SCISYS

SCISYS Group PLC

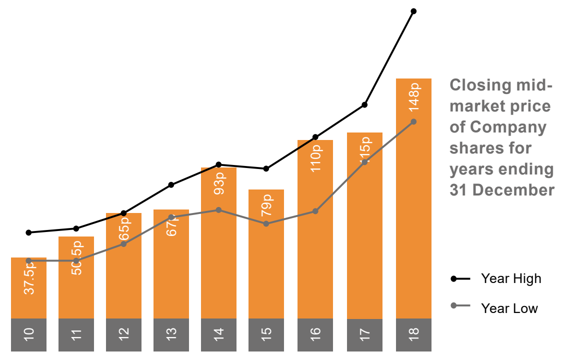
Annual Report and Financial Statements
for the year ended 31 December 2018

18

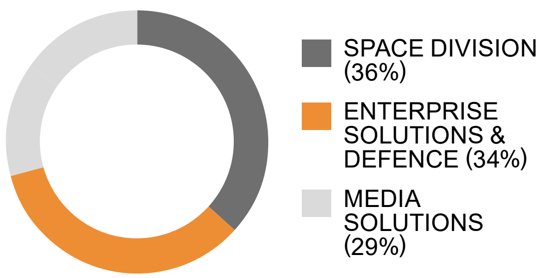
Financial Highlights

£58.4m	£5.1m	£98.6m
Group Revenue (2017: £57.2m, £53.2m as restated in accordance with IFRS 15)	**Adjusted Operating Profit** (2017: £4.6m, £4.4m as restated)	**Order Book** (2017: £88.2m as re-stated)
2.38p	**13.1p**	**£3.1m**
Full-year Dividend Per Share* (2017: 2.16p)	**Adjusted Basic Earnings Per Share** (2017: 10.0p, 9.3p as restated)	**Net Debt** (2017: £5.9m)

- Adjusted operating profit up 16% to £5.1m (2017: £4.4m restated).
- Exceptional charges and amortisation including goodwill associated with the acquisition of Annova in 2016 contributed to statutory operating profit of £2.5m (2017: £4.5m restated) and basic EPS of 4.9p (2017: 10.8p).
- Revenues up 10% to £58.4m (2017: £53.2m restated), of which the component relating to professional fees increased by 16% to £55.7m (2017: £47.9m restated).
- Record order book of £98.6m (2017: £88.2m restated).
- Net debt reduced to £3.1m (2017: £5.9m) despite exceptional cash outflows.
- Final dividend up 10% at 1.73p per share (2017: 1.57p) subject to AGM approval.
- Adjusted basic earnings per share increased to 13.1p (2017: 9.3p).
- Reported results for 2017 restated to reflect retrospective implementation of 2018's new revenue recognition accounting standard, IFRS 15.



Share-price performance



Revenue by division

SPACE DIVISION	ESD DIVISION	M&B DIVISION	ANNOVA SYSTEMS	MEDIA SOLUTIONS#
£21.3m	£19.9m	£8.1m	£8.7m	£16.8m
Revenues (2017: £20.0m##)	**Revenues** (2017: £17.0m##)	**Revenues** (2017: £8.7m)	**Revenues** (2017: £7.2m##)	**Revenues** (2017: £15.9m)

* Dividend figure subject to shareholder approval at the AGM.
\# This combines revenues of our M&B Division and Annova Systems, as from 2019 they became one division.
\## 2017 revenues have been restated to reflect IFRS 15, as applied in 2018.

SCISYS

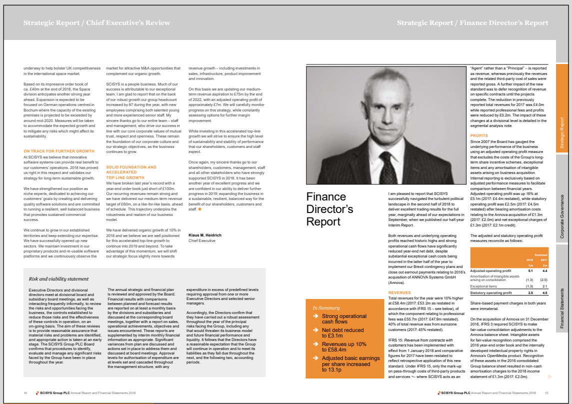
London Stock Exchange AIM EURONEXT

STRATEGIC REPORT HIGHLIGHTS

p.6

Chairman's Statement

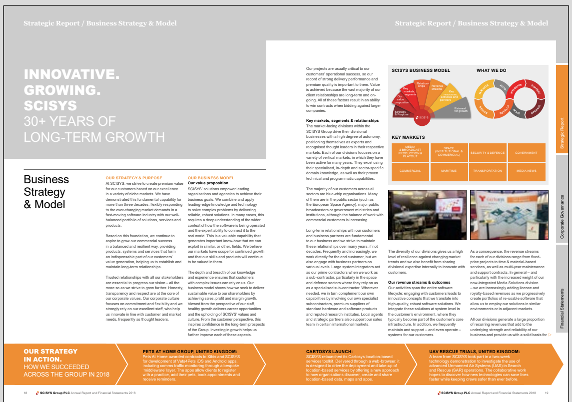
Looking back, operational and financial highlights



p.15

Finance Director's Report

A closer look at 2018 revenues, profit and financial performance



p.18

Our Business Strategy & Model

A look at our strategic objectives, business model and KPIs

SCISYS *Strategic Report*

INNOVATIVE.
GROWING.
SCISYS

30+ YEARS OF LONG-TERM GROWTH

Our purpose and strategy

SCISYS began in 1980 believing in the opportunities for software.

The SCISYS Group is a leading developer of IT solutions and services. We are dedicated to our mission of empowering leading organisations and agencies to achieve their goals by creating and delivering quality software solutions.

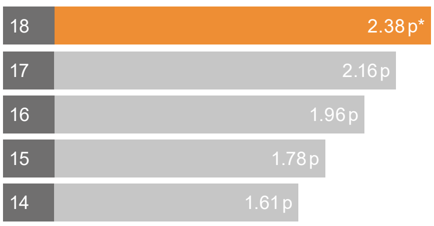
We develop robust, real-world application solutions and products and provide supporting services that create real business benefit to a wide range of customers in diverse markets.

The SCISYS strategy has always been to invest in innovation and acquisition for long-term growth.

STRATEGIC REPORT

Chairman's Statement

Dividend



* Dividend figure subject to shareholder approval at the AGM.

CONTINUED OPTIMISM DESPITE GLOBAL CHALLENGES

We entered 2018 with an optimistic outlook based on a set of excellent results in 2017 and a healthy opening order book. I am delighted that this optimism was well justified and that the Group has delivered another record set of results for the year, comfortably in line with market guidance. Looking forward into 2019 we retain our favourable outlook despite the many challenges facing the world of business on the global scene: our opening order book is at a record level, cash generation is healthy, and all three divisions have ambitious business plans for the year.

The Group delivered a strong overall performance in 2018 and is reporting solid advances in results for both full-year revenues and adjusted profits. In prior years, we saw a pattern where earnings were skewed towards the second half: in 2018, earnings were more balanced across the year - though it is too early to determine if this pattern will become the norm going forward in future years.

The strength of growth in revenues in 2018 has provided us with the confidence to invest in the business to accommodate further growth, which has resulted in a significant expansion of our team. We added significantly to our head count and opened a supplementary office in Bristol to house members of our expanding Space division.

Such investment followed on from similar initiatives during 2017 which saw the opening of a new office in Dortmund to house our Media & Broadcast division (previously based in Bochum), and we are actively looking to open a new and larger office in Bochum during 2019 due to the growth in our Space activities in Germany.

Operational cash flows were very healthy across the year, resulting in further reductions in net debt and underpinning a healthy 10% uplift in the recommended final dividend payment. As expected, our income streams, which are predominantly in pounds sterling and euros, were well balanced, providing an internal hedge against exchange-rate movements.

Brexit contingency planning, which commenced in 2017 to protect the Group from any potential adverse operational consequences in respect of the UK's withdrawal from the EU, concluded in 2018 with the holding company for the Group completing its re-domiciliation to Dublin. This entailed setting up a new group holding company in Ireland and it acquiring all the shares in the old SCISYS group holding company. The process completed with the old SCISYS group holding company delisting from AIM and the new SCISYS group holding company "re-listing" on both AIM and the Irish Enterprise Securities Market of Euronext ("ESM"). All shareholders in "old" SCISYS received the same number of shares in "new" SCISYS. It was a complex and expensive exercise and has resulted in a one-off exceptional charge in our accounts of £0.7m for 2018. The new SCISYS group holding company has UK tax status.

Crucial to the process was the advisory resolution agreed by shareholders at the SCISYS 2018 AGM approving the contingency planning. Shareholder approval and subsequent re-domiciliation enabled SCISYS to participate in tender activities for a number of contracts within EU-funded space programmes from which it would otherwise have been excluded. Recent announcements by our Space division of contract wins valued in excess of €20m already justify the Board's contingency planning.

SCISYS is now well placed to expand its participation in EU-funded space programmes (EGNOS, Galileo & Copernicus) and bring its wealth of expertise in the design and build of ground segment and on-board systems to the projected UK national programme for a UK satellite navigation system alternative to Galileo.

KEY FINANCIALS REFLECT THE SUCCESS

In the year ended 31 December 2018, SCISYS posted overall revenues of £58.4m, which were up 10% on last year (2017: £53.2m restated under IFRS 15). Within this figure, professional fees were 16% higher at £55.7m (2017: £47.9m restated). The Group delivered an adjusted operating profit of £5.1m (2017: £4.4m restated), a 16% uplift on 2017. The statutory operating profit was £2.5m (2017: £4.5m restated). A reconciliation between the adjusted and statutory operating profit measures appears in the Finance Director's Report. Adjusted basic earnings per share were 13.1p (2017: 9.3p restated); basic earnings per share were 4.9p (2017: 10.8p restated). Cash generation remained healthy and this resulted in a net operating inflow of £5.4m (2017: £10.5m). The Group's year-end net debt position was £3.1m (2017: £5.9m). At 8.7% (2017: 8.3%), our adjusted operating margin has improved. The year-end order book was at a record level at £98.6m (2017: £88.2m restated).

OUR PEOPLE ARE THE KEY TO OUR SUCCESS

Once again, our thanks rightly go to all our staff within the divisions, who actively implement our corporate core values of trust, respect and openness, combined with prudence and balanced growth. Their hard work and ability to deliver the business solutions that our customers need, within tight budgets and timescales, is the key factor to the on-going relationships that SCISYS enjoys with its many and varied long-standing customers. Our thanks also go to all our staff within the Group's central functions, who provide essential services and valued support to the Group and who have made an important contribution to these results. In particular this year we must compliment the dedication and efforts of the team that led the re-domiciliation exercise, which involved a sustained and very substantial effort.

It gave me great pleasure announcing the appointment in December 2018 of Natasha Laird to the Board of Directors: Natasha has worked in the role of General Counsel and Company Secretary since 2016, during which period we have seen first-hand the many complementary strengths and values she will bring to the Board table. She has been involved in a wide range of commercial matters within both the UK and German arms of SCISYS and, most recently, successfully led the process of creating the new Irish holding company for the Group and listing it on AIM and the ESM.

In Summary

- Encouraging outlook
- Brexit contingency plans executed
- Final dividend up 10%
- Healthy organic revenue growth

DIVIDEND

An interim dividend of 0.65p per share was paid on 8 November 2018. The Directors are now proposing a final dividend of 1.73p per share, subject to approval by shareholders at the Annual General Meeting on 6 June 2019. The proposed final dividend will be paid on 26 July 2019 to shareholders on the register at 28 June 2019. The shares will go ex-dividend on 27 June 2019. This would make the dividend for the full year to 31 December 2018 2.38p per share (2017: 2.16p) and maintains our stated strategy of progressive dividend growth.

GOVERNANCE MATCHING OUR NEEDS

We are committed to high standards of corporate governance. We have strong governance frameworks in place throughout the Group that are in balance with our growth. SCISYS adopted the QCA Corporate Governance Code during 2018 and now complies with Irish reporting and compliance requirements.

LOOKING TO THE FUTURE

Going into 2019, the outlook continues to be very encouraging. The key elements of the Group's strategy remain unchanged. We continue to focus on balanced revenue growth, margin improvement, management and control of risk, as well as succession planning.

We are pleased with the healthy organic growth in revenues achieved in 2018. On a like-for-like basis, and ignoring any IFRS 15 adjustments, we have met our medium-term revenue aspiration of £60m substantially ahead of plan.

Moreover, our strong trading performance combined with steadily reducing levels of net debt and a record year-end order book provide a solid platform for delivering further progress in 2019 and beyond. To take advantage of the increased top-line momentum that we are now experiencing, we have adjusted our strategy to accommodate the anticipated higher revenue growth and are planning appropriate investments in facilities, infrastructure and personnel. This is reflected in our adjusted medium-term aspirations outlined in the Chief Executive's Review.

Based on current project performance and our order pipeline across the entire Group, the Directors remain fully confident in the prospects of the Group's future organic growth. We will also continue to look for opportunities – where there is a good market, product and cultural fit – to grow through acquisition.

Dr. Mike Love
Chairman

Chief Executive’s Review

Adjusted operating profit (£m)

* Restated

Operating profit (£m)

* Restated

2018: SIGNIFICANT ORGANIC GROWTH, DELIVERING ON MEDIUM-TERM REVENUE TARGET

I am delighted to report that the SCISYS Group delivered revenues of £58.4m in 2018, which means that we are well on track to achieving our medium-term revenue target of £60m ahead of plan. On a like-for-like basis, i.e. without IFRS 15 adjustments, we actually achieved this medium-term target (set in 2016) two years early. With year-on-year growth of 10% for total revenues and 16% for our professional fees and licence-based revenue, we were again able to grow our business substantially, faster than our medium-term growth target.

Our aggregate contribution from the divisions was up to £13.9m in the year, a rise of 14% compared with 2017. SCISYS’ adjusted operating profit in the year grew by 16% to £5.1m, resulting in a margin of 8.7%. Investment and expenses were needed to sustain faster-than-expected growth, for instance for new office space, Brexit contingency plans, additional investment into product development and integration costs for our media business. Some of these costs are exceptional but we also continue to align overhead costs to support our future growth plans.

All divisions have contributed to this strong performance, despite market conditions being increasingly tough due to political uncertainty. We have seen another year where our business mix was instrumental to the resilience of the Group’s overall performance.

Enterprise Solutions & Defence (ESD)

In 2018 Enterprise Solutions & Defence has been the engine for generating the Group’s growth: revenues were up 17% year-on-year to £19.9m. ESD’s divisional contribution increased by a remarkable 34% to £5.8m. Much of the excellent full-year performance was based on an order intake rally during the last quarter in 2017 which led to the excellent results that we were able to report for the division during the first half year. Revenues from professional fees grew even faster, by 27% to £18.0m, which helped the divisional margin reach a very strong 29%.

During the period, ESD continued to move towards more on-site staff assignment contracts which now represent 65% of its total revenues. While this reduces the risk in the business inherent to fixed-price software deliverable projects, it also impacts the long-term order book as most of these staff assignment contracts, although expected to be long-term, are typically contracted in smaller blocks.

The division continues to operate through a number of business units, each of which target different vertical niches. The division now reports jointly with Xibis because of the close business relationship between these two parts of the business. Despite their strong ties we do not intend to integrate the Leicester-based Xibis team fully; instead we are maintaining the Xibis brand separately and preserving the small business culture.

The division’s objectives for 2018 included raising awareness of SCISYS’ expertise in the defence, security and maritime sectors.

In December, ESD won a £2.4m defence-sector contract in the Logistics Information Services domain that will run until December 2020.

Investment in support of our maritime defence activities have helped to enhance ESD’s profile in this arena and are expected to pay off during 2019 and beyond; a separate divisional business unit has been established with effect from January 2019 to sharpen the focus on this sector.

Another objective was to extend ESD’s footprint in the transport and logistics domain. Progress followed in September when the

In Summary

- Delivering on medium-term revenue target
- Single SCISYS Media Solutions division
- Further investment in product innovation and integration
- Record order book of £98.6m

SCISYS Group	2018 £m	2017 £m
Revenue	**58.4**	53.2
Professional fee revenues	**55.7**	47.9
Operating margin	**8.7%**	8.3%

division announced a ca. £2m contract win with Trapeze Group (UK) Limited to provide software design, development and support services to Transport for London (TfL) for its timetabling and scheduling as part of its Future Bus Systems programme. It is anticipated that the development phase of the contract will be followed by a long-term support and maintenance contract.

