are equity settled.

On 9 July 2015 the directors approved an amendment to the rules of the scheme such that the Company is permitted to extend the exercise period for options granted under the scheme by a further ten years. Subsequently on 8 June 2017 the Company entered into deeds of amendment with Ben van Bilderbeek, Graham Stevens, Craig Hendrie, and eleven employees in respect of options granted to them on 20 June 2007 under the scheme, to enable each holder to exercise these particular options up until 19 June 2027, subject to all other terms of the scheme rules.

Details of the share options outstanding during the year are as follows:

	2018		2017	
	No of shares	Weighted Average exercise price	No of shares	Weighted Average exercise price
Outstanding at the beginning of the period	3,850,398	0.53	4,053,574	0.53
Granted during the period	—	—	—	—
Forfeited during the period by leaving employment	(169,098)	0.51	(203,176)	0.51
Lapsed due to failure to meet TSR criteria during period	(3,401)	0.78		
Exercised during the period	—	—	—	—
Outstanding at the end of the period	3,677,899	0.53	3,850,398	0.53
Exercisable at the end of the period	3,677,899	0.53	3,850,398	0.53

## Notes to the Consolidated Financial Statements continued

The inputs to the Stochastic model for the computation of the fair value of the options are as follows:

### 21. Share based payments (continued)

Share price at date of grant	varies from	£0.385 to £1.18
Option exercise price at date of grant	varies from	£0.385 to £1.18
Expected volatility	varies from	35.7% to 76.6%
Expected term	varies from	4.5 years to 6.3 years
Risk-free interest rate	varies from	0.4% to 5.7%
Expected dividend yield		0% to 1.7%

At the time of granting the older options, in the absence of sufficient historical share price data for the Company, expected volatility was calculated by analysing the median share price volatility for similar companies prior to grant for the period of the expected term. Since then sufficient historical share price data has been built up to enable the expected volatility to be based upon the Company's own share price volatility. The expected term used has been adjusted based on the management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations. The risk-free interest rate is taken as the implied yield at grant available on government securities with a remaining term equal to the average expected term. At the time of granting the older options, no dividends had been paid and the directors did not envisage paying one therefore the dividend yield was 0%. Since then the directors have introduced a dividend policy and at the time of the grants awarded the expected dividend yield varies between 1.2% to 1.7%.

The Stochastic model for the fair value of the options incorporates the TSR criteria into the measurement of fair value.

The Group has recognised an expense in the current year of £nil (2017: £nil) towards equity settled share based payments.

The weighted average contractual life of the share options outstanding at the end of the period is 3 years 8 months.

### 22. Reconciliation of net cash flow to movement in net cash/(debt)

	2018 £'000	2017 £'000
Increase/(decrease) in cash in the year	6,418	(3,385)
Movement in net cash/(debt) in year	6,418	(3,385)
Net cash at start of year	6,503	9,888
Net cash at end of year	12,921	6,503

### 23. Analysis of net cash/(debt)

	At beginning of year £'000	Cash flow £'000	At end of year £'000
Cash in hand and at bank	7,178	6,118	13,296
Bank loans	(675)	300	(375)
Total	6,503	6,418	12,921

### 24. Financial instruments and risk management

#### **Treasury management**

The Group's activities give rise to a number of different financial risks: market risk (including foreign currency exchange risk and interest rate risk), credit risk and liquidity risk. The Group's management regularly monitors the risks and potential exposures to which the Group is exposed and seeks to take action, where appropriate, to minimise any potential adverse impact on the Group's performance.

Risk management is carried out by Management in line with the Group's Treasury policies. The Group's Treasury policies cover specific areas, such as foreign exchange risk, interest rate risk and investment of excess cash. The Group's policy does not permit entering into speculative trading of financial instruments and this policy has been applied throughout the year.

#### **(a) Market risks**

##### **(i) Foreign currency exchange risk**

The Group is exposed to foreign exchange risk arising from various currencies. In order to protect the Group's statement of financial position from movements in exchange rates, the Group converts foreign currency balances into sterling on receipt so far as they will not be used for future payments in the foreign currency.

The Group carefully monitors the economic and political situation in the countries in which it operates to ensure appropriate action is taken to minimise any foreign currency exposure.

The Group's main foreign exchange risk relates to movements in the sterling/US dollar and sterling/euro exchange rates. Movements in these rates impact the translation of US dollar and euro denominated net assets.