During the fourth quarter of 2018 the division secured more than £7m of new orders, which positions it very well for future growth in 2019 and beyond. As in previous years, ESD will continue to invest in its sales team, its value proposition and its divisional structure.

SCISYS Media Solutions

From 1 January 2019 the former Media & Broadcast division and Annova Systems (Annova) have operated as a single division, SCISYS Media Solutions (Media Solutions). The integration process commenced earlier than anticipated following acquisition, by mutual agreement with Annova's previous owners during 2018. The process will continue into 2019 and will result in a division with main offices in both Dortmund and Munich, led by Michael Schüller, who was previously the CEO at Annova.

For 2018 the combined Media Solutions business delivered results marginally ahead of 2017. Revenues were 6% higher at £16.8m, with contribution up 3% on the previous year at £3.1m. Given the wider context of the Media Solutions business these figures are reasonably solid and well in line with management's expectations. From 2019 Media Solutions' results will be reported as one SCISYS division.

Revenues of the former Media & Broadcast business, based on its proprietary dira! product suite, fell short of 2017 revenues and contribution by £0.6m and £0.7m respectively as some new business opportunities were either converted into orders late in the year or slipped into 2019. At the same time, business with established clients remained strong:

- Eleven of 13 German public broadcasters – including six new clients – placed orders for the new weConnect product, which serves as a content-distribution platform between members of the ARD group of broadcasters. Product development progressed during 2018 while delivery is due in 2019.
- The BBC renewed our service contract to supply support and maintenance services for its enterprise audio broadcast technology for a term of up to 10 years, cementing a business relationship that

Our Space division serves traditional, institutional space customers, as well as the burgeoning "New Space" market, led by commercial space outfits.

began in 2001. SCISYS' dira! product is the cornerstone of the BBC's audio broadcast technology.

Investment continued in product development of the next software generation of the dira! product suite for radio production, playout and media asset management – dira! Dimension. A contract win with the British Library to deliver a national Digital Radio Archive Management solution already uses elements of this new generation software.

The newsroom computer systems arm of the business – based on Annova's proprietary product, OpenMedia – delivered revenues of £8.7m, an increase of 22% on 2017. Its earnings before income tax and amortisation (EBITA) trebled to £1.1m:

- In August the BBC went live with its newsroom project for its flagship TV news programmes that – once finally rolled out – will be the biggest OpenMedia installation, already now serving several thousand users. Significant effort went into improving and further stabilising the OpenMedia core system to meet the BBC's highly complex needs and requirements.
- In parallel, the development of NEWSBOARD, the new web-based editorial cross-media planning solution, made significant progress. The first phase of the NEWSBOARD project with ARD-Aktuell, the national news programme of the influential German public broadcaster ARD, was successfully completed.
- New customers were added to the OpenMedia client list, including German Hessischer Rundfunk and French L'Equipe 24.

In line with our initial plans at acquisition, we expect further investment in product innovation and integration in 2019 and beyond to reinforce the foundation for future growth and margin improvement.


IMAGE: COURTESY MOD

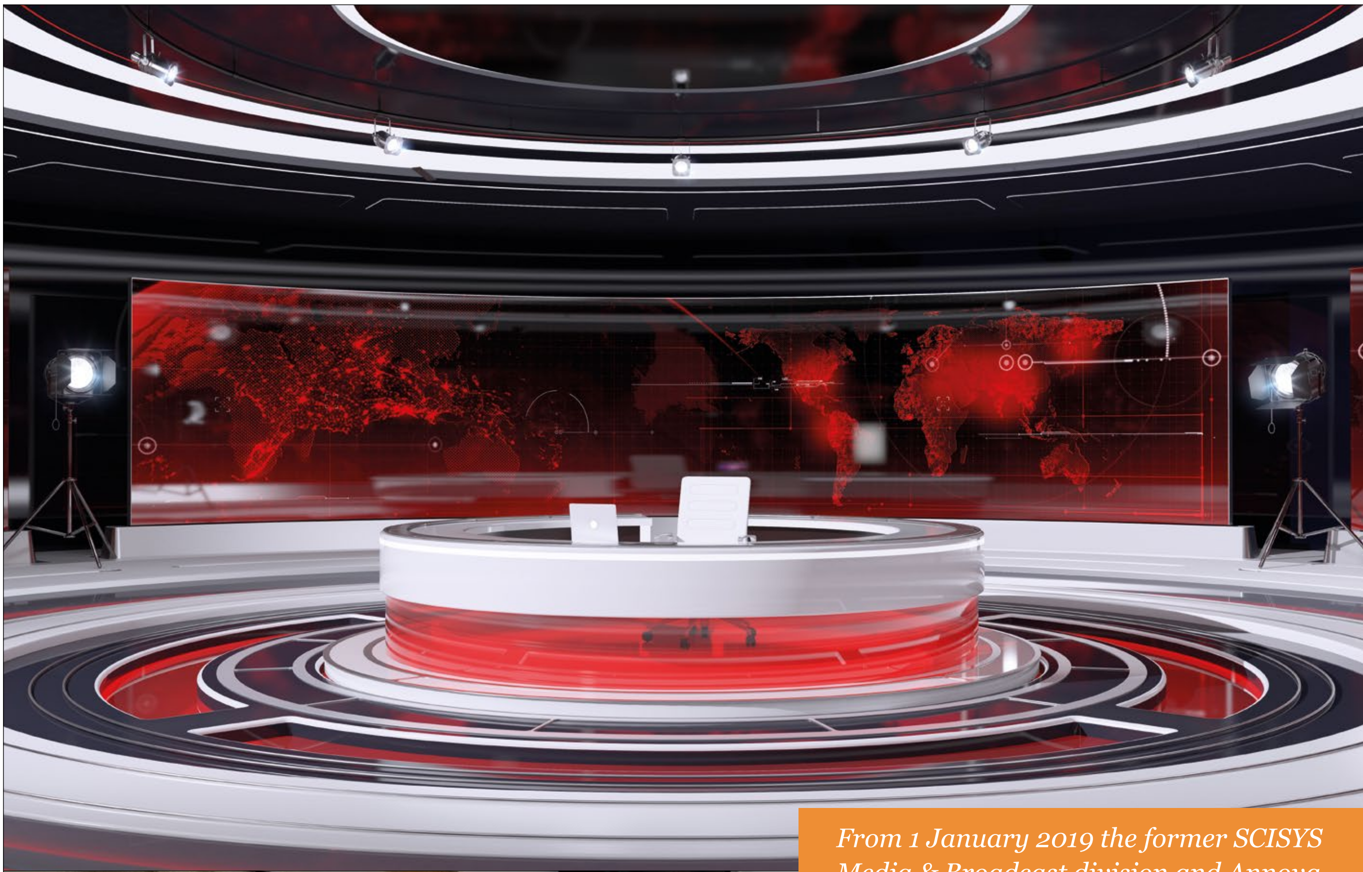

IMAGE: J KARJALAINEN/SCISYS

Space

Following its exceptional performance in 2017 our Space division delivered another set of very strong results. Revenues increased further to £21.3m, while contribution grew to £5.1m. This is particularly remarkable as the division was affected by the persistent uncertainty around Brexit. The re-domiciliation of the Group's ultimate parent company was undertaken to address this uncertainty, principally in relation to the European satellite navigation programmes.

Significant contract wins in this area, the majority of which were secured after the re-domiciliation became effective on 27 November, fully justified execution of the Board's Brexit contingency plans and underline SCISYS' increasingly strong foothold in this domain. Successes are outlined below.

In April, SCISYS secured a €3.9m order from Airbus Defence and Space to develop the global navigation EGNOS V3 ground



From 1 January 2019 the former SCISYS Media & Broadcast division and Annova Systems have operated as a single division, now called SCISYS Media Solutions.

segment. EGNOS is Europe's regional satellite-based augmentation system that is used to improve the performance of global navigation satellite systems, such as GPS and Galileo. Development work will continue until the third quarter of 2020, with a subsequent maintenance phase of up to five years.

Several contract wins with prime contractors for the EU-funded Galileo programme highlighted SCISYS Space's position as an expert software supplier, including:

- an €11.2m order in December from Thales Alenia Space France for the continuation and further enhancement of four elements of the Galileo Ground Mission Segment;
- a €5m order from GMV in Spain signed on 2 January 2019 for the continuation and further enhancement of three elements in the Galileo Ground Control Segment; and
- two further orders worth €3m with Thales Alenia Space France in December for the development and implementation of security-relevant elements within the Galileo Ground Segment, including the distribution of configurations to the Point of Contact Platforms in member states.

These contracts all run into 2020 and beyond, further extending SCISYS' footprint in the Galileo ground segment infrastructure. It is likely that – in view of Brexit - those Galileo activities that SCISYS has delivered from the UK will migrate to our German Space operations in order to comply with the EU's participating conditions.

SCISYS Space made good progress with the German Heinrich Hertz satellite (H2SAT) programme in which the Company has the role of ground-segment prime contractor for the first time. Reporting to the programme prime contractor, OHB, SCISYS successfully passed a major contract milestone on schedule in October 2018.

Other activities during the year included further investment in the Group's proprietary PLENITER product suite for satellite ground-segment solutions. H2SAT will use PLENITER, and marketing and sales activities during 2018 have significantly raised awareness of SCISYS' capabilities in this area and have already generated encouraging sales leads.

UK-based earth observation and autonomous systems activities for the European Space Agency (ESA) progressed well, with ESA commissioning SCISYS to undertake more initial studies for the transfer of technology skills to adjacent sectors. Also, in the UK, SCISYS Space won new contracts in the commercial "New Space" sub-segment. These activities complement endeavours to become more involved in UK national space programmes following Brexit through a closer relationship with the UK Space Agency, for which a number of forward-looking research, analysis and technical prototype projects are ▷

underway to help bolster UK competitiveness in the international space market.

Based on its impressive order book of ca. £40m at the end of 2018, the Space division anticipates another strong year ahead. Expansion is expected to be focused on German operations centred in Bochum where the capacity of the existing premises is projected to be exceeded by around mid-2020. Measures will be taken to accommodate the expected growth and to mitigate any risks which might affect its sustainability.

ON TRACK FOR FURTHER GROWTH

At SCISYS we believe that innovative software systems can provide real benefit to our customers' operations. 2018 has proved us right in this respect and validates our strategy for long-term sustainable growth.

We have strengthened our position as niche experts, dedicated to achieving our customers' goals by creating and delivering quality software solutions and are committed to running a resilient, well balanced business that promotes sustained commercial success.

We continue to grow in our established territories and keep extending our expertise. We have successfully opened up new sectors. We maintain investment in our proprietary products and re-usable software platforms and we continuously observe the market for attractive M&A opportunities that complement our organic growth.

SCISYS is a people business. Much of our success is attributable to our exceptional team. I am glad to report that on the back of our robust growth our group headcount increased by 87 during the year, with new employees comprising both talented young and more experienced senior staff. My sincere thanks go to our entire team – staff and management, who drive our success in line with our core corporate values of mutual trust, respect and openness. These remain the foundation of our corporate culture and our strategic objectives, as the business continues to grow.

SOLID FOUNDATION AND ACCELERATED TOP LINE GROWTH

We have broken last year's record with a year-end order book just short of £100m. Our recurring revenues remain strong and we have delivered our medium-term revenue target of £60m, on a like-for-like basis, ahead of schedule. This trajectory underpins the robustness and realism of our business model.

We have delivered organic growth of 10% in 2018 and we believe we are well positioned for this accelerated top-line growth to continue into 2019 and beyond. To take advantage of this momentum, we will shift our strategic focus slightly more towards revenue growth – including investments in sales, infrastructure, product improvement and innovation.

On this basis we are updating our medium-term revenue aspiration to £75m by the end of 2022, with an adjusted operating profit of approximately £7m. We will carefully monitor progress on this strategy, while constantly assessing options for further margin improvement.

While investing in this accelerated top-line growth we will strive to ensure the high level of sustainability and stability of performance that our shareholders, customers and staff expect.

Once again, my sincere thanks go to our shareholders, customers, management, staff and all other stakeholders who have strongly supported SCISYS in 2018. It has been another year of excellent progress and we are confident in our ability to deliver further progress in 2019; expanding the business in a sustainable, resilient, balanced way for the benefit of our shareholders, customers and staff.

Klaus M. Heidrich
Chief Executive

Risk and viability statement

Executive Directors and divisional directors meet at divisional board and subsidiary board meetings, as well as interacting frequently informally, to review the risks and opportunities facing the business, the controls established to reduce those risks and the effectiveness of these controls in operation, on an on-going basis. The aim of these reviews is to provide reasonable assurance that material risks and problems are identified, and appropriate action is taken at an early stage. The SCISYS Group PLC Board confirms that procedures to identify, evaluate and manage any significant risks faced by the Group have been in place throughout the year.

The annual strategic and financial plan is reviewed and approved by the Board. Financial results with comparisons between planned and forecast results are reported on at least a monthly basis by the divisions and subsidiaries and discussed at the corresponding board meetings, together with a report on sales, operational achievements, objectives and issues encountered. These reports are supplemented by interim monthly financial information as appropriate. Significant variances from plan are discussed and actions set in place to address them and discussed at board meetings. Approval levels for authorisation of expenditure are at levels set and cascaded throughout the management structure, with any expenditure in excess of predefined levels requiring approval from one or more Executive Directors and selected senior managers.

Accordingly, the Directors confirm that they have carried out a robust assessment throughout the year of the principal risks facing the Group, including any that would threaten its business model and future financial performance and liquidity. It follows that the Directors have a reasonable expectation that the Group will continue in operation and to meet its liabilities as they fall due throughout the next, and the following two, accounting periods.

Finance Director's Report

In Summary

- Strong operational cash flows
- Net debt reduced to £3.1m
- Revenues up 10% to £58.4m
- Adjusted basic earnings per share increased to 13.1p

I am pleased to report that SCISYS successfully navigated the turbulent political landscape in the second half of 2018 to deliver excellent trading results for the full year, marginally ahead of our expectations in September, when we published our half-year Interim Report.

Both revenues and underlying operating profits reached historic highs and strong operational cash flows have significantly reduced year-end net debt, despite substantial exceptional cash costs being incurred in the latter half of the year to implement our Brexit contingency plans and close out earnout payments relating to 2016's acquisition of ANNOVA Systems GmbH (Annova).

REVENUES

Total revenues for the year were 10% higher at £58.4m (2017: £53.2m as restated in accordance with IFRS 15 – see below), of which the component relating to professional fees was £55.7m (2017: £47.9m restated). 40% of total revenue was from eurozone customers (2017: 45% restated).

IFRS 15: *Revenue from contracts with customers* has been implemented with effect from 1 January 2018 and comparative figures for 2017 have been restated to reflect retrospective application of this new standard. Under IFRS 15, only the mark-up on pass-through costs of third-party products and services – where SCISYS acts as an "Agent" rather than a "Principal" – is reported as revenue, whereas previously the revenues and the related third-party cost of sales were reported gross. A further impact of the new standard was to defer recognition of revenue on specific contracts until the projects complete. The reduction in previously reported total revenues for 2017 was £4.0m while reported professional fees and profits were reduced by £0.2m. The impact of these changes at a divisional level is detailed in the segmental analysis note.

PROFITS

Since 2007 the Board has gauged the underlying performance of the business using an adjusted operating profit measure that excludes the costs of the Group's long-term share incentive schemes, exceptional items and any amortisation of intangible assets arising on business acquisition. Internal reporting is exclusively based on adjusted performance measures to facilitate comparison between financial years. Adjusted operating profit was up 16% at £5.1m (2017: £4.4m restated), while statutory operating profit was £2.5m (2017: £4.5m restated) after bearing amortisation costs relating to the Annova acquisition of £1.3m (2017: £2.0m) and net exceptional charges of £1.3m (2017: £2.1m credit).