As the Group does not use foreign exchange hedges, the consolidated statement of comprehensive income would be affected by a gain/loss of approximately £11k (2017: £12k) by a reasonably possible 10 percentage point fluctuation down/up in the exchange rate between sterling and the US dollar, and by a gain/loss of approximately £nil (2017: £nil) by a reasonably possible 10 percentage point fluctuation down/up in the exchange rate between sterling and the euro, by a gain/loss of approximately £3k (2017: £9k) by a reasonably possible 10 percentage point fluctuation down/up in the exchange rate between sterling and the Malaysian Ringgit.

##### **(ii) Interest rate risk**

The Group finances its operations through a mixture of retained profits and bank borrowings. The Group borrows in sterling at floating rates of interest.

The Group is also exposed to interest rate risk on cash held on deposit. The Group's policy is to maximise the return on cash deposits whilst ensuring that cash is deposited with a financial institution with a credit rating of 'AA' or better.

The consolidated income statement would be affected by gain/loss £80k (2017: £50k) by a reasonably possible 1 percentage point change down/up in LIBOR interest rates on a full year basis.

#### **(b) Credit risk**

The Group's credit risk primarily relates to its trade receivables. Responsibility for managing credit risks lies with the Group's management.

## 24. Financial instruments and risk management (continued)

A customer evaluation is typically obtained from an appropriate credit rating agency. Where required, appropriate trade finance instruments such as letters of credit, bonds, guarantees and credit insurance will be used to manage credit risk.

The Group's major customers are typically large companies which have strong credit ratings assigned by international credit rating agencies. Where a customer does not have sufficiently strong credit ratings, alternative forms of security such as the trade finance instruments referred to above may be obtained. The Group's customer base is concentrated on a few major companies but management believe that the calibre of these companies means that no material credit risk provision is required.

Management review trade receivables across the Group based on receivable days' calculations to assess performance. There is significant management focus on receivables that are overdue. All receivables are with large corporations with good credit history with which the entity has not experienced any recoverability issues in the past. No debtor allowance has been provided for within the accounts.

Amounts deposited with banks and other financial institutions also give rise to credit risk. This risk is managed by limiting the aggregate amount of exposure to any such institution by reference to their rating and by regular review of these ratings. The possibility of material loss in this way is considered unlikely.

The currency composition of trade receivable at the year-end was:

	2018 £'000	2017 £'000
Sterling	912	547
US Dollar	910	18
	<u>1,822</u>	<u>565</u>

The ageing of trade receivables at the year-end was:

	2018 £'000	2017 £'000
Not past due	1,742	565
Past due 0-30 days	—	—
Past due 30+ days	80	—
	<u>1,822</u>	<u>565</u>

### (c) Liquidity risk

The Group has historically financed its operations through equity finance and bank borrowings. The Group has continued with its policy of ensuring that there are sufficient funds available to meet the expected funding requirements of the Group's operations and investment opportunities. The Group monitors its liquidity position through cash flow forecasting. Based on the current outlook the Group has sufficient funding in place to meet its future obligations.

## Notes to the Consolidated Financial Statements continued

### 24. Financial instruments and risk management (continued)

#### Financial assets and liabilities

The interest rate and currency profiles of the Group's cash and cash equivalents at 30 June were as follows:

		<b>Floating rates £'000</b>	<b>Non-interest bearing £'000</b>	<b>Book and fair value £'000</b>
<b>30 June 2018</b>				
Cash and liquid resources	– Sterling	12,118	871	12,989
	– US Dollar	201	27	228
	– Euro	3	–	3
	– Malaysian Ringgit	–	25	25
	– Singapore Dollars	–	51	51
		<b>12,322</b>	<b>974</b>	<b>13,296</b>
<b>30 June 2017</b>				
Cash and liquid resources	– Sterling	6,939	2	6,941
	– US Dollar	113	16	129
	– Euro	3	–	3
	– Malaysian Ringgit	–	99	99
	– Singapore Dollars	–	6	6
		<b>7,055</b>	<b>123</b>	<b>7,178</b>

At 30 June 2018 the Group had £13,296k of cash. The average rate of interest earned in the year is on a floating rate basis and ranged between 0% and 1.25% on sterling deposits.

Cash is categorised as loans and receivables.

The Group has facilities of £5,675k that are secured by a fixed and floating charge over the assets of the Group. At 30 June 2018 the Group had drawn £375k on those facilities. The interest payable is on a floating rate basis and ranged between 2.7% and 2.8% in the year. The facility comprises of a £5,000k revolving credit facility, which has not been drawn down and a balance of £375k outstanding on a term loan repayable over the period to September 2019.

The Group has classified its financial instruments into the three levels prescribed under the accounting standards. The definition of the levels is as follows.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

## Notes to the Consolidated Financial Statements continued

### 24. Financial instruments and risk management (continued)

Non-current assets (note 15) meet the level 1 criteria and have been recorded in the statement of financial position at fair value. As at 30 June 2018 the fair value of the financial assets held by the Group are £2,124k. There is a fair value adjustment charge through the statement of comprehensive income of £21k.

The interest rate and currency profiles of the Group's financial liabilities at 30 June 2018 are as follows:

	Floating rates £'000	Non-interest bearing £'000	Book and fair value £'000	
<b>30 June 2018</b>				
Bank term loan – Sterling	375	–	375	
<b>30 June 2017</b>				
Bank term loan – Sterling	675	–	675	
	Due within 1 Year £'000	Due between 2–5 Years £'000	Due after 5 Years £'000	Total £'000
<b>30 June 2018</b>				
Bank term loan – Sterling	300	75	–	375
Total	300	75	–	375
<b>30 June 2017</b>				
Bank term loan – Sterling	300	375	–	675
Total	300	375	–	675

Bank borrowings are other financial liabilities which are measured at amortised cost. The carrying value approximates fair value.

The maturity of ageing of trade and other payables at the year-end was:

	<b>2018 £'000</b>	<b>2017 £'000</b>
Due within 30 days	1,287	871
Due in 30 – 90 days	940	78
Due in 90 days – 6 months	1,420	110
Due in 6 months – One year	723	73
	<hr/>	<hr/>
	<b>4,370</b>	<b>1,132</b>
	<hr/>	<hr/>



## Notes to the Consolidated Financial Statements continued

### 25. Operating lease commitments/Financial commitments

Operating lease commitments where the group is the lessee

The Group has the following total future lease payments under non-cancellable operating leases:

	2018 £'000	2017 £'000
Within one year	321	322
Within two to five years	1,346	966
After five years	811	1,505
	<u>2,478</u>	<u>2,793</u>

The Group had no capital commitments as at 30 June 2018 (2017: nil).

### 26. Contingent liabilities

The Group had no contingent liabilities as at 30 June 2018 (2017: £nil).

### 27. Related party transactions

#### Control

No one party owns a controlling interest in the Company.

#### Ultimate parent company

There is no ultimate parent company.

#### Transactions

During the year the Group had the following transactions with related parties:

	2018 £'000	2017 £'000
Purchase of goods and services from Other Related Parties	365	488
Payables to Other Related Parties	–	33
Repayables from Other Related Parties	–	–
	<u>–</u>	<u>–</u>

Other related parties were @SIPP (Pension Trustees) Limited, OFM Holdings Limited and Plexus Properties International Limited. The transactions related to accommodation, rent and related charges. @SIPP (Pension Trustees) Limited are the trustees of Ben van Bilderbeek's pension fund. OFM Holdings Limited is a trust of which Ben van Bilderbeek's family are beneficiaries. Plexus Properties International Limited is a company in which Ben van Bilderbeek's family are shareholders. All of these transactions were between either Plexus Ocean Systems Limited or Plexus Ocean Systems International Limited and the relevant related party.

### 28. General information

These financial statements are for Plexus Holdings plc ("the company") and subsidiary undertakings. The company is registered, and domiciled, in England and Wales and incorporated under the Companies Act 2006. The nature of the company's operations and its principal activities are set out in the strategic report on page 11 and the directors' report on page 23.