The adjusted and statutory operating profit measures reconcile as follows:

	2018 £m	Restated 2017 £m
Adjusted operating profit	**5.1**	**4.4**
Amortisation of intangible assets arising on consolidation	(1.3)	(2.0)
Exceptional items	(1.3)	2.1
Statutory operating profit	**2.5**	**4.5**

Share-based payment charges in both years were immaterial.

On the acquisition of Annova on 31 December 2016, IFRS 3 required SCISYS to make fair-value consolidation adjustments to the Annova balance sheet. Intangible assets for fair-value recognition comprised the 2016 year-end order book and the internally developed intellectual property rights in Annova's OpenMedia product. Recognition of these assets in the 2016 consolidated Group balance sheet resulted in non-cash amortisation charges to the 2018 income statement of £1.3m (2017: £2.0m).

The 2018 net exceptional charge comprised four components. The first element reflected a fixed and final earnout payment in December of £0.6m to Annova's former owners. This sum represented consideration for early termination of the acquisition ring-fence agreement, enabling accelerated achievement of potential medium-term benefits in our combined media-sector operations by the removal of constraints on collective management. Second, there was a £0.7m exceptional charge for external professional advice and costs in relation to the development and implementation of the Group's contingency plans to mitigate any potential adverse impact of Brexit on cross-border operations, particularly in the space sector. Costs principally related to the establishment of a new holding company, incorporated in Ireland, at the top of the Group structure by means of a Scheme of Arrangement approved by the members and the High Court. Third, non-trading costs of £0.3m were incurred in the re-organisation of the German arm of the Group to facilitate the merger of the Annova and Media & Broadcast divisions under common management. Fourth, an exceptional credit was recognised because 2017's R&D tax credit provision proved overly conservative by £0.3m.

Exceptional items in the comparative 2017 period comprised an R&D tax credit provision of £0.5m and a £1.6m credit to reflect a reduction in anticipated contingent consideration payable to Annova's former owners.

The Group's results were less adversely impacted by variations in the euro–pound exchange rate than in previous years for two reasons. Firstly, the funding structure for the Annova acquisition and the sterling-based cash flows of its contract with the BBC served to bring the Group's overall currency requirements more into balance, whereas in previous years the Group generated substantial surplus euro income from its German operations and UK-based space market activities. Secondly, the average exchange rate for 2018 of €1.13/£ was only marginally lower than the 2017 rate of €1.14/£.

The Group has not entered into any external currency-hedging contracts since 2017. Intra-Group hedging contracts will be used to balance the Group's currency exposures across its subsidiary companies.

Excluding exceptional items, Group overheads – representing the costs for provision of shared business services to the divisions – were £1.0m higher than in 2017 at £8.8m (2017: £7.8m). However, the prior year figure incorporated the unwinding of a currency hedging contract that depressed the reported overhead figure by £0.3m. On a like for like basis 2018 Group overheads were less than 9% higher than in 2017 which compares favourably with the 16% rise in professional fees revenue.

EPS

Adjusted basic EPS, calculated on the profit for the year before post-tax exceptional items, share-based payments and amortisation of acquisition-related intangible assets, were 41% higher at 13.1p (2017: 9.3p restated). Basic EPS were 4.9p (2017: 10.8p restated).

CASH AND DEBT

The Group closed the year with bank deposits of £8.1m (2017: £8.0m), while Group borrowings amounted to £11.2m (2017: £13.9m). This resulted in net debt of £3.1m (2017: £5.9m).

Unutilised working capital facilities at the year-end totalled £4.3m (2017: £4.3m).

TAX

The effective Group tax rate for the year was 28% (2017: 16% restated).

The elevated tax rate for 2018 primarily reflects the high level of exceptional costs in the year that depressed statutory pre-tax profits without being deductible for tax purposes.

Although SCISYS continued to benefit in 2018 from the tax-credit system for UK expenditure on R&D, the Company was governed by the rules for large enterprises for the first time, where credits are significantly less generous than had previously been the case for SCISYS as an SME. For 2018, an estimated receivable amount of £0.1m has been credited against operating expenses. In the prior year, a conservative estimate of £0.5m for receipt of 2017 R&D tax credits was included in the 2017 accounts as an exceptional item, whereas the amount actually received was £0.8m. The supplementary receipt is disclosed as an exceptional credit in 2018 for consistency.

ACCOUNTING STANDARDS

Apart from the implementation of IFRS 15: *Revenue from contracts with customers* as outlined above, no other changes in accounting standards have materially impacted the Group accounts for 2018. The next significant change affecting SCISYS will be in 2019, when IFRS 16: *Leases* will be adopted, bringing operating leases with more than one year to run onto the balance sheet in the form of fixed assets and lease liabilities. The Group has commenced an initial analysis of the anticipated impact of adopting IFRS 16 on future financial statements and expects both fixed assets and lease liabilities to be in the region of £1.5m higher, with a minimal effect on operating profit.

SHARE OPTIONS

During the year a total of 299k (2017: 442k) share options were exercised and 356k (2017: 340k) new share options were granted. At the year-end there were 1,517k (2017: 1,462k) share options outstanding of which the performance criteria for vesting had been achieved in respect of 491k (2017: 789k) options awarded from 2009 to 2012. Option awards granted from 2013 to 2015 failed to meet the vesting performance criteria and therefore lapsed, while those in 2016 and 2017 remain on track to vest in full.

ORDER BOOK

The re-domiciliation of the ultimate Group parent company on 27 November 2018 enabled SCISYS to satisfy the participation conditions for EU-funded programmes in the space sector, including Galileo and EGNOS. During December SCISYS secured Galileo orders to the value of £12.8m and a UK MoD order for £2.4m. These lifted the year-end order book to a record level, 12% ahead of the prior-year at £98.6m (2017: £88.2m restated). Of this total, £41.0m (2017: £32.6m) is deliverable within one year. The longer-term balance principally reflects Annova's contract with the BBC, which runs to at least 2027.

Chris Cheetham
Finance Director

IMAGE: M WOODS/SCISYS

INNOVATIVE. GROWING. SCISYS
30+ YEARS OF LONG-TERM GROWTH

Business Strategy & Model

OUR STRATEGY & PURPOSE

At SCISYS, we strive to create premium value for our customers based on our excellence in a variety of niche markets. We have demonstrated this fundamental capability for more than three decades, flexibly responding to the ever-changing market demands in a fast-moving software industry with our well-balanced portfolio of solutions, services and products.

Based on this foundation, we continue to aspire to grow our commercial success in a balanced and resilient way, providing products, systems and services that form an indispensable part of our customers' value generation, helping us to establish and maintain long-term relationships.

Trusted relationships with all our stakeholders are essential to progress our vision – all the more so as we strive to grow further. Honesty, transparency and respect are at the core of our corporate values. Our corporate culture focuses on commitment and flexibility and we strongly rely on our excellent staff, who help us innovate in line with customer and market needs, frequently as thought leaders.

OUR BUSINESS MODEL

Our value proposition

SCISYS' solutions empower leading organisations and agencies to achieve their business goals. We combine and apply leading-edge knowledge and technology to solve complex problems by delivering reliable, robust solutions. In many cases, this requires a deep understanding of the wider context of how the software is being operated and the expert ability to connect it to the real world. This is a valuable capability that generates important know-how that we can exploit in similar, or other, fields. We believe our markets have scope for continued growth and that our skills and products will continue to be valued in them.

The depth and breadth of our knowledge and experience ensures that customers with complex issues can rely on us. Our business model shows how we seek to deliver sustainable value to our shareholders by achieving sales, profit and margin growth. Viewed from the perspective of our staff, healthy growth delivers career opportunities and the upholding of SCISYS' values and culture. From the customer perspective, this inspires confidence in the long-term prospects of the Group. Investing in growth helps us further improve each of these aspects.

OUR STRATEGY IN ACTION.
HOW WE SUCCEEDED ACROSS THE GROUP IN 2018

PETS AT HOME GROUP, UNITED KINGDOM:
Pets At Home awarded contracts to Xibis and SCISYS for development of Vets4Pets iOS and Android apps, including comms traffic monitoring through a bespoke 'middleware' layer. The apps allow clients to register with a practice, add their pets, book appointments and receive reminders.

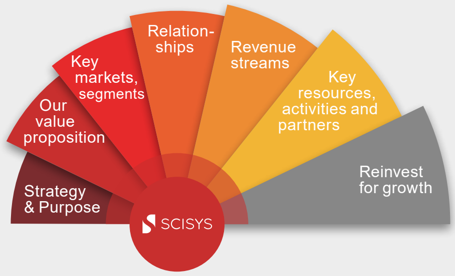
Our projects are usually critical to our customers' operational success, so our record of strong delivery performance and premium quality is important to them. Value is achieved because the vast majority of our client relationships are long-term and on-going. All of these factors result in an ability to win contracts when bidding against larger companies.

Key markets, segments & relationships
The market-facing divisions within the SCISYS Group drive their divisional businesses with a high degree of autonomy, positioning themselves as experts and recognised thought leaders in their respective markets. Each of our divisions focuses on a variety of vertical markets, in which they have been active for many years. They excel using their specialised, in-depth and sector-specific domain knowledge, as well as their proven technical and programmatic capabilities.

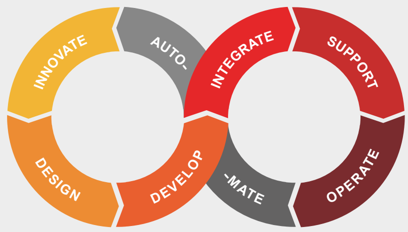
The majority of our customers across all sectors are blue-chip organisations. Many of them are in the public sector (such as the European Space Agency), major public broadcasters or government ministries and institutions, although the balance of work with commercial customers is increasing.

Long-term relationships with our customers and business partners are fundamental to our business and we strive to maintain these relationships over many years, if not decades. Frequently and increasingly, we work directly for the end customer, but we also engage with business partners on various levels. Large system integrators act as our prime contractors when we work as a sub-contractor, particularly in the space and defence sectors where they rely on us as a specialised sub-contractor. Wherever needed, we in turn complement our own capabilities by involving our own specialist subcontractors, premium suppliers of standard hardware and software products and reputed research institutes. Local agents and strategic partners also support our sales team in certain international markets.

SCISYS BUSINESS MODEL



WHAT WE DO



KEY MARKETS

MEDIA & BROADCAST PRODUCTION & PLAYOUT	SPACE (INSTITUTIONAL & COMMERCIAL)	SECURITY & DEFENCE	GOVERNMENT
COMMERCIAL	MARITIME	TRANSPORTATION	MEDIA NEWS

The diversity of our divisions gives us a high level of resilience against changing market trends and we also benefit from sharing divisional expertise internally to innovate with customers.

Our revenue streams & outcomes
Our activities span the entire software lifecycle: engaging with customers leads to innovative concepts that we translate into high-quality, robust software solutions. We integrate these solutions at system level in the customer's environment, where they typically become part of the customer's core infrastructure. In addition, we frequently maintain and support – and even operate – systems for our customers.

As a consequence, the revenue streams for each of our divisions range from fixed-price projects to time & material-based services, as well as multi-year maintenance and support contracts. In general – and particularly with the increased weight of our now-integrated Media Solutions division – we are increasingly adding licence and royalty-based revenues as we progressively create portfolios of re-usable software that allow us to employ our solutions in similar environments or in adjacent markets.

All our divisions generate a large proportion of recurring revenues that add to the underlying strength and reliability of our business and provide us with a solid basis for ▷

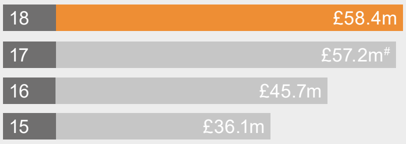
CARTOSYS LAUNCH:
SCISYS relaunched its Cartosys location-based services toolkit. Delivered through a web-browser, it is designed to drive the deployment and take-up of location-based services by offering a new approach to how organisations discover, create and share location-based data, maps and apps.

UAV RESCUE TRIALS, UNITED KINGDOM:
A team from SCISYS took part in a two-week technology demonstration to investigate the use of advanced Unmanned Air Systems (UAS) in Search and Rescue (SAR) operations. The collaborative work hopes to discover how new technologies can save lives faster while keeping crews safer than ever before.

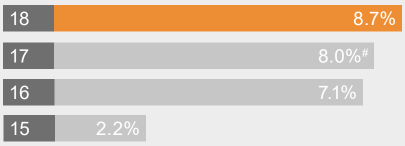
Key Performance Indicators

Measuring our progress against our strategic goals, which we have not adjusted below for IFRS 15 as goals were set pre implementation.

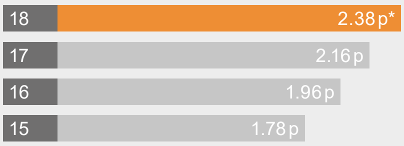
Revenue
Medium-term target of £60m revenues. 4yr CAGR starting 2016 (for £60m revenues by 2020) = 7% on average year-on-year. Achievement 2018 (on 2016): 13%.



Adjusted Operating Profit Margin
Medium-term target of min. 10% adjusted operating margin.



Dividend*



* subject to shareholder approval at the AGM
\# pre-IFRS 15 adjustments

future revenue, profit and margin growth.

Being a successful business that excels at generating value for our customers makes us attractive to highly qualified staff, which in turn supports our objective to develop and retain a team that can deliver excellence.

Key resources, activities and partners
Our key resource is a team of more than 650 highly qualified staff, working in major offices and smaller branches across the UK, Germany and France. This committed team provides us with in-depth domain knowledge and superior technical expertise. We achieve this by working to recruit and retain highly motivated, talented and skilled employees.

Strong financial resources complement our team's excellence. We benefit from our strong balance sheet, a number of substantial freehold properties, long-term relationships with our financial partners and our robust working capital facilities.

Re-invest for growth, research and development
Our objective is to grow the business on a steady basis. We therefore continue to re-invest in the areas that we see are the main drivers for our business success. We constantly develop our sales team to establish new customer relationships, foster existing relationships and to expand into untapped regions. Permanent technical innovation, including activities relating to continued research and development of proprietary software (including by way of example research and development activities in respect of PLENITER, OpenMedia, NEWSBOARD, dira!) as well as regular staff development, allows us to maintain our reputation as leading-edge technology experts. As we invest for growth, we ensure that we keep improving our processes and the infrastructure required to run a resilient, sustainable business. We invest in acquisitions to complement our organic growth aspiration; always thoroughly assessing the business benefit and cultural fit.

STRATEGIC OBJECTIVES & KEY PERFORMANCE INDICATORS

Balanced evolution, investing for growth
Our strategic objective is to grow our business in terms of revenues, operating profit and operating margin so that we deliver sustainable long-term value to our shareholders, our customers and to our entire team. We see increased opportunity for organic growth, and we keep investing for growth. This is done in line with corporate values that are reflected in the SCISYS culture of being committed, honest, customer-focused, respectful and supportive to all our stakeholders.

The divisions continuously broaden their pipelines of prospective clients, building on the positive reputation gained with existing clients and seeking to extend their business development and sales activities to new territories. They are also moving into adjacent areas by evolving the range of their services and products.

Our strategy for growing SCISYS also incorporates identifying acquisitions that help us to accelerate progress. We continue to select opportunities carefully and aim to acquire companies that expand our customer ▷

OUR STRATEGY IN ACTION.
HOW WE SUCCEEDED ACROSS THE GROUP IN 2018

WEST MIDLANDS METRO, UK:
The first 'product' by Xibis to design and deliver a new tram mobile app for iOS/Android allowing users of the West Midlands network to plan their journeys and purchase tickets on the go! Xibis will receive a percentage of ticket sales starting in 2019.

STRATEGIC PRIORITIES FOR 2018 (from the 2017 Annual Report)	**ACHIEVEMENTS DURING 2018**
We will remain focused on our growth aspiration for operating profit, operating margin, revenues and our earnings per share.	• Operating profit (adjusted) up 16% • Operating margin (adjusted) up 4% • Revenues up 10% • Earnings per share (adjusted basic EPS) up 41%
Strategic objectives for the medium term. • **Objective**: increased margins We aim to increase our operating margin to at least 10%. • **Objective**: top-line growth We aim for revenues to grow to at least £60m. • **Anticipate** a corresponding increase in SCISYS' EPS	In 2016 we set our medium-term strategic objectives with a 3-to-5-year term in mind. In 2017 we said that we were increasingly confident of achieving the revenue objective within a couple of years but that we anticipated reaching the operating margin threshold of 10% later than our revenue target. • Despite the implementation in 2018 of a new international accounting standard, IFRS 15, that reduces SCISYS' reported revenue by ca. £4m p.a., we are well on track to achieve the £60m revenue target ahead of schedule. Indeed, without the accounting change, i.e. on a like -for-like basis, we achieved the target in 2018 two years early. • We grew our adjusted operating profit in the same accelerated way as our revenues to £5.1m. • On that basis we ended 2018 with an adjusted operating margin of 8.7%, slightly ahead of 2017. As we see further opportunity for stronger organic revenue growth we keep investing for top-line growth and adjust our medium-term objectives accordingly; please refer to the corresponding section in this report.
• The integration of Annova into the SCISYS group so that synergies with our Media & Broadcast division and other parts of our business are explored early on, and that preparations are in place for the post ring-fencing era.	We agreed with Annova's former owners in June 2018 to advance the dissolution of the contracted ring-fence. We have built on initial measures already taken during 2017 to make further progress with our internal post-merger integration (PMI) project. The key objective was to establish a single joined-up division for our activities in the media & broadcast technology sector. As a result, we have formed SCISYS Media Solutions as one division from 1 January 2019, under a single management team led by Michael Schüller (CEO of Media Solutions). The Media Solutions management team has developed and committed to a joint business plan for the period 2019–2022 that addresses main integration activities in various areas, including combined marketing & sales, product alignment, joint project & service delivery, harmonisation of processes and policies, and team-building.
• Further growing the space business, particularly focusing on satellite navigation and a re-use of the newly established PLENITER product suite for satellite ground-segment solutions.	In 2018 the Space division again delivered a very strong performance, which is particularly remarkable in the light of imminent Brexit risks for EU-funded satellite navigation programmes. Steps were taken at PLC board and on divisional level to mitigate any such risks for SCISYS. Recent contract wins for more Galileo work worth £18m complemented the earlier win of the EGNOS V3 contract (£3m) and underpin SCISYS' increasingly robust position in this area. The €18m contract with OHB for German Heinrich Hertz (H2SAT) mission has progressed and successfully passed a critical design milestone during Q4 2018. PLENITER is instrumental to the H2SAT project as the complete satellite ground control system is based on SCISYS' proprietary product suite. Alongside the continued effort spent on further product development, the division stepped up marketing activities to raise brand awareness in the sector. These have already generated various national and international opportunities which will be pursued over the coming years.

SMART CITIES ALLIANCE, GERMANY :
SCISYS joined the Smart City Alliance Dortmund initiative, aimed at establishing an international Smart City through projects about intelligent networking and digitisation in the city. SCISYS is providing expertise on how satellite communication, earth observation, meteorology and satellite navigation can contribute to new everyday applications and services.

AEOLUS, ESA:
Fourteen years after work on this mission began, the final software was delivered in 2018 for ESA's Aeolus mission. It is the first satellite designed to measure wind speed from space. SCISYS developed the onboard software (OBSW) and a bespoke operational simulator.

STRATEGIC PRIORITIES FOR 2018 (from the 2017 Annual Report)	ACHIEVEMENTS DURING 2018
• Further raising awareness for SCISYS' expertise in the defence, security and maritime sector, and extending the footprint of our ESD division.	ESD secured new contracts in the defence, security and maritime sector during the year, most notably announcing another major win worth £2.4m that further strengthens its position in the arena of Logistics Information Services. Significant effort went into further improvements of our proprietary MACSYS product for the defence maritime sector, alongside a project where this software was first used for a defence application. These activities are complemented by successful research projects in the same sub-sector. In response to the promising outlook of these activities ESD management will establish a fourth business unit specifically to focus on this area. The transport & logistics sector has been another focal area for ESD. The division secured a major contract for Transport for London (TfL) together with Trapeze Group (UK) Limited to provide a solution for TfL's timetabling and scheduling as part of its Future Bus Systems programme. Additional activities also involve Xibis, where a ticketing app developed for Nottingham trams went live late in 2018.

base, geographical reach or add unique expertise – and, most importantly, are a good cultural fit to ensure successful integration.

Progress in 2018: ahead of our medium-term expectations

The key objective for 2018 for the Board was to maintain business growth on a year-on-year basis following the step change in revenues seen in 2017 after the acquisition of ANNOVA Systems GmbH (Annova) in December 2016. Total revenue in 2018 grew organically by 10% and most significantly by 16% for professional fees and licence revenues. The adjusted operating profit was up 16% compared with 2017. All comparisons are on a like-for-like basis, with 2017 figures restated to be compliant with IFRS 15.

In addition to the year-on-year comparative, we have made excellent progress towards our medium-term objectives, which we have declared for the 4-year period ending 2020 to be:

- £60m revenues by the end of that period; and
- double-digit adjusted operating profit margin by the end of that period i.e. £6m adjusted operating profit.

These objectives reflect a compound annual growth rate (CAGR) of 7% for revenue and 17% for adjusted operating profit, through a combination of organic growth and acquisitions.

Midway through this period, we are already approaching our medium-term revenue objective of £60m, and our adjusted operating profit for 2018 has reached £5.1m, at a margin of almost 9%.

From 2016 to 2018, we have grown our top line by 13% p.a. on average, and our bottom line by 26% p.a., well ahead of our aspiration. We have successfully combined solid organic growth and the acquisition of Annova in late 2016, to execute our growth strategy.

This underpins the success of our strategic approach of balanced evolution and sustainable growth in a highly demanding business environment.

As for our overall financial performance, we have been able to make very good progress against our strategic priorities for 2018 across all our divisions.

OBJECTIVES GOING FORWARD: INVESTING INTO GROWTH

In principle, our main strategic objectives for the medium-term remain largely unchanged. We will remain focused on our growth aspiration for operating profit, operating margin, revenues and our earnings per share.

OUR STRATEGY IN ACTION.
HOW WE SUCCEEDED ACROSS THE GROUP IN 2018

DISASTER RELIEF PORTAL, ESA:
The European Space Agency commissioned SCISYS in association with the EU initiative Governmental Satellite Communications (GOVSATCOM), to create a service portal to support disaster relief or any other needs for civil protection agencies and maritime safety agencies at EU and national level.

IMAGE: J KARJALAINEN/SCISYS

With our opening 2019 order book just short of £100m providing a sound footing, we see ample opportunity to drive further organic revenue growth over the next few years. We have therefore reviewed our medium-term objectives into 2022 and beyond. The assumptions are based on a projected exchange rate of €1.10/£.

Strategically SCISYS management sticks to its fundamental philosophy of sustained growth and balanced evolution based on cautiously optimistic planning, as the foundation to deliver increasing shareholder value.

- Underpinned by the current momentum we are aiming for double-digit organic top-line growth to continue into at least the next couple of years based on our very strong order book particularly in our Space division, and a slightly slower growth beyond that. We believe that top-line growth of 6% p.a. is a realistic target. We therefore adjust our medium-term revenue objective to be in the range of £75m in around 2022.
- We aim for our adjusted operating profit to grow at a similar rate to our revenue. In absolute figures our ambition is to be well ahead of the previous £6m target and closer to £7m in the medium term.
- These two objectives represent an adjusted operating margin aimed at around 9%. Being cautious for the margin target is part of our resilience strategy which includes investment in sales, product, processes and structure, in our divisions as well as for our central business services. We will continuously monitor the progress we are making against our revised strategic aspirations and identify potential areas for margin optimisation.
- Acquisitions remain part of our growth strategy even though the acquisition of Annova will continue to attract a significant amount of the Board's attention over the coming years. The Directors review potential opportunities on a regular basis, based on a criteria catalogue which has proved appropriate over the past years. We will continue to look for opportunities that add value to the business by complementing our current activities. Given the current and anticipated size of the Group, we are more focused on mid-size acquisitions.

STRATEGIC PRIORITIES 2019

For 2019 the Board will be focused on a set of key measures that will help to progress our medium-term strategy:

- Further establish the newly formed integrated SCISYS Media Solutions division and keep focused on the integration project. Explore and start to exploit synergies in marketing, sales, products and delivery. Align and improve processes and stabilise structures of the joint business. Maintain and innovate the joint product base with a focus on premium quality and resilience.
- Further grow the space business, particularly focusing on satellite navigation and a re-use of the newly established PLENITER product suite for satellite ground-segment solutions. Prepare for and implement the expanded infrastructure that will be required to support the anticipated growth.
- Continue to increase awareness for SCISYS' expertise in the defence, security and maritime sector. Further establish the newly formed Maritime business unit. Continue to sharpen the focus of the Commercial and Government & Emergency Services business units. Continue to extend ESD's footprint in established and adjacent markets.
- Improve the infrastructure, organisation and governance across the Group and all its divisions to match the medium-term growth objectives; this also covers succession planning and corporate structure. Optimise our risk-management processes so that the inherent business risks are managed, based on our continual improvement approach which covers regular process improvement with respect to cyber security and improved forecasting as focal areas.

WELLA, UNITED KINGDOM:

Xibis developed an app for Wella UK for use by professional hair stylists. The apps allow stylists to dispense personalised colour masks via a bespoke machine. It's been a great success with trials rolling out internationally.

RTL2 AND FUN RADIO, FRANCE:

SCISYS Media Solutions makes good progress in placing dira! in the French market. "M6 Group has chosen dira! to unify its playout solutions for its radio stations RTL2 and Fun radio," commented Charles-Emmanuel Bon, Executive Vice President. The dira! product suite provides the high level of customisation required by complex advertising schedules as well as the specific editorial demands of radio hosts.

Our Divisions

Media & Broadcast

OUR POSITION

The Media & Broadcast (M&B) division is a leading international player in delivering resilient broadcast, playout, media-asset and digital archiving solutions to the radio and the broadcasting market.

We enjoy a reputation for our premium software dira! suite of solutions and for quality support services. Our core strength lies in being able to support the best-of-breed on the market and providing value through integration. Our strengths include a reputation for reliability and 30 years of building strong relationships in the industry.

Our main customer base is among the major European broadcasters – the BBC and German ARD in particular – but we also enjoy success internationally, including South Africa.

THE YEAR IN REVIEW

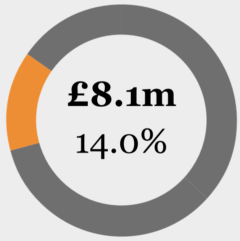
In line with our strategic goal of expanding our client base as well as expanding the services we offer this year has seen important wins among new and existing customers.

We gained several new customers in 2018, including 6 belonging to the ARD group of German public broadcasters. We now count 11 ARD broadcasters among our expanding client base. We have also won extensions with RTL in France and secured an extension to a key support and maintenance contract with the BBC.

We have gained an important foothold in the digital media archiving arena beyond the broadcast sector with a pilot study for the British Library. This project seeks to record and preserve the output of UK radio, with potential for TV in the future.

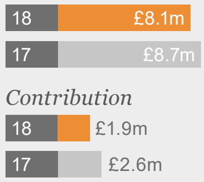
The order intake this year has been as planned although aspirations for significant growth were dented by some customers deferring purchasing decisions for another year and others shifting timelines in implementing system upgrades.

M&B DIVISION



% of total revenue from contracts

Revenues (£m)



ANNOVA Systems

Annova Systems GmbH
(now SCISYS Media Solutions GmbH)

OUR POSITION

Annova has been a leading provider of newsroom editorial systems for the international broadcast and media market for more than a decade. We have continually developed and marketed our OpenMedia range of products in line with evolving trends and the latest technologies. Today, thousands of journalists in a wide range of different editorial offices around the world use our software to create the latest news for radio, television or online.

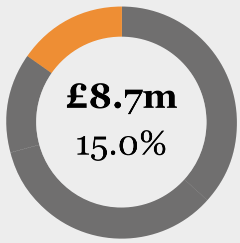
We not only offer our customers software solutions optimised to meet their individual requirements but also a complete service provision – from the first consultation and agile project implementation right through to training and 24/7 support. Our market share in Europe is strong and constantly growing. Included among our numerous customers are the ARD network, a large UK sports broadcaster, the BBC, Red Bull, SRG, Radio France and RTL.

THE YEAR IN REVIEW

We achieved many of our goals of further strengthening our market position in Europe and continuing to expand across international markets. We also gained new customers in Canada and Eastern Europe in 2018. The year was very much dominated by our merger with the SCISYS Media & Broadcast division, as we took significant organisational steps towards our common future.

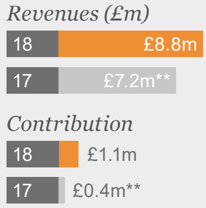
In Germany we gained the last-remaining member of the ARD Group of public broadcasters as a customer by concluding framework agreements for long-term projects. In addition, a number of existing customers from the ARD Group as well as the French market opted to expand their OpenMedia installations – including with our latest NEWSBOARD solution for editorial planning including social media monitoring and research.

ANNOVA SYSTEMS



% of total revenue from contracts

Revenues (£m)



** Restated

OUR STRATEGY IN ACTION.
HOW WE SUCCEEDED ACROSS THE GROUP IN 2018

UK SPACE AGENCY, UK:
SCISYS secured a grant from the UK Space Agency's Space for Smarter Government Programme (SSGP) to use satellite data and Earth Observation applications to help improve understanding of patterns of life in congested maritime environments.

Our partnership with former Annova has seen further product integration and innovation across the SCISYS family of products. Synergies have been achieved through reduced complexity, enabling cross-selling opportunities, on-site collaboration, shared resources (including French-speaking) and joint stands at several international shows. This preliminary activity bodes well for our future together under the SCISYS Media Solutions banner.

TRENDS & OUTLOOK

We are making headway into the French-speaking market and aim to expand our foothold in the near-future. We have seen growing interest from the private radio market.

We continue to invest in development of our dira! product to meet future demand trends. We are constantly working to harmonise our solutions to offer improved workflows across audio, video and online production cycles. The latest phase of our dira! Medox and dira!

Dimension are bringing together cutting-edge content-management and intelligent scheduling systems.

The emerging trends we see currently are a demand for using AI to enhance or simplify production workflow. This also includes tapping into data locked in archives – not just intelligent speech-to-text technology but also for example working within an archive to recognise and label individual speakers in legacy recordings.

There is also increasing demand in the next generation of self-operated studio systems, which involves a complete on-air control centre with integrated functionality all on one or two touch screens.

DIRA! SOFTWARE

The dira! suite of software is targeted at radio operations for large broadcasting enterprises. It solves the problem of a fast-moving industry by using software to automate, replace hardware and bring efficiency.

SOFTWARE FOR RADIO AND BROADCAST

dira!

We delivered substantial parts of the BBC-project installation in 2018 and OpenMedia was rolled out to thousands of BBC journalists across the UK and working globally. Significant effort was spent during the year to master the challenges of this vast, key project, and we are on track to finish the deployment.

In summary, the division achieved year-on-year growth in 2018 for both revenue and margin, while continuing to invest in the team, infrastructure and product development.

TRENDS & OUTLOOK

The trends of expanding digitalisation among leading global broadcasters and the domination of online news environments continue to be central to the future requirements of journalists for planning and editorial systems. Annova reacted quickly and developed its OpenMedia NEWSBOARD solution to meet these demands, which has already brought several contract wins and new opportunities in several countries.

Our new solutions have created a lot of interest among existing customers, which is promising for obtaining recurring sales revenue. We are confident of realising a number of promising opportunities in new markets and expect positive business developments in 2019.

And finally, we expect a number of positive synergies from our merger with SCISYS' Media and Broadcast Division, which can bring additional revenue and anticipated cost savings. The massive North American market remains our key medium-term focus alongside developing long-term business sustainability.

OPENMEDIA SOFTWARE

OpenMedia is now the leading provider of independent planning and newsroom systems. This solution provides a modern standard in toolsets for journalist workflows, planning, rundown management and research.

SOFTWARE FOR NEWSROOMS AND PRODUCTION

OPEN MEDIA
NOW
VISION
INFINITY
NEWSBOARD

HESSISCHER RUNDFUNK, GERMANY:
SCISYS won a contract for a new News Planning System and which will be the basis for a more advanced project to replace the current newsroom computer system entirely.

DEFENCE CUSTOMER, UK:
A major contract was secured in the arena of logistics information services, reaching into December 2020.