# Parent Company Statement of Financial Position

at 30 June 2018

	Notes	2018 £'000	2017 £'000
<b>Assets</b>			
Intangible assets	4	10,996	13,118
Investments	5	8,294	8,294
<b>Total Non-current assets</b>		<b>19,290</b>	<b>21,412</b>
Trade and other receivables	7	9,229	11,946
Cash at bank and in hand	10	5,985	2,841
Corporation tax receivable		–	465
<b>Total current assets</b>		<b>15,214</b>	<b>15,252</b>
<b>Total Assets</b>		<b>34,504</b>	<b>36,664</b>
<b>Equity and Liabilities</b>			
Called up share capital	9	1,054	1,054
Share premium account		36,893	36,893
Share based payments reserve		326	326
Retained earnings		(4,377)	(2,611)
<b>Total equity attributable to equity holders of the company</b>		<b>33,896</b>	<b>35,662</b>
<b>Liabilities</b>			
Deferred tax liabilities	6	347	812
<b>Total non-current liabilities</b>		<b>347</b>	<b>812</b>
Trade and other payables	8	261	190
<b>Total current liabilities</b>		<b>261</b>	<b>190</b>
<b>Total liabilities</b>		<b>608</b>	<b>1,002</b>
<b>Total Equity and Liabilities</b>		<b>34,504</b>	<b>36,664</b>

The company's loss for the year was £1,766k (2017: loss £1,281k)

These financial statements were approved and authorised for issue by the board of directors on 7 November 2018 and were signed on its behalf by:

**G Stevens**  
Director

**C Hendrie**  
Director

Company Number: 03322928

## Parent Company Statement of Changes in Equity

for the year ended 30 June 2018

	Called Up Share Capital £'000	Share Premium Account £'000	Share Based Payments Reserve £'000	Retained Earnings £'000	Total £'000
<b>Balance as at 30 June 2016</b>	<b>1,054</b>	<b>36,893</b>	<b>326</b>	<b>(1,330)</b>	<b>36,943</b>
Total comprehensive income for the period	–	–	–	(1,281)	(1,281)
<b>Balance as at 30 June 2017</b>	<b>1,054</b>	<b>36,893</b>	<b>326</b>	<b>(2,611)</b>	<b>35,662</b>
Total comprehensive income for the period	–	–	–	(1,766)	(1,766)
<b>Balance as at 30 June 2018</b>	<b>1,054</b>	<b>36,893</b>	<b>326</b>	<b>(4,377)</b>	<b>33,896</b>

# Parent Company Statement of Cash Flows

at 30 June 2018

	<i>Notes</i>	<b>2018</b> <b>£'000</b>	2017 £'000
<b>Cash flows from operating activities</b>			
Loss before taxation		<b>(1,766)</b>	(1,828)
Adjustments for:			
Amortisation		<b>897</b>	938
Transfer of intangible assets to group undertaking		<b>1,456</b>	
Investment income		<b>(256)</b>	(224)
Changes in working capital:			
Decrease/(increase) in trade and other receivables		<b>2,717</b>	(10,778)
Increase/(decrease) in trade and other payables		<b>71</b>	(223)
<b>Cash generated/used from operations</b>		<b>3,119</b>	(12,115)
Income taxes paid		–	–
<b>Net cash generated/(used) from operations</b>		<b>3,119</b>	(12,115)
<b>Cash flows from investing activities</b>			
Purchase of intangible assets		<b>(231)</b>	(632)
Interest received		<b>256</b>	224
<b>Net cash generated/(used) in investing activities</b>		<b>25</b>	(408)
<b>Net cash generated from financing activities</b>		–	–
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>3,144</b>	(12,523)
Cash and cash equivalents at 1 July 2017		<b>2,841</b>	15,364
<b>Cash and cash equivalents at 30 June 2018</b>	<i>10</i>	<b>5,985</b>	2,841

# Notes to the Parent Company Financial Statements

## 1. Summary of significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial information.

### *a. Basis of preparation*

The company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board as adopted by the European Union and are in accordance with the Companies Act 2006.

The following new standards, interpretations and amendments, which are not yet effective and have not been adopted early in these financial statements, will or may have an effect on the group's future financial statements:

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and is effective for accounting periods beginning on or after 1 January 2018. The final standard contains new requirements which cover classification and measurement, impairment, and hedge accounting. The recognition and derecognition requirements for financial assets and financial liabilities are unchanged from IAS 39. In particular IFRS 9 sets out a new forward looking expected credit loss model which replaces the incurred loss model in IAS 39. An assessment of the effect of adopting this standard is in progress. Following an initial review, the effect of adopting this standard is not expected to be significant.

IFRS 15 Revenue from contracts with customers replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations and is effective for accounting periods beginning on or after 1 January 2018. The standard establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. An assessment of the effect of adopting this standard is in progress. Following an initial review and considering the immaterial level of continuing revenues, the effect of adopting this standard is not expected to be significant.