BBC, UNITED KINGDOM:
SCISYS renewed a long-term support and maintenance service contract with the BBC for its enterprise audio broadcast technology.

Our Divisions

Space

OUR POSITION

While the Space division serves both the established, traditional markets of institutional space customers – such as the European Space Agency (ESA), the European Union (EU), NASA and meteorological institutions, etc – it is also well placed to operate in the burgeoning “New Space” market, led by commercial space outfits.

The Space division provides solutions and services to every aspect of a space mission – from conception studies, simulation and training right through to launch and operation of satellites and spacecraft. We are also proud of our involvement in the upcoming ExoMars project.

Our core strengths include almost four decades in the space sector and a reputation for expertise and robust, reliable solutions. We are positioned as an enabler of new space technologies in both the commercial and institutional sectors.

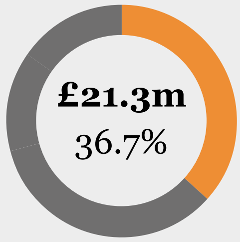
We enjoy solid, long-term relationships directly with both end customers and prime contractors. We continue to strengthen our international collaboration with large space suppliers.

THE YEAR IN REVIEW

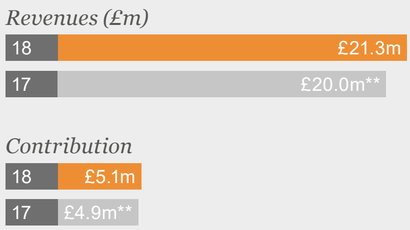
2018 was a strong year for the Space division, with revenues and contribution exceeding targets. We won a significant order late in the year for Galileo Ground Mission Segment elements.

We saw important contract wins in the area of satellite navigation, including the EGNOS V3 programme. We have also strengthened our relationship with ESOC through an extension to a key infrastructure programme for the ESA Tracking Stations Network.

SPACE DIVISION



% of total revenue from contracts



** Restated

Enterprise Solutions & Defence (ESD)

OUR POSITION

The Enterprise Solutions & Defence (ESD) division is long-term provider of ICT solutions and services to the UK market for defence, government and emergency services, the commercial sector and maritime spheres. We have a team of 168 staff, (2017: 164), all based in the UK.

We enjoy a reputation for being experts in software innovation and integration for advanced technology projects. In terms of being a mid-sized company, we benefit from being both robust and agile at the same time.

Our core strengths in offering premium solutions to a variety of markets are expertise in integration, an ability to bring new ideas and deliver reliable integration of software, services and support. We are a trusted partner to many major customers and enjoy a reputation for being experienced and reliable in dealing with operational challenges that require fresh technology thinking.

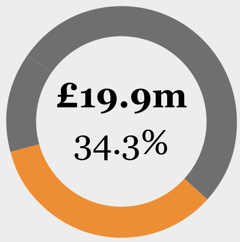
THE YEAR IN REVIEW

In 2018 the division grew on both the top and bottom lines.

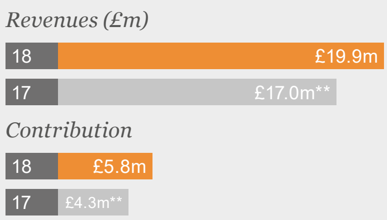
All our business units were solid and ahead of targets, with the commercial unit doing particularly well this year.

We have achieved a higher percentage of time-and-materials (T&M) work this year and the bulk of new orders have been in the form of contract extensions or associated work from existing long-standing customers.

ESD DIVISION



% of total revenue from contracts



** Restated

OUR STRATEGY IN ACTION.
HOW WE SUCCEEDED ACROSS THE GROUP IN 2018

THALES, FRANCE:
Initial contract win for SCISYS for new elements in EU-funded Galileo satellite-navigation programme for the Galileo Security Monitoring Centre (GSMC-U) and Point of Contact Platforms (POCP-U) elements.

Our headcount is up year-on-year, in line with our growing revenues and space contracts. We currently have a team of 254 staff (2017: 229).

TRENDS & OUTLOOK

With a solid base of long-term customers in the European market, the division has been growing its footprint in the international market. We have explored avenues in, among others, the US, Australia and the UAE.

The number of national space initiatives is growing each year. We are well positioned to contribute to the UK and German national initiatives.

Besides well-established Earth Observation and Meteorological business SCISYS is at the forefront of developing Earth Observation (EO) systems for the "down-stream" sector eager to exploit satellite imagery and data, for example for smart cities and intelligent transport initiatives.

Another trend is intelligent onboard software for satellites that can process and streamline data in situ before it is beamed back to Earth, thus providing great efficiencies.

With the growing engagement of the EU in Space programmes, we are contributing and working on various EU projects in Germany. The UK national market is also attracting a growing number of new space businesses. We continue to cooperate with those creating commercial satellite-constellations, having already secured work with OneWeb as well as Sky and Space Global UK.

SOFTWARE FOR SPACE

SCISYS has a number of software solutions for the space market, including a complete suite for operation planning and control, for meteorological satellites and for constellation management.

SPACE SOFTWARE SOLUTIONS FOR SPACE

PLENITER
egmc²
2met!
APEX

TRENDS & OUTLOOK

The market is changing, with higher demand for agile ways of working. The result is a more input-based approach in projects, rather than being geared towards fixed deliverables. We are also winning more T&M work, as well as seeing a demand for software services.

There is also more interest in exploring automation solutions and Artificial Intelligence (AI) systems with learning capabilities in order to make intelligent autonomous decisions. Our customers are increasingly seeking automation solutions for enhanced capabilities rather than for efficiency gains.

With our sights remaining focused on the same traditional markets, we are nonetheless preparing for a greater presence in the maritime sector in 2019. We have invested heavily in this area during 2018, and from 2019 onwards we will operate a separate specialist marine unit within ESD.

SOFTWARE FOR FLEETS AND VEHICLES, DIGITAL MAPPING

SCISYS has developed its own software for specific market segments. These include MACSYS (used for maritime and fleet management) and Cartosys (used for digital mapping applications).

SOFTWARE FOR FLEETS AND VEHICLES	SOFTWARE FOR MAPPING
MACSYS	Digiright
seaf	cartosys
	NIP Network Intelligence Portal

CORUS ENTERTAINMENT, CANADA:
This new project was to replace an existing solution in the whole environment. It was the perfect starting point to establish our business in North America.

TRANSPORT FOR LONDON (TFL), UK:
SCISYS signed a contract for ca. £2m with Trapeze Group (UK) Limited to provide software design, development and support services to Transport for London for its timetabling and scheduling as part of its Future Bus Systems programme.

WHAT OUR CUSTOMERS SAY

"SCISYS has provided outstanding support to the MOD team, who enjoys the working relationship because it is open, honest and very accommodating. The knowledge and experience of all the SCISYS team has time and time again delivered to schedule, cost and quality. This new contract has allowed us greater flexibility, forward planning, faster delivery and better user engagement."

– Katrina Leonard, MOD Project Manager, Defence Equipment & Support

"Teaming with SCISYS Deutschland provides Southern Launch and the wider Australian space and high-tech ecosystem with a strong platform for future technology developments."

– Lloyd Damp, CEO of Southern Launch, Australia

"We were convinced, not only by the impressive level of functionality, but also by the freely scalable workflow model. Our system environment can be smoothly integrated with their flexible product."

– Frank Stephan, Head of Production, ProSieben, Germany

"OpenMedia allows us to streamline workflows and avoid any overlap while deploying newsgathering resources. We'll be able to easily share innovative ideas and content and focus on producing more of the original and enterprise reporting that news consumers are hungry for."

– Mike Omelus, Vice-President for national news and newsgathering, Global News, part of Corus Entertainment Inc, Canada

"In our transition from in-house systems to cloud-based, SCISYS were invaluable in ensuring that we met our go live target for invoicing customers ... Their 'can do' approach really paid off when it came to integration between the two systems: they pushed forward resolution of the issues and were quick – and skilful – in finding solutions."

– Glenda Roberts, Financial Controller, Forestry Commission England, UK

OUR STRATEGY IN ACTION.
HOW WE SUCCEEDED ACROSS THE GROUP IN 2018

UK POWER NETWORKS, UK:
Order received for further enhancements to the Distributed Generation (DG) Mapping Tool, powered by Cartosys, which allows customers of UK Power Networks to see the easiest and most cost-effective network connection points for their renewable energy sources.

High-quality customer partnerships

We are proud to have a list of customers that includes many of the largest, leading and distinguished organisations across Europe and the world in a broad spectrum of industries.

MAJOR RAIL ENGINEERING COMPANY, UNITED KINGDOM :
SCISYS received a £2 million order for the supply of professional services for a variety of UK rail engineering projects.

BRITISH LIBRARY, UNITED KINGDOM :
Our Media & Broadcast division expanded its media asset and archiving software and expertise beyond traditional broadcasting markets. The British Library commissioned SCISYS to deliver a national Digital Radio Archive Management solution based on dira! software that will capture and preserve the UK's radio output as part of its 'Save our Sounds' programme, which preserves the nation's audio heritage.

Our Values

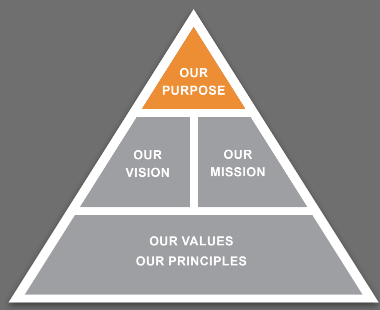
Our purpose and strategy

SCISYS began in 1980 believing in the opportunities for software.

The SCISYS Group is a leading developer of IT solutions and services. We are dedicated to our mission of empowering leading organisations and agencies to achieve their goals by creating and delivering quality software solutions and services.

We develop robust, real-world application solutions and products and provide supporting services that create real business benefit to a wide range of customers in diverse markets.

The SCISYS strategy has always been to invest in innovation and acquisition for long-term growth.



Our Vision

To prosper by delivering premium value to customers. To live an ethos of excellence. To benefit from mutually respectful relationships.

Our Mission

Our mission is to empower leading organisations and agencies to achieve their goals by creating and delivering quality software and IT solutions and services.

Our Values

Our values are guided by our principles. SCISYS believes in openness, integrity, honesty and being supportive. These are the foundations of good conduct and ethical behaviours.

Our Principles

We are committed to the principles of commitment, enthusiasm, belief, focus, inclusion, trust, accountability and being flexible and genuine.

OUR STRATEGY IN ACTION.
HOW WE SUCCEEDED ACROSS THE GROUP IN 2018

ARD AKTUELL, GERMANY:
Phase 1 of a project for editorial cross-media planning based on the ground-breaking proprietary NEWSBOARD product was successfully completed with the German national news programme, ARD-Aktuell.

AIRBUS, FRANCE:
Airbus contract win for SCISYS as a partner in the EGNOS V3 team, the next generation of the European satellite-based augmentation system, funded by the EU.

A TIER-1 TELECOMS OPERATOR, UK:
A real-time Data Analytics platform went live, providing a near real-time dashboard view of service provider performance to enable informed decision making in the event of technical or operational failure at service provider level.

BALANCE AND AGILITY
MANAGING RISKS

The key risks we manage

The management of risks clearly goes hand in hand with the opportunity to create value for shareholders. The Group and its subsidiaries strive to identify the risks associated with the day-to-day operational businesses as well as risks associated in the Group's wider business context.

SCISYS operates both a bottom-up and a top-down approach to risk management, which provides visibility and accountability throughout the Group.

The key challenges, risks and uncertainties facing SCISYS primarily arise from the highly competitive and rapidly changing nature of its markets. The following is a description of those key risks that could impact on the Group's ability to achieve its strategic goals. These are also provided as a residual risk distribution matrix on page 34.

SALES & COMPETITIVE RISKS

The Group makes sales within its markets and, at any one time, there may be markets that have longer sales cycles than others or that have fewer sales opportunities. This can impact our ability to sell our services. Failure to achieve sales targets because of sales pipeline deferrals or diminishing markets will lead to lower revenues being achieved.

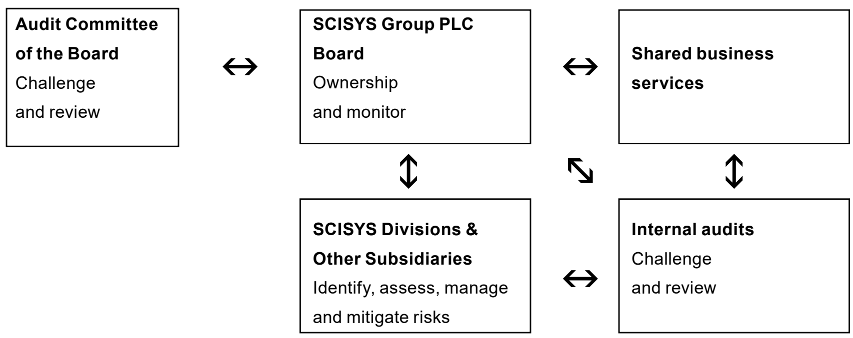
The sales pipeline is monitored regularly, and we maintain close contact with our customers to anticipate issues in the sales pipeline. Where possible, we prefer to contract with major customers through long-term agreements that provide certainty to both parties.

The Group undertakes a number of customer support, business development and sales activities to foster continued strong relationships with its customers to ensure that we are considered by them when sales opportunities arise. In addition, new customers are being sought in existing or new markets, organically or through acquisitions.

The Divisional and Subsidiary boards will always consider any move into a new territory recommended by a Director and will request that a risk assessment be made concerning such territory, considering risks such as political, regulatory, financial, local competition and reputational. The respective board will then decide whether or not such a move represents an acceptable risk to achieve the strategic goals of the Group.

Each of our divisions operates in highly competitive markets and changes in relative competitiveness could have a material impact on business growth and profitability. As a medium-sized company, any consolidation in our markets by our competitors, as well as changing procurement patterns or repercussions from changes to the macroeconomic environment, can impact on the Group's competitiveness.

Changes in relative competitiveness, including those caused by currency-exchange rates or political developments, such as Brexit, could



A layered approach to risk management is taken at SCISYS where risks and their impacts are identified and managed at the various levels within the business. Responsibility is delegated to the management and staff who are authorised to take appropriate actions.

Principal risks are identified that have a potentially high level of impact and have a reasonably high likelihood of occurrence, which are then escalated to senior levels of management. The SCISYS Group PLC Board is ultimately responsible for being aware of these risks and monitoring how the relevant parts of the Group are managing and mitigating them. Each division and/or subsidiary holds regular meetings with the PLC Directors which are a forum for identifying, discussing and agreeing the risk mitigation strategy. In some cases, risks cannot be mitigated or there is a remaining residual risk in which case contingency plans and monitoring for occurrence are undertaken.

result in lower sales revenues or force pricing strategies that deliver lower margins.

Mitigation here is based on ensuring the sales pipeline is closely monitored against actual margins being achieved to identify any downward trends. The business development teams also ensure customer-facing meetings are held and market intelligence is obtained. The risk of reduced relative competitiveness, as induced by foreign currency effects, is primarily mitigated by means of financial instruments (see below).

COMMERCIAL & DELIVERY RISKS

The Group is engaged in a number of large, complex Information and Communication Technology (ICT) projects. The successful delivery of many of these projects is dependent on a number of factors including availability and management of Group resources, subcontractor performance and infrastructure.

SCISYS generally provides its customers with unique, tailor-made solutions with varying amounts of its own or third-party commercial off-the-shelf software (COTS) and hardware. The complexity and uniqueness of these solutions varies significantly, from off-the-shelf solutions – such as the 2met! meteorological and earth observation satellite data acquisition and visualisation solution – through to completely bespoke business solutions for major government departments.

Failure to manage or deliver against contracted customer requirements on a timely basis could result in contract disputes, claims for damages or cost overruns that could adversely affect profitability and the reputation of the Group.

SCISYS has policies and procedures in place for reviewing projects associated with customer contracts with an objective assessment of the risk inherent within a contract in addition to its size. Together, the size and risk level are used to escalate the review and sign-off level of the contract and to dictate the project management review approach to be followed. Similar risk management principles apply during the bidding stage of a project, to align with project risk management procedures.