IFRS 16, which supersedes IAS 17, sets out principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). Lessee accounting will change substantially under this new standard while there is little change for the lessor. IFRS 16 eliminates the classification of leases as either operating leases or financing leases and, instead, introduces a single lessee accounting model. A lessee will be required to recognise assets and liabilities for all leases with a term of more than 12 months (unless the underlying asset is of low value) and will be required to present depreciation of leased assets separately from interest on lease liabilities in the consolidated statement of comprehensive income. A lessor will continue to classify its leases as operating leases or financing leases, and to account for those two types of leases separately. IFRS 16 is effective for fiscal periods beginning on or after 1 January 2019. The Group is in the process of evaluating the impact of IFRS 16.

The Company financial statements are presented in sterling and all values are rounded to the nearest thousand pounds except where otherwise indicated.

The financial information has been prepared under the historical cost convention except where fair value adjustments are required.

Cost of sales includes salary and related costs for service personnel, and depreciation, refurbishment costs on rental assets and other costs which are directly attributable to revenue generating projects.

The directors, having made appropriate enquiries, believe that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company continues to adopt the going concern basis in preparing the financial statements.

### *b. Income taxes and deferred taxation*

The income tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

As set out in note 21 of the group accounts, the company operates a share option scheme. Where the market price of the shares at the year-end exceeds the option price there is a potential tax deduction. This is treated as a deferred tax asset. The portion of the expected future tax deduction which is less than or equal to the associated cumulative IFRS2 charge is recognised in the income statement. The balance of the credit is recognised directly in equity.

### *c. Intangible assets and amortisation*

Patents are recorded initially at cost and amortised on a straight-line basis over 20 years which represents the life of the patent. The Group operates a policy of continual patent enhancement in order that technology enhancements and modifications are incorporated within the registered patent, thereby protecting the value of technology advances for a full 20 year period.

Intellectual Property rights are initially recorded at cost and amortised over 20 years on a straight-line basis. The technology defined by the Intellectual Property is believed to be able to generate income streams for the Group for many years; key Intellectual Property is protected by patents; the lowest common denominator in terms of economic life of the intangible assets is the life of the original patents and therefore the life of the Intellectual Property has been matched to the remaining life of the patents protecting it.

Development expenditure is capitalised in respect of development of patentable technology at cost including an allocation of own time when such expenditure is incurred on separately identifiable technology and its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised on a straight-line basis over its useful economic life, which the directors consider to be 20 years.

Amortisation is charged to the Administrative Expenses line of the Statement of Comprehensive Income.

Expenditure on research and development, which does not meet the capitalisation criteria, is written off to the Statement of Comprehensive Income in the period in which it is incurred.

The carrying value of intangible assets is reviewed on an on-going basis by the directors and, where appropriate, provision is made for any impairment in value. It would require a substantial movement (over 100%) in the assumptions employed in valuations before there would be any impairment to intangible assets.



## Notes to the Parent Company Financial Statements continued

Potential impairment of intangible assets has been reviewed and is outlined in note 1 (g) in the Group accounts, with no impairment required.

### *d. Investments*

The investment in subsidiary and associate undertakings is stated at cost less provision for impairment. Cost is the amount of cash paid or the fair value of the consideration given to acquire the investment. Income from such investments is recognised only to the extent that the Company receives distributions from accumulated profits of the investee company arising after the date of acquisition. Distributions received in excess of such profit i.e. from pre-acquisition reserves are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

Potential impairment of investments and the intangible assets each subsidiary undertaking holds has been reviewed and is outlined in note 1 (g) in the Group accounts, with no impairment required.

### *e. Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand form an integral part of the Company's cash management and are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### *f. Foreign currencies*

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the statement of financial position date and the gains or losses on translation are included in the Statement of Comprehensive Income.

### *g. Pensions*

The Group offers a contributory Group stakeholder pension scheme, into which the Group will make matching contributions up to a pre-agreed level of base salary; the scheme is open to executive directors and permanent employees. Directors may choose to have contributions paid into personal pension plans.