The failure of a subcontractor to perform to an appropriate standard or a supplier to deliver products could result in delays to a project and adversely affect the Group's capability to meet contractual requirements and damage its reputation with customers. SCISYS has subcontractor assessment procedures in place to ensure that a risk-based approach is adopted with subcontractors that can adversely impact the Group with these being assessed in more detail than well-established COTS suppliers.

Customer projects are managed to recognised project management standards. Monthly reports are compiled covering variances to plan and cost to complete, and regular project progress meetings are held. The reports are then discussed at monthly senior management meetings where the projects at risk are further assessed and mitigation actions are defined and monitored. Escalation mechanisms are in place to increasingly involve senior managers for higher risk projects. The Divisional and Subsidiary boards as well as the PLC Board receive updates from the divisional directors on sales at a high risk/impact level and any problematic projects so that actions can be taken to rectify issues.

ECONOMIC RISKS

Future economic downturns affecting the eurozone and the UK economies may cause the Group's customers to cancel, postpone or reduce spending on existing or future ICT projects. This is particularly relevant where our customers are in the public or regulated sectors. The proportion of Group business outside the UK and the European Union is low and so economic issues in North America, Africa and the Middle East would have little impact.

Significant changes as to timing or extent of customer spending or future investment planning could adversely impact the Group's order book. Failure of a customer could result in non-collection of amounts owed. Failure of a subcontractor or supplier would result in the Group having to find a replacement or undertaking the task itself, which could result in delays and additional costs. Attrition of customer base due to economic difficulties could cause corporate failures.

The Group regularly monitors external economic and political developments to assess their potential impact on the Group prospects. Monthly assessments of sales pipelines and feedback from sales teams are used to assess underlying developments.

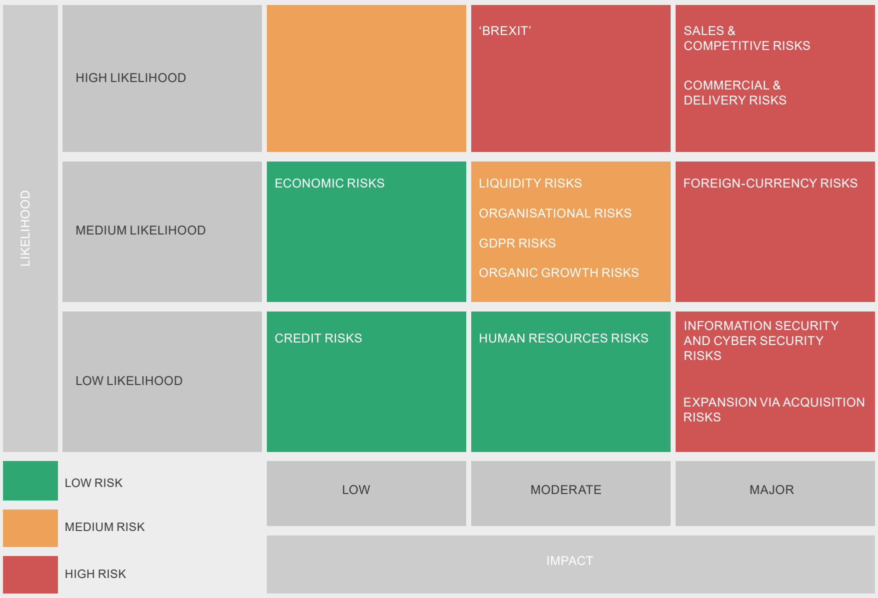
The split of subsidiaries across UK and Germany has reduced this risk by providing a mixture of geographic revenue sources in European countries with stronger economies and has been instrumental to mitigate Brexit risks (see page 35).

FINANCIAL RISKS

The Group is exposed to a number of potential financial risks:

- **Credit risks** – Our customers might not pay ▷

SCISYS GROUP – Residual risk-distribution chart



us on time or default on payments.

- **Liquidity risk** – The Group operates through cash generated by the business and by bank lending facilities.
- **Foreign-currency risk** – The Group has foreign-currency denominated earnings that may not be fully hedged so adverse currency fluctuations between sterling and the euro have an impact on the Income Statement.
- **Interest rate risk** – The Group's financial performance is relatively insensitive to movements in loan interest rates as the majority of borrowing is on a fixed-rate basis.

Details of various risks and the strategies in place to mitigate them are described in note 21 to the financial statements.

The Group's customers are predominantly blue chip and governmental organisations, so our credit risk is relatively small. We continue to monitor overdue payments closely and undertake regular credit checks where appropriate.

The Group's treasury operations are robust. The risk of lending facilities being curtailed or withdrawn is managed by ensuring our bankers are regularly well informed throughout the year on the Group's performance.

The Group has a reasonable balance (a natural hedge) between its sterling/euro earnings and sterling/euro cost base. To the extent required (which was not the case in 2018) it mitigates short-term currency risk by taking out exchange-rate cover on the anticipated net surplus of euro to working capital requirements in Germany. Where possible it will contract with customers in the same currency as its cost base.

HUMAN RESOURCES RISKS

The Group's performance and its ability to mitigate significant risks within its control depend on its employees and management teams. Future success depends on its ability to recruit and retain the best people with appropriate competencies.

As a people business, if the Group loses the services of key personnel or is unable to attract and retain employees with the right capabilities and experience it would be likely to have an adverse effect on the Group's ability to implement its business plans and impact on delivering strategy. The Group uses a variety of ways to attract, retain and motivate its staff. These include regular review of remuneration packages, share incentive schemes and share option plans. Reviews with employees are undertaken at least annually and consider their performance.

Succession-planning processes exist within the Group to identify and develop high-calibre personnel. These are regularly discussed at divisional/subsidiary board level as well as in other parts of the organisation.

Remuneration policy is regularly reviewed, and staff incentives are in place to assist with the retention and recruitment of key employees. Equally important, the Group offers a culture where each individual is encouraged to achieve their full potential through training, regular reviews and discussions.

The removal of free movement of staff between the UK and the EU as a result of Brexit might introduce additional bureaucracy, as SCISYS staff often travel between the UK and the EU.

ORGANISATIONAL RISKS

The Group is exposed to the loss of important facilities that could cause disruption to operations impacting revenues. Comprehensive business continuity plans are in place that cover offices, as well as computing and other facilities. The risk of a significant loss of all or part of an office is mitigated by having alternative facilities in different locations and being able to utilise the computing facilities in these locations remotely.

The key applications are on virtualised platforms to ensure they can be redistributed to another location or, ultimately, to the Cloud if necessary, in the event of a significant outage at an office location. Staff are also able to operate effectively from alternative locations including from home to ensure business continuity.

INFORMATION SECURITY & CYBER-SECURITY RISKS

Information Security is high on most customers' agendas, especially when it comes to managing their own customers' or citizens' data. This was accentuated by the introduction of the EU General Data Protection Regulation 2016 (679) (GDPR) (see below). Many of the solutions that SCISYS delivers need to store and manage this data securely and customers need to be assured that SCISYS can manage their data properly. SCISYS operates comprehensive information management policies and procedures to ensure that the appropriate protections are in place.

While policies and procedures can ensure the appropriate measures are adhered to, the risk of a deliberate, malicious cyberattack is always a serious possibility. SCISYS actively protects its networks and computing facilities against all of the common forms of cyber security vulnerabilities. SCISYS in the UK is now certified to the UK Government Cyber Essential Plus standards and the controls imposed by these standards are being adopted across the Group.

GDPR RISKS

GDPR came into force in May 2018 and will be retained by the UK government for regulating the control and processing of personal data after Brexit. GDPR is, of course, EU legislation and is equally applicable to operations in Germany and France. The ultimate holding company of the Group is under Irish jurisdiction, and subject to the GDPR.

GDPR introduces more stringent guidelines on the management, recording and processing of personal data and infringement could result in substantial fines. SCISYS has implemented significant improvements to its current data protection policies, processes and procedures across the Group to ensure compliance in all countries. SCISYS has also assessed its exposure due to existing customer contracts where it is a data processor under the new regulations. New projects and contracts are assessed at an early stage for data protection risks ensuring the appropriate cyber and other information security measures are put in place by the operations teams.

ORGANIC GROWTH

SCISYS is currently seeing substantial organic growth, which is generally achieved by recruiting talented staff as a result of actual or pending contract awards. This can introduce risks associated with the introduction of new staff to fulfil new and existing contracts. All staff undergo extensive induction into SCISYS' processes and are generally allocated to pre-existing rather than new teams to mitigate the new-starter risk. New contracts can introduce new risks to the business, but these are dealt with in line with and as set out in the Commercial & Delivery Risks section.

There is an increasing risk that SCISYS' internal infrastructure and services will come under strain as the number of staff increases. SCISYS is seeing this in various locations and some services are already stretched. To mitigate this, additional office space has been procured and the number of services staff is also being increased to compensate.

EXPANSION VIA ACQUISITION

The Group, in seeking to fulfil its strategic objectives, may need to look to inorganic growth through business acquisitions. Acquisitions are generally inherently risky because they can fail if the assumptions made at the time of acquiring are not fulfilled.

Failure to achieve the expected benefits from an acquisition and integration of the acquired business into the Group processes could result in an adverse impact on the Group's prospects, strategic goals and profitability. It can also lead to significant financial loss and damage to Group reputation.

Acquisition opportunities are initially reviewed by Klaus Meng, the Mergers & Acquisitions (M&A) Director , and the M&A Committee who report to the PLC Board. If the PLC Board approves its continued interest, then an offer may be made subject to contract and undertaking detailed due diligence.

It is essential that any acquisition matches Group values and culture. When a business is acquired detailed integration plans are developed and monitored to ensure successful integration of the business so that the internal control processes of the Group are achieved.

Clearly, the acquisition of Annova (now SCISYS Media Solutions GmbH) was a substantial one and there has been a considerable amount of detailed planning regarding the acquisition and the integration approach following acquisition. This project is under the full scrutiny of the PLC Board on a day-to-day basis. The next phase of integration has already commenced with the creation in 2019 of a single SCISYS Media Solutions division that combines the operation and management of Media & Broadcast with Annova.

'BREXIT'

SCISYS has now redomiciled its ultimate parent company to Ireland to mitigate the risk posed by Brexit with regard to being able to tender for and potentially secure work under EU terms. The recent announcements of EU contract wins have shown that this action has been successful. Other announcements also include UK MoD contract wins demonstrating that we are able to maintain the ability to compete successfully in the UK for secure work.

Clearly, there are still other risks with regard to Brexit that still need to be managed. There are many EU citizens employed in the UK and/or UK employees with EU family members, although there should be a relatively generous period of time within which to apply for settled status after Brexit. The same is true for UK personnel working in the EU, for whom work permits may be needed sooner. SCISYS is committed to supporting its staff and families through the Brexit process to ensure we retain their services and to ease the transition as best we can. There is also the risk that SCISYS will see increased bureaucracy, restrictions and costs, for visas for business travel, for instance, post Brexit. Although these are likely to be financially insignificant, they will nevertheless be important factors to consider for continued business within the EU. We are closely monitoring the position; having both EU and UK subsidiaries means that we are in a relatively good position post Brexit to continue to supply software services in both markets.

CORPORATE SOCIAL RESPONSIBILITY
COMMITTED TO OUR PEOPLE AND COMMUNITY

Values, culture & principles

OUR VALUES

SCISYS recognises that corporate values stem from our principles and that these shape our internal behaviours and culture across the Group. We believe in the values of openness, integrity, trust, honesty and being supportive. We are also committed to the principles of inclusion, flexibility, enthusiasm, commitment and above all being genuine, open and accountable. These are the foundations of good conduct and ethical behaviours.

VALUING OUR PEOPLE

Our goal is to maintain a sustainable, growing business. We are committed to operate with honesty and integrity. We understand that a company culture is set from the top – by leaders and managers who listen, cooperate and lend their support to all members of the workforce. We aim to understand and engage with our people in an open and honest way.

We feel that it is important all employees understand the role they play as valued stakeholders in contributing to the Group's future success. We provide regular all-staff meetings and updates and communicate their work across the business by championing it online and through internal news releases.

We are committed to the principles of being genuine and showing commitment, inclusion and flexibility to our people, since they are our most important asset. We want them to feel valued as well as to respect each other. Our values are shaped by these principles and are the foundations of good conduct and ethical behaviours. These values and behaviours are expected from senior managers.

As an ethical business, we select and conduct due diligence on all potential suppliers to ensure their business practices match our values and principles. SCISYS Group PLC and its subsidiaries recognise and firmly believe that modern slavery, human trafficking and forced labour is an abhorrent abuse of human rights which pervades communities across the globe. We recognise the importance of the Modern Slavery Act 2015 and have published our Modern Slavery Statement on our website, which includes auditing our supply chain appropriately.

EQUALITY AND DIVERSITY

SCISYS values diversity and we are dedicated to creating a workforce that is diverse and positive, regardless of the background or characteristics of our employees. Everyone is valued and treated equally, regardless of age, gender, religion, colour, sexual orientation or disability. Therefore, we aim to have a workforce that is representative of all sections of society. We promote and advertise our roles on widely accessible job boards. Selection for employment, promotion or training is based on individuals' own merits. To promote well-being and support for our employees, we will consider job-sharing, flexi- and part-time working, and put this into practice.

PROMOTING WORKPLACE SAFETY AND WELL-BEING

Fostering a healthy and motivated workforce is just as good for well-being as it is good for business. As employers, we are committed

to providing a safe and healthy workplace. We aim to provide a working environment that is positive and free from behaviour that could adversely affect individuals' well-being or work performance. Our employees are expected to make a positive contribution towards this policy at all times.

Our on-site, subsidised canteens offer a range of healthy-eating options that cater to a range of dietary needs. Where possible we provide on-site gym access, as well as enabling a number of fitness/sporting events, sessions and activities that promote staff fitness, health and team-building.

RECRUITING FOR TALENT AND CULTURAL FIT

SCISYS frequently recruits employees in a variety of fields with specialist skills and experience, who can find solutions and deliver innovation. We aim to ensure that job requirements and job selection criteria are clear and based only on what is required of the role. To sharpen our recruitment efforts in a tight market for skills, in the UK we launched a new recruitment site/portal and tested the use of advertising aimed at commuters, as well as overhauling our graduate recruitment campaign. These efforts contributed greatly to our recruitment activities in both the UK and Germany.

SUPPORTING AND DEVELOPING OUR PEOPLE

Our people matter. SCISYS puts heavy emphasis on skills and training. As we operate in a number of highly skilled sectors and markets, it is vital that our employees have ample opportunities for training and development throughout their careers. This is important for empowering employees to achieve their potential and this promotes performance.

SCISYS also ensures that managers and employees are encouraged to engage colleagues as mentors and to share vital workplace knowledge, skills and experience. New staff receive detailed welcome packs, induction days and are introduced to the business by being paired with a peer or colleague for early guidance. Staff receive a range of training resources, self-learning materials and opportunities for regular attendance at seminars, conferences and in-house workshops, etc. They also have one-to-one meetings with line managers and receive regular feedback.

INSPIRING THE NEXT GENERATION

SCISYS understands that inspiring and supporting the next generation of skilled ICT and engineering professionals is an important part of alleviating broadly recognised skills shortages in these fields. It is critical that we play a part in growing a talented pool of skilled workers for the present and future. We have increased our efforts in community outreach and sector engagement in the STEM fields to support the enthusiasm for access to technical professions.

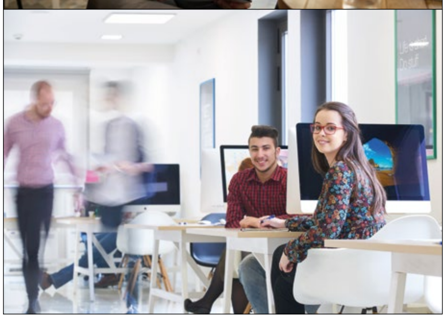
We are committed to and support our staff in making regular appearances at schools, colleges, universities and events. More formally, a number of staff act as formal STEM Ambassadors through the UK STEMnet programme. The Group also participates in apprenticeship schemes in both Germany and the UK, taking on a number of apprentices, interns and work-experience placements every year. These provide valuable experience and gateways for school-leavers. For recent graduates, we offer bespoke opportunities for hands-on roles that quickly progress their careers.

PROTECTING THE ENVIRONMENT

Our goal is to provide not only a safe workplace for our employees, we also seek to minimise our overall impact on the environment. These are set out in our environmental policies. SCISYS is keen to demonstrate to its customers, employees and neighbours that it takes environmental issues seriously. Although as a software and solutions provider we have no manufacturing facilities, we do recognise that day-to-day business activities have an impact in a variety of ways. Therefore, we strive to minimise our impact in every way viable.

SCISYS has steps in place for the continual review of our environmental policies and objectives, which focus on reducing waste, consumables, unnecessary travel, use of fossil fuels and our CO_2 emissions as a business. In 2018 we achieved the 3-year ISO 14001 environmental certification for our three main UK sites. We are dedicated to reducing waste and consumption across the Group. Where possible, we work with a range of suppliers at local level – not only in order to minimise environmental impacts but also to make a positive contribution to the local community and economy.

Our people & workplace



SCISYS is aware of the reporting obligations of ESOS Phase 2 within the UK. Although we do not qualify for ESOS at this time, we recognise the scheme brings potential benefits for energy management and subsequent energy savings, in addition to environmental protection benefits. To this end the Board decided to undertake an ESOS review and to report on it early. We are now looking at the potential energy savings identified in the ESOS report to create a programme of improvements as part of our ISO14001 environmental certification management objectives for 2019.

QUALITY & SAFETY POLICIES

SCISYS has the objective of continuously improving the quality of the products and services we provide our customers. Across the Group we are certified with various ISO benchmarks. In SCISYS UK Ltd, we maintain the following: Quality (ISO 9001), Environment (ISO 14001), IT Service Management (ISO 20000-1) and Information Security (ISO 27001). In SCISYS Deutschland GmbH, we hold: Quality (ISO 9001), Environment (ISO 14001) and Occupational Health & Safety (OHSAS 18001). SCISYS Media Solutions GmbH (previously Annova) is currently working towards certification to ISO 9001 and ISO 27001. With the exception of health & safety, the Technical Director is the Director appointed by the Board to have responsibility for these areas of governance and certification.

The Finance Director is appointed by the Board to be responsible for the health & safety performance across the Group. The Group policy places responsibility for the management of health & safety matters on local subsidiary management who are supported by Group representatives and local external advisers where necessary.

Our office sites operate to meet ISO 14001 certified environmental management systems. This is an internationally agreed standard that sets out criteria for an environmental management system. We expect SCISYS companies to implement policies designed to proactively mitigate their environmental impact rather than policies just for carbon offsetting.

The Group uses this framework for measuring and improving its environmental impact.

The Group monitors its data on energy usage across the Group, including electricity, gas, etc, to calculate CO_2 output. Reduction measures in 2018 include continued investment in facilities and building refurbishment. Replacing ageing equipment with new – such as introducing LED lighting, installing modern air-conditioning – has brought better efficiencies and reduced energy consumption overall. We also adhere to all obligations and licences with regard to waste streams, recycling and ethical disposal. SCISYS promotes increased environmental awareness among employees by encouraging car-sharing through offering passenger rates or by avoiding unnecessary travel (by using video conferencing as an alternative, etc).

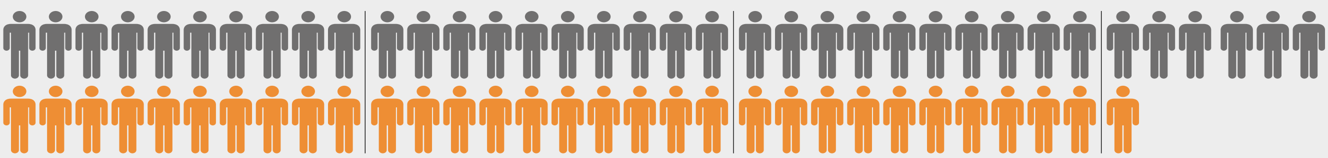
COMMUNITY INVESTMENT

SCISYS supports a number of charities in the countries that it operates in. We encourage subsidiaries to identify and support local charities, and our own employees are also dedicated to raising money in support of various charitable organisations through ad hoc activities and events throughout the year.

In the UK in 2018, SCISYS supported or donated to the following charities: Macmillan Cancer Support, Children's Hospice South West, Dressability, British Heart Foundation, Alzheimer's Society and Supporting Wounded Veterans.

In Germany in 2018, SCISYS supported or donated to the following charities: Johanniter-Unfall-Hilfe e.V., UNICEF Bochum.

Group headcount: 679 (2017: 592)



363
GERMANY (2017: 321)

316
UNITED KINGDOM (2017: 271)

These figures are as at 31 December 2018. They include SCISYS UK Ltd, and Xibis Ltd in the UK; SCISYS Media Solutions GmbH (previously Annova) and SCISYS Deutschland GmbH in Germany. Our combined SCISYS M&B and Annova divisions are based predominantly in Germany (note: 4 Annova staff are based in France, and a number are also in the UK). Our SCISYS ESD division and Xibis are British based. Of the Space division, roughly 40% of staff are in the UK and 60% are in Germany.

Corporate Governance Report

IMAGE: J KARJALAINEN/SCISYS

CORPORATE GOVERNANCE REPORT

Chairman's Corporate Governance Statement

PLC

Mike Love

"We apply the Quoted Companies Alliance Corporate Governance Code, and believe in high standards of corporate governance."

- Mike Love, Chairman

As the Chairman, I have overall responsibility for implementing corporate governance within SCISYS Group PLC (the "Company" or "SCISYS") and for our corporate governance statements. The Board is collectively responsible for setting the tone and culture of the Company and promoting good corporate governance.

SCISYS applies the Quoted Companies Alliance Corporate Governance Code (the "Code"). At SCISYS we believe in good corporate governance and accountability and we make robust corporate governance part of our culture and business values.

I set out below how the Code is applied by the Company against the corresponding Code principle and disclose where the Company departs from the expectations set by the Code. Where we do not fully comply with the expectations of the Code we say so, and we review our position regularly. Adopting the Code in June 2018 was a significant change in our corporate governance. When preparing our Annual Report, we also review and report any significant changes in our corporate governance over the previous 12 months. During this process we review our governance framework and consider whether it should evolve further in line with our growth. This statement is also published on our website at https://www.scisys.co.uk/who-we-are/corporate-governance.html.

Our primary means of communicating our corporate governance structure is through this annual report and our website disclosures. Where specific questions are raised by private individual shareholders and institutional investors, we engage directly with those shareholders, generally through the Finance Director and the Chief Executive Officer. Where appropriate I engage directly. I have set out below how the Board is led, its responsibilities, our risk reporting, governance structure and engagement with stakeholders. I believe in robust corporate governance, which is key to the long-term success of the Company – by helping to improve performance and mitigate risk.

Finally, a word about our corporate culture. We seek to communicate our corporate culture through staff presentations and inductions. We promote openness and respectfulness in all our dealings. We rely on our relatively flat management structure, and our internal reporting structures to assess whether ethical values have been respected, and the current state of our corporate culture. Simply speaking to and engaging with our staff regularly, which our Directors and divisional directors all do, is a good means of eliciting feedback and gauging how our values are promoted throughout the business.

Mike Love
Chairman

Corporate Governance Report

PLC

Natasha Laird, Legal Director and Company Secretary

The Board:

Non-Executive
Mike Love
Chairman

David Coghlan
Independent Non-Executive Director

Executive
Klaus Heidrich
CEO

David Jones
Deputy Chairman

Chris Cheetham
Finance Director

Klaus Meng
Chief Mergers & Acquisitions Director

Steve Brignall
Technical Director

Natasha Laird
Legal Director (since 18 December 2018)

Code principle:
- Establish a strategy and business model which promotes long-term value for shareholders.

BUSINESS PURPOSE, STRATEGY AND MODEL

The Company's general purpose and strategy statement is shared and approved by the Board as follows:

> SCISYS began in 1980 believing in the opportunities for software.
>
> The SCISYS Group is a leading developer of IT solutions and services. We are dedicated to our mission of empowering leading organisations and agencies to achieve their goals by creating and delivering quality software solutions.
>
> We develop robust software application solutions and products and provide supporting IT services that create real business benefit to a wide range of customers in diverse markets.
>
> The SCISYS strategy has always been to invest in innovation and acquisition for long-term growth.

The Chairman ensures that the Executive Directors develop a business strategy which is supported by the Board as a whole. There is a 4-year rolling process of business planning throughout the Group, within a framework and structure set by the Board. The Company seeks to deliver long term growth and value to shareholders and other stakeholders; its strategy evolves over time as the Company grows. The Executive Directors through the Chief Executive Officer are responsible for executing the strategy once agreed by the Board. The Chief Executive Officer is also responsible for reporting on business strategy, operational performance, risks and other significant developments at Board meetings. He also prepares an annual report of the Company's Business Strategy and Business Model retrospectively, which is disclosed at page 18. It recognises the key resources needed by the Company to grow and develop – in particular our highly skilled staff and our strong relationships with customers.

We consider it appropriate to publish this report annually, on a retrospective basis, as part of our annual report. New developments or changes to our business that are price sensitive (and not public) will be reported to the LSE and Euronext as the Company has an obligation to disclose price sensitive information under the AIM and ESM rules. This would include, for example, changes in its trading performance or sphere of activities.

Code principle:
- Maintain the Board as a well-functioning, balanced team led by the Chair.
- Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities.

THE COMPANY'S BOARD OF DIRECTORS ("BOARD")

The Board exercises full and effective control over the SCISYS Group. There is a formal schedule of matters reserved specifically for its decisions, relating to strategy, finance, risk, operations and governance.

The Board is responsible for the areas listed below:

Board responsibilities and accountability:
- Setting and delivering strategy;
- Setting the Company's organisational structure;
- Enforcing sound risk management and internal controls;
- Reviewing trading and operational performance;
- Ensuring adequate financing is in place;
- Setting the tone for business values;
- Leading the Company and its subsidiaries;
- Engaging with shareholders and other stakeholders;
- Defining and promoting the corporate brand;
- Promoting the interests of shareholders, customers, employees and other stakeholders;
- Monitoring compliance with legislative and London Stock Market obligations, and industry best practices;
- Carrying out risk reviews;
- Considering succession planning; and
- Reviewing and implementing investment opportunities, including M&A activities.

The Board delegates certain functions to its three principal committees, the Audit Committee, the Remuneration Committee and the Nomination Committee, as summarised at page 47 below.

Corporate Governance Report

Details of the members of the Board are set out below.

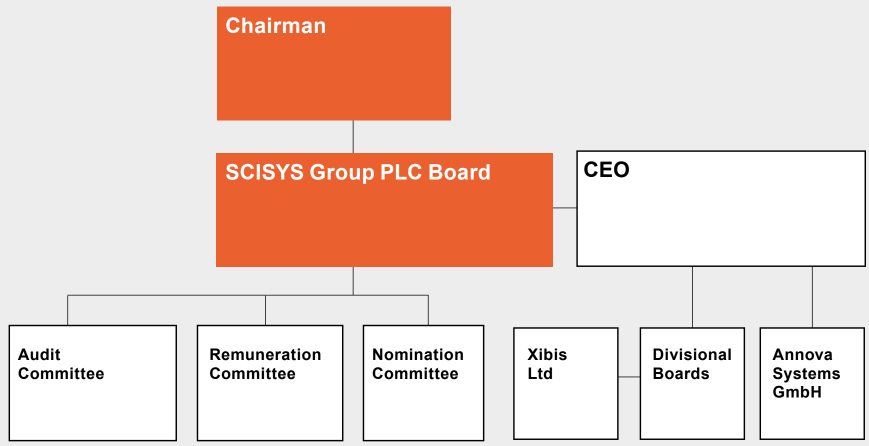
The Chairman leads the Board, while the Chief Executive Officer is charged with managing the Group's business. The roles of the Chairman and Chief Executive Officer are distinct.

The Code expects an appropriate combination of Executive and Non-Executive directors. Our split is between six Executive and two Non-Executive Directors (including the Non-Executive Chairman).

The Chairman and the Board collectively believe this split between its Executive and Non-Executive Directors is appropriate. This composition still continues to provide the expertise, breadth of experience and independence of thought needed, while maintaining efficient Board meetings.

The Board reviews its composition against the requirements of the Code, and the need for any additional independent Non-Executive Directors and/or senior independent Directors is reviewed annually

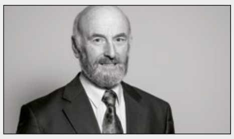
Leadership and governance structure



(Annova Systems GmbH was re-named SCISYS Media Solutions GmbH in December 2018)

Board members

NON-EXECUTIVE DIRECTORS



Mike Love

Chairman: Mike was Chief Executive of SCISYS (formerly CODASCISYS) from 1986 (when he led the management buy-in of the business) until 2003, when he became Non-Executive Chairman. He stepped back in as Executive Chairman in late 2007 but from 2012 stepped back out as Non-Executive Chairman. Mike has a PhD in theoretical physics and 30+ years' experience in the software industry. He serves as Non-Executive Chairman at Dillistone Group PLC and is a Director of Redcliffe Precision Limited and The Nepal Trust. He is a previous member of the AIM Advisory Group of the London Stock Exchange.

David Coghlan

Independent Non-Executive Director: David has more than a twenty-year track record in the technology sector with experience of working on both UK and US boards. He has been a Director of the AIM-listed Synectics PLC since 1993 and Chairman since 2005 and was recently appointed to the board of AIM-listed Eckoh PLC (December 2017). He co-founded Quadrant Group Limited in 2002, a flight and air traffic control simulation and services company, and remains its Chairman. He is a founding investor and Non-Executive Director of TrafficLand, Inc., a leading US-based provider of live traffic video to a broad customer base. David was previously a partner at strategy consultants Bain & Company. He has degrees in Law and in Finance from the University of New South Wales, and an MBA from the Wharton School, University of Pennsylvania. David's appointment was effective from 2 January 2013. He chairs the Audit Committee and sits on the Remuneration Committee.

at a Board meeting. The Company does not currently appoint a senior independent Director.

The composition of the Board, its Audit Committee and Remuneration Committee, do not meet the Code's recommendations as the Company does not have two independent Non-Executive Directors. The Company has one independent Non-Executive Director. The level of the Chairman's shareholding means he is not independent; nevertheless, his interests are aligned with those of shareholders. The Board considers its composition appropriate for an AIM/ESM quoted company of its size, market cap, and individual circumstances.

Currently, one third of the Board submits itself for re-election at each AGM as part of the Company's formal retirement by rotation policy, and the Board has resolved to continue the retirement by rotation schedule of its former Group parent company. Under the current Articles every Director must offer themselves for re-election every three years. We consider a re-election every three years appropriate for all Directors, which is not in line with the Code's suggestion of annual re-elections. Apart from the Chief Executive Officer, the Independent Non-Executive Director and the Legal Director, the Directors have served on the Board for more than 9 years; despite serving the Board on a long-term basis, these Directors individually believe that they act objectively in their respective roles and can act with sufficient independence. The Legal Director is the Chairman's daughter and reports to the Finance Director; she believes that she acts objectively in her role and with sufficient independence. She is also the Company Secretary.

All Directors are given full and timely access to all relevant management and accounting information. All Directors are able to seek independent external professional advice in the course of their duties, at the Company's expense. If any Director has concerns regarding unresolved business issues, they are entitled to require the Company Secretary to minute their concerns. The Non-Executive Chairman is required to devote 40 days per year and the Independent Non-Executive Director 18 days per year to their non-executive duties for the Company. The Deputy Chairman, also an Executive Director, works for 40 days per year. All other Executive Directors work full time.

All Directors are inducted and kept abreast by the Legal Director of material changes to laws and regulations affecting the Group's business. She advises the Board on legal developments, statutory and regulatory compliance matters and Board procedures. This is a standing Board agenda item at the quarterly Board meetings. She is available to provide advice individually to Directors. Her responsibilities include staying up to date with legal and regulatory developments and seeking external legal advice where appropriate.

The Board considers itself sufficiently diverse when considering the background, knowledge and experience that each individual member brings to the Board. The Board members' personal qualities include strong business acumen and constructive team orientated personalities. Please also see below, and the previous page, for a summary of the Board members qualifications and experience. Where Board appointments are made, the Terms of Reference of the Nomination Committee set out the factors to be taken into account. Due regard is given to diversity. Currently one member of the board is female, Natasha Laird, since her appointment on 18 December 2018. Specifically, the Nomination Committee is required to "*consider candidates on merit and against objective criteria, and with due regard for the benefits of diversity on the Board, including gender*" when identifying and recommending candidates.

The Nomination Committee reviews succession planning and will continue to recommend appointments to the Board, including

▷

EXECUTIVE DIRECTORS

Klaus Heidrich

CEO: Klaus studied electrical engineering with a focus on communications engineering at the University of Dortmund and gained a master's degree in electronics engineering. In 1989 he joined VCS AG (now SCISYS Deutschland GmbH) as a sales engineer. From 1992 he was responsible for marketing and sales of VCS and developed VCS media activities until he briefly left VCS, returning a year later taking responsibility for strategic business development within corporate management. From 2005 to 2011 he was a Director of the Media & Broadcast division. On 1 January 2012 he became an Executive Director and Chief Operations Officer of SCISYS and from 1 January 2014 became CEO.

Chris Cheetham

Finance Director: Chris is an engineering graduate of Cambridge University who qualified as a Chartered Accountant with Ernst & Young in 1990 and worked in the Corporate Finance department until 1996. He has extensive experience gained from working as Finance Director and Company Secretary within the software industry for six years prior to joining SCISYS. He was appointed Finance Director on 1 January 2007.

Steve Brignall

Technical Director: Steve joined the original Science Systems group in 1986 as a senior analyst/programmer. He was appointed Technical Director of Science Systems (Industrial) in 1999 and Technical Director of the SCISYS Division in 2004. He was appointed Executive Director of SCISYS on 26 September 2006. Before joining SCISYS, he spent five years at Rolls-Royce (Aero) and Westinghouse Systems. He studied mathematics at Manchester University.

David Jones

Executive Director and Deputy Chairman: David joined the Board as a Non-Executive Director in June 2002 and stepped in as an Executive Director in late 2007. He was appointed Chief Operations Officer on 1 January 2010 and then Chief Executive Officer on 1 January 2012. He ceased to be Chief Executive Officer on 1 January 2014 and became Deputy Chairman on 1 January 2014, while remaining an Executive Director.

Klaus Meng

Executive Director: Klaus studied electrical engineering at the University of Bochum and graduated with a PhD in optic communication engineering in 1987. He was appointed a Non-Executive Director of SCISYS in January 2009 and was appointed an Executive Director in July 2012, responsible for mergers and acquisitions as well as remaining a Director of SCISYS Deutschland GmbH.

Natasha Laird

Legal Director and Company Secretary: Natasha joined SCISYS as General Counsel in 2014 and has been Company Secretary since September 2016. She has a degree in Law and German Law from King's College, London and qualified as a solicitor in 1998. Prior to joining SCISYS, she practised as a commercial litigation lawyer in private practice at Hammonds (now Squire Patton Boggs) and then as a General Counsel in industry. She has over 20 years' legal and commercial experience. She obtained the ICSA company secretarial CCSP qualification in 2015. Natasha became Legal Director in December 2018 and remains Company Secretary.

Strategic Report
Corporate Governance
Financial Statements

possible internal candidates, based on the existing balance of skills, knowledge and experience on the Board, as well as the merit and capabilities of the nominee. It will look at the amount of time that any nominee is able to devote to the role. Other senior management appointments, e.g. divisional and subsidiary directors, and the Company Secretary, are considered by the Board, in consultation with the members of the Nomination Committee. The divisions and subsidiaries are encouraged to liaise with the Nomination Committee for advice in respect of other management appointments as appropriate for senior appointments within their teams.

The Chairman

He is responsible for leading an effective Board. In particular, the Chairman is tasked with:

- chairing Board meetings and setting the agenda;
- ensuring adequate time is available for all agenda items;
- encouraging discussion of and decision making for agenda items;
- ensuring that accurate and comprehensive management information is distributed to the Board members in a timely manner;
- ensuring compliance with high standards of corporate governance and ethical behaviour; and
- facilitating a two-yearly internal evaluation of the Board.

As one of the original founders of the Company and a significant shareholder, the Non-Executive Chairman contributes relevant experience and expertise. He has regular discussions with the independent Non-Executive Director to review Board matters without the Executive Directors specifically from shareholders and other stakeholders' perspectives. He also provides support and advice to the Chief Executive Officer and the Finance Director.

The Chairman was not independent on appointment and is not considered independent now in accordance with the Code. He receives a relatively small performance related remuneration (in comparison with the Executive Directors) which is not line with the Code. Shareholder approval is sought retrospectively as the remuneration report for the previous financial year is put to shareholders at each AGM. The Chairman does not currently receive Company share options but is a significant shareholder in any event. The other Non-Executive Director was appointed in January 2013 and is considered independent in accordance with the Code, including through length of service, his appointment and role. Both provide constructive challenges during Board meetings and have the experience and gravitas to do so. The independent Non-Executive Director does not participate in performance related remuneration or share option schemes.

The Board reviews trading and operational performance regularly. Divergences from expected performance are followed up promptly and rigorously. Monthly financial and business summary management reports are prepared and distributed internally (these are confidential and for internal circulation/advisers).

There are four quarterly scheduled Board meetings held during the year. All Directors are expected to attend Board meetings, which are scheduled to take a minimum of 1 day and up to 2 days. The Executive Assistant also attends. The Board meeting agenda is provided in advance, with a Board pack containing senior management reports, including the Finance Director's report and the Chief Executive Officer's sales and operations report (these are confidential and not for publication). All Directors devote appropriate time both in attending the Board meetings, and in preparing and submitting Board papers. The Non-Executive Directors also attend Group business planning meetings, which provide details of the strategy and business plan presented by each division and subsidiary.

The following table summarises attendance at scheduled quarterly Board and Board Committee meetings, with additional Board meetings taking place when needed throughout the year:

Board attendance

Number of meetings in the year	Board (4)	Audit (2)	Remuneration (4)	Nomination (2)
Number of meetings attended				
Mike Love	4	2	4	-**
David Jones	4	2*	4*	2*
Chris Cheetham	4	2*	4*	2*
Steve Brignall	4	-	-	2*
David Coghlan	4	2	4	2
Klaus Meng	4	-	-	2*
Klaus Heidrich	4	2*	4*	2*

* Meetings attended by invitation. ** Mike Love as the Chairman of the Nomination Committee did not participate in the nomination process of Natasha Laird, his daughter; David Coghlan chaired the Nomination Committee instead. Natasha Laird attended all Board, Audit and Remuneration Committee meetings in her capacity as Company Secretary and General Counsel, before her Board appointment on 18 December 2018.

Code principle:
- Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.

BOARD EVALUATION

The Board evaluates its own performance internally every two years, based on questionnaires against key areas of its responsibility including: adherence to Group strategy; operational performance; cash flow and net assets; budgetary control; value created through acquisitions; and the share price. It also evaluates its balance of skills, experience, independence and knowledge of the business, as well as its diversity.

The Board does not undertake an independent evaluation as recommended by the Code. A two-yearly internal evaluation is considered appropriate given the smaller size of the Board and regular contact between Board members. The Chairman and Independent Non-Executive Director prepare the Board evaluation questionnaire and assessment criteria drawing on their experience of running evaluation programmes at other quoted companies.

The evaluation covers a range of questions on areas covering performance and strategy, Director orientation and development, Board leadership, succession planning and ethics. Additionally, more general questions cover areas where the Board member identifies both risks and opportunities. The member is asked to assess the

Board's performance in addressing corporate governance issues and communicating to shareholders. Members are also asked to assess the frequency, focus and structure of Board Meetings and areas for improvement.

The Chairman collects (prior to anonymising and evaluating) the scores given by Board members against the assessment criteria; the evaluation also compares scores against previous evaluations in order to track trends in the performance of the Board. The Chairman considers the scores and feedback from this evaluation and presents the picture back to the full Board for assessment and action planning. In the recent past this process has, for example, identified the need to invest more effort into succession planning and engaging with middle tier management in strategic as well as tactical business planning. Anonymised records of the evaluation process are held by the Chairman and Company Secretary.

Directors' performances are reviewed twice a year by other members of the Board.

Code principle:
- Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.

BOARD COMMITTEES' OVERSIGHT

We have three main Board committees; an Audit Committee, a Nomination Committee and a Remuneration Committee. Their responsibilities are summarised below, and their terms of reference are available upon request from the Company Secretary.

Audit Committee

Oversees the Group's financial reporting, internal financial controls and risk management processes. It also oversees the external audit process. Through the Audit Committee, the Directors ensure the integrity of financial information, the effectiveness of financial controls, other internal controls and financial risk management systems. It challenges senior management and external auditors where appropriate and reviews the financial reporting processes in the Company's interim and annual reports, including reviewing the need for an internal audit function. Any significant issues are reported to the Board.

Nomination Committee

Deals with appointments to the Board, monitors potential conflicts of interest, reviews and considers recommendations for the appointment of both Executive and Non-Executive Directors. It meets when required and addresses recommendations to the Board on policy and strategy with respect to succession planning. It takes responsibility for conducting Board workshops and one-to-one discussions on long term succession planning in the context of the Group's long-term strategic plans with respect to both organic growth and M&A aspirations.

Remuneration Committee

Sets the remuneration of the Directors, including basic salary, bonuses and other incentivisation payments and awards. No Director is responsible for setting his or her own pay and all bonuses are capped. The Remuneration Committee aligns remuneration policy with Company strategy, taking into account both Company growth, strategy and risk management. It also seeks guidance on market practice and aims to reward the right behaviours. It sets remuneration in respect of other senior executives within the Group. We seek shareholder approval of our remuneration report retrospectively at our Annual General Meeting, as published in our annual report for that year, which is a means of obtaining shareholder feedback. This report also includes our remuneration policies.

Each of the Board Committees' terms of reference is reviewed annually. Any necessary changes are recommended to the Board. The minutes of the Committee meetings are available to all Directors and verbal briefings are given at Board meetings. A smaller Mergers and Acquisitions Board Committee considers acquisitions and mergers on an on-going basis, headed by the M&A Director, Klaus Meng, reporting to the Board.

While our divisions, Space, Media & Broadcast (M&B), Enterprise Solutions & Defence (ESD) and Annova, operated as separate units in 2018 with areas of autonomy set by the Board, they are supervised by the Board through structured Divisional board meetings and reporting, which is collated by the Chief Executive Officer, and reported back into the Board meetings. Other board meetings and management oversight are therefore as follows:

Committee oversight: 2018

Divisional board meetings and SCISYS Media Solutions GmbH (re-named in December 2018, previously Annova Systems GmbH, or "Annova")

Monthly Divisional board meetings are attended by the Chief Executive Officer and provide oversight for the operational and financial performance of each individual division (Space, M&B, and ESD). They are led by divisional directors. Commercial issues, sales opportunities and risk management are discussed, and day-to-day management decisions are made. Divisional board meetings provide a forum for the Directors, divisional directors and senior managers to assess performance and, if necessary, to expedite any remedial steps. Each division operates as a separate profit and loss centre on the basis of a 4-year rolling business plan, with agreed short and medium-term targets consistent with the Company's overall strategy. Divisional board meetings therefore perform a key risk-management function. They also provide a key forum for implementing our corporate culture from the top, and for assessing whether ethical values and behaviours are being respected throughout the business. The Chief Executive Officer, Finance Director and Technical Director are members of and attend most Divisional board meetings. Members of the Divisional boards also have regular interaction when carrying out their work. Xibis Limited is a separate subsidiary of the Company but operates as a business unit of ESD. Its board holds monthly board meetings, and reports through ESD Divisional board meetings.

SCISYS Media Solutions GmbH holds monthly board meetings in Munich, (which performs the same function as a Divisional board meeting in all but name) between the directors, Michael Schüller, Klaus Heidrich and Chris Cheetham. These meetings also assess operational and financial performance, its sales opportunities and strategies, and risk management. In 2019 the M&B division merged with SCISYS Media Solutions GmbH, so they now operate as one division, SCISYS Media Solutions.

SCISYS UK Limited board meetings

SCISYS UK Limited holds regular board meetings (usually monthly) between its company directors, Steve Brignall, Dave Gawthorpe and Chris Cheetham (Chair). Spencer Ziegler (Space UK Business Manager), Klaus Heidrich (CEO of SCISYS Group PLC) and Andy Whitehead (divisional director of ESD) also attend by invitation. Natasha Laird attends as Company Secretary of SCISYS UK Limited (also as Legal Director of SCISYS Group PLC) and provides legal updates. During these monthly board meetings, a range of regulatory, strategic, management and operational matters are discussed and resolved.

SCISYS Deutschland GmbH board meetings

SCISYS Deutschland GmbH holds regular board meetings (usually monthly), to deal with regulatory matters and strategic decisions affecting SCISYS Deutschland GmbH. In 2018 the company directors of SCISYS Deutschland GmbH were Klaus Meng (Chair), Sandra Krewerth, Karl-Willi Pieper, Horst Wulf and Ulli Leibnitz. From 18 December 2018 Karl-Willi Pieper resigned and Klaus Heidrich and Joachim Dietze became directors.

Committee oversight: 2018 (continued)

SCISYS Deutschland Holding GmbH
SCISYS Deutschland Holding GmbH was an acquisition vehicle for the purchase of Annova. It is the holding company of SCISYS Media Solutions GmbH (previously Annova) and the majority shareholder of SCISYS Deutschland GmbH. Its company directors are Klaus Heidrich, Chris Cheetham and Klaus Meng. It holds board meetings when required.

SCISYS UK Holding Limited
Previously named SCISYS PLC and the former Group parent company, SCISYS UK Holding Limited became a private limited company on 20 December 2018 and is now the parent company of SCISYS UK Limited and Xibis Limited only.

Xibis Limited
Neil Morjaria (Chair), Steve Brignall, Andy Whitehead, Fiona Holder and Ian Newson are on the Xibis Limited board of directors, and regular board meetings take place (usually monthly). The Xibis board reports into the ESD Divisional board.

Other Management Committees

Other Management Committees

Internal Governance
Senior managers across the Group meet to consider and make decisions on aspects of the Group's activities that impact on its governance at operational levels. Its remit therefore covers health and safety, environment and quality, as well as information security and cyber security. It is responsible for establishing policies and procedures across the Group and ensuring compliance with these policies. It ensures that SCISYS remains compliant with current and future legislation relevant to health and safety, environment and information security. It reviews security risks including particularly those identified by ISO 27001 compliance, and the response of the business to managing those risks. It meets quarterly.

A separate GDPR committee meets quarterly, headed by Steve Brignall, the Technical Director, and attended by the Natasha Laird, the Legal Director (prior to her appointment as Legal Director she was the UK Data Protection Officer, DPO), to implement appropriate technical and organisational measures and update data protection policies in view of the GDPR. In 2019 Matt Noble (National Security Officer) became the UK DPO. Our German subsidiaries engage an external DPO.

A processes board meets in the UK, and senior managers will discuss and establish the internal governance processes needed across the business.

Management Meetings
Corporate IT meets on a two-monthly basis to address and review operational issues, financial issues and the security performance of our IT infrastructure.

The UK Management Meeting meets on a monthly basis and addresses day-to-day UK management and operational issues, legal and regulatory developments.

HR and the Legal Director (also the Company Secretary) meet quarterly to discuss developments in employment law.

In Germany the MTM (management meeting) convene, usually monthly, to discuss day to day operational, management and legal issues, these meetings are chaired by a Director of SCISYS Deutschland GmbH.

Code principle:
- Embed effective risk management, considering both opportunities and threats, throughout the organisation.

EMBEDDING RISK MANAGEMENT AND CONTROL

Accountability and Internal Controls Governance

The Board undertakes a regular and robust assessment of the effectiveness of the Group's systems of risk management and internal financial controls, which is reviewed annually. The latest risk report, including our Brexit strategy, is part of the Director's strategic report in our annual report and can be found at page 35 for 2018. It is prepared by the Technical Director and is published retrospectively on an annual basis; this summarises our risk register. As explained above, any developments or changes to our business that are price sensitive and not public will be reported anyway by way of an RNS. Our assessment of the risks to the Group is reviewed annually as part of our Annual Report preparation. We do not have a formal risk committee but believe that our risk reporting is appropriate.

Separately our internal management governance and reporting structure, for example through monthly Divisional board meetings, financial reporting and budgeting, provides a key and effective