### *h. Dividends*

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when they are paid. In the case of final dividends, this is when approved by the shareholders at the AGM. Dividends unpaid at the statement of financial position date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

### *i. Classification of financial instruments issued by the Group*

In accordance with IAS 32, financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

## Notes to the Parent Company Financial Statements continued

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

### *j. Share based payments*

The Company issues share options to directors and employees, which are measured at fair value at the date of grant. The fair value of the equity settled options determined at the grant date is expensed on a straight-line basis over the vesting period based on an estimate of the number of options that will actually vest. The Group has adopted a Stochastic model to calculate the fair value of options, which enables the Total Shareholder Return (TSR) performance condition attached to the awards to be factored into the fair value calculation.

### *k. Key assumptions and sources of estimation*

The estimated life of the Company's Intellectual Property is estimated with reference to the lifespan of the patents which protect the knowledge and their forecast income generation.

When measuring Intellectual Property for impairment a range of assumptions are required and these are detailed in the Intangible Assets note above.

## **2. Loss for the year**

As permitted by section 408 of the Companies Act 2006, the parent company's Statement of Comprehensive Income has not been included in these financial statements. The parent company's loss after tax for the year was £1,766k (2017: loss of £1,281k).

## **3. Staff numbers and costs**

The average number of persons, including executive directors, during the year was:

	<b>2018</b>	2017
	<b>Number</b>	Number
Management	<b>3</b>	3
Technical	–	–
Administrative	–	–
	<b>3</b>	3

The aggregate payroll costs of these persons were as follows:

	<b>2018</b>	2017
	<b>£'000</b>	£'000
Wages and salaries	<b>346</b>	390
Social security costs	<b>46</b>	51
Pension contributions to defined contribution plans	<b>7</b>	16
	<b>399</b>	457

## Notes to the Parent Company Financial Statements continued

All payroll costs are of a continuing nature.

Key management are considered to be the Board of Directors and details of Directors' remuneration are given in the remuneration report on page 41 and this forms part of the financial statements.

### 4. Intangible fixed assets

	Intellectual Property £'000	Patent and Other Development £'000	Total £'000
<b>Cost</b>			
As at 30 June 2016	4,171	12,783	16,954
Additions	–	632	632
	<hr/>	<hr/>	<hr/>
As at 30 June 2017	4,171	13,415	17,586
Additions	–	231	231
Disposals	(1,410)	(1,088)	(2,498)
	<hr/>	<hr/>	<hr/>
<b>As at 30 June 2018</b>	<b>2,761</b>	<b>12,558</b>	<b>15,319</b>
	<hr/>	<hr/>	<hr/>
<b>Amortisation</b>			
As at 30 June 2016	1,644	1,886	3,530
Charge for the year	270	668	938
	<hr/>	<hr/>	<hr/>
As at 30 June 2017	1,914	2,554	4,468
Charge for the year	232	665	897
On disposals	(705)	(337)	(1,042)
	<hr/>	<hr/>	<hr/>
<b>As at 30 June 2018</b>	<b>1,441</b>	<b>2,882</b>	<b>4,323</b>
	<hr/>	<hr/>	<hr/>
Net Book Value			
<b>As at 30 June 2018</b>	<b>1,320</b>	<b>9,676</b>	<b>10,996</b>
	<hr/>	<hr/>	<hr/>
As at 30 June 2017	2,257	10,861	13,118
	<hr/>	<hr/>	<hr/>

Patent and other development costs are internally generated.

### 5. Investments

	£'000
<i>Subsidiary undertakings</i>	
As at 30 June 2016, 2017 & 2018	<b>8,294</b>
	<hr/>

## Notes to the Parent Company Financial Statements continued

### 5. Investments (continued)

The Company's subsidiary undertakings are:

<b>Subsidiary undertaking</b>	<b>Address and Country of Registration</b>	<b>Nature of Business</b>	<b>Percentage of Ordinary Shares held</b>
Plexus Ocean Systems Limited	Johnstone House, 52-54 Rose Street, Aberdeen, AB10 1HA, Scotland	Supply of wellheads and associated equipment for oil and gas drilling	100%
Plexus Limited	Johnstone House, 52-54 Rose Street, Aberdeen, AB10 1HA, Scotland	Dormant	100%
Plexus Holdings USA, Inc.	4295 San Felipe #1200, Houston, TX 77027, USA	Investment Holding	100%
Plexus Ocean Systems US, LLC	4295 San Felipe #1200, Houston, TX 77027, USA	Investment Holding	100%
Plexus Deepwater Technologies Limited	4295 San Felipe #1200, Houston, TX 77027, USA	Dormant	100%
Plexus Response Services Limited	1, Caribbean Place, P.O. Box 97 Leeward Highway, Providenciales, Turks & Caicos Islands	Commercial exploitation of subsea applications	100%
Plexus Subsea International Limited	1, Caribbean Place, P.O. Box 97 Leeward Highway, Providenciales, Turks & Caicos Islands	Commercial exploitation of subsea applications	100%
Plexus Ocean Systems (Malaysia) Sdn Bhd	Level 16, Tower C, Megan Avenue II, 12, Jalan Yap Kwan Seng, 50450, Kuala Lumpur, Malaysia	Supply of wellheads and associated equipment for oil and gas drilling	100%
Plexus Ocean Systems (Brunei) Sdn Bhd	Ground Floor Unit 30 Block D Simpang 21, Kg Menglait Gadong BE4119, Bandar Seri Begawan. Brunei Darussalam	Supply of wellheads and associated equipment for oil and gas drilling	100%
Plexus Ocean Systems (Singapore) Pte. Ltd.	137 Telok Ayer Street 08-01, Singapore Singapore	Supply of wellheads and associated equipment for oil and gas drilling	100%
Afrotel Corporation Ltd	1, Caribbean Place, P.O. Box 97 Leeward Highway, Providenciales, Turks & Caicos Islands	Investment Holding	100%
Plexus Applied Technologies Limited	Johnstone House, 52-54 Rose Street, Aberdeen, AB10 1HA, Scotland	Dormant	100%

## Notes to the Parent Company Financial Statements continued

### 6. Deferred tax

#### (iii) Movement in deferred tax liability balance

	2018 £'000	2017 £'000
Deferred tax liability at beginning of year	812	894
Debit to Statement of Comprehensive Income	(465)	(82)
Deferred liability at end of year	<u>347</u>	<u>812</u>

#### (iv) Deferred tax asset balance

	2018 £'000	2017 £'000
The deferred tax liability balance is made up of the following items:		
Difference between depreciation and capital allowances	1,355	1,434
Share based payments	(15)	(52)
Tax losses	(993)	(570)
Deferred tax liability at end of year	<u>347</u>	<u>812</u>

### 7. Trade and other receivables

	2018 £'000	2017 £'000
Receivables due from group companies	9,130	11,865
Prepayments and other amounts	99	81
	<u>9,229</u>	<u>11,946</u>

Trade and other receivables are classified as loans and receivables and are held at amortised cost. The carrying value approximates fair value.

Receivables due from group companies relates to an amount due from a subsidiary which is not impaired and carries no credit risk. Prepayments relate to prepaid amounts for services to be consumed over the next 12 months. There is no indication of impairment of any of these amounts.

### 8. Trade and other payables

	2018 £'000	2017 £'000
Trade payables	63	28
Non trade payables and accrued expenses	198	162
	<u>261</u>	<u>190</u>

Trade and other payables are held at amortised cost. The carrying value approximates fair value. All trade and other payable are due within one year.

## Notes to the Parent Company Financial Statements continued

### 9. Share capital

	2018 £'000	2017 £'000
Authorised:		
Equity: 110,000,000 (2017: 110,000,000) Ordinary shares of 1p each	1,100	1,100
Allotted, called up and fully paid:		
Equity: 105,386,239 (2017: 105,386,239) Ordinary shares of 1p each	1,054	1,054

### 10. Reconciliation of net cash flow to movement in net cash

	2018 £'000	2017 £'000
Movement in net cash in year	3,144	(12,523)
Net cash at start of year	2,841	15,364
<b>Net cash at end of year</b>	<b>5,985</b>	<b>2,841</b>

### 11. Financial instruments and risk management

The Company's activities give rise to a number of different financial risks: market risk (including foreign currency exchange risk and interest rate risk), credit risk and liquidity risk. The Company's management regularly monitors the risks and potential exposures to which the Company is exposed and seeks to take action, where appropriate, to minimise any potential adverse impact on the Company's performance.

Risk management is carried out by Management in line with the Company's Treasury policies. The Company's Treasury policies cover specific areas, such as foreign exchange risk, interest rate risk and investment of excess cash. The Company's policy does not permit entering into speculative trading of financial instruments and this policy has been applied throughout the year.

#### (a) Market risks

##### (i) Foreign currency exchange risk

The Company is exposed to foreign exchange risk arising from various currencies. In order to protect the Company's statement of financial position from movements in exchange rates, the Company converts foreign currency balances into sterling on receipt so far as they will not be used for future payments in the foreign currency.

The Company carefully monitors the economic and political situation in the countries in which it operates to ensure appropriate action is taken to minimise any foreign currency exposure.

The Company's main foreign exchange risk relates to movements in the sterling/US. Movements in this rate impacts the translation of US dollar denominated net liabilities. A reasonably possible 10% fluctuation up/down in the exchange rate between sterling and the US dollar would result in a corresponding gain/loss in the statement of comprehensive income of approximately £nil (2017: £nil).

##### (ii) Interest rate risk

The Company is also exposed to interest rate risk on cash held on deposit. The Company's policy is to maximise the return on cash deposits whilst ensuring that cash is deposited with a financial institution with a credit rating of 'AA' or better.



## Notes to the Parent Company Financial Statements continued

### 11. Financial instruments and risk management (continued)

#### (b) Credit risk

The Company's credit risk primarily relates to its inter-company loans and inter-company receivables. Management believe that no risk provision is required for impairment.

Amounts deposited with banks and other financial institutions also give rise to credit risk. This risk is managed by limiting the aggregate amount of exposure to any such institution by reference to their rating and by regular review of these ratings. The possibility of material loss in this way is considered unlikely.

#### (c) Liquidity risk

The Company has historically financed its operations through equity finance and the flow of inter-company loan repayments. The Company has continued with its policy of ensuring that there are sufficient funds available to meet the expected funding requirements of the Company's operations and investment opportunities. The Company monitors its liquidity position through cash flow forecasting. Based on the current outlook the Company has sufficient funding in place to meet its future obligations.

The bank facility provided to the Group includes a fixed and floating charge over the assets of the Company.

### 12. Financial commitments

The Company had no capital commitments as at 30 June 2018 (2017: £nil).

### 13. Contingent liabilities

The Company had no contingent liabilities as at 30 June 2018 (2017: £nil).

### 14. Related party transactions

#### Control

No one party owns a controlling interest in the Company.

#### Ultimate parent company

There is no ultimate parent company.

#### Transactions

During the year the Company had the following transactions with related parties:

Plexus Ocean Systems Limited, a wholly owned subsidiary made net repayments of £3,963k less net purchase of £1,228k during the year decreasing the balance owed from £11,828k to £9,093k

As at 30 June 2018 Plexus Holdings plc has an outstanding balance of £37k from Plexus Ocean Systems (Singapore) Pte Ltd (2017: £38k).

Ben Van Bilderbeek, Graham Stevens and Craig Hendrie are considered to be the Key Management Personnel of the parent entity. Details of their remuneration is included in the remuneration report

# Corporate Information

<b>Directors</b>	<b>Jerome Jeffrey Thrall</b> † (Non-Executive Chairman) <b>Bernard Herman van Bilderbeek</b> (Chief Executive) <b>Graham Paul Stevens</b> (Finance Director) <b>Craig Francis Bryce Hendrie</b> (Technical Director) <b>Charles Edward Jones</b> † (Non-Executive Director) <b>Kunming Liu</b> (Non-Executive Director) † Member of Audit and Remuneration committees
<b>Registered Office</b>	Elder House, St Georges Business Park Brooklands Road Weybridge Surrey KT13 0TS
<b>Company Number</b>	03322928
<b>Company Secretary</b>	<b>Kerin Williams FCIS</b> <b>Equiniti David Venus Limited</b> Elder House, St Georges Business Park Brooklands Road Weybridge Surrey KT13 0TS
<b>Nominated Adviser and Broker</b>	<b>Cenkos Securities plc</b> 66 Hanover Street Edinburgh EH2 1EL  6-8 Tokenhouse Yard London EC2R 7AS
<b>Auditor</b>	<b>Crowe U.K. LLP</b> St Bride's House 10 Salisbury Square London EC4Y 8EH
<b>Solicitors to the Company</b>	<b>Fox Williams LLP</b> 10 Finsbury Square London EC2A 1AF  <b>Ledingham Chalmers LLP</b> 52-54 Rose Street Aberdeen AB10 1HA
<b>Registrars</b>	<b>SLC Registrars</b> Elder House, St Georges Business Park Brooklands Road Weybridge Surrey KT13 0TS



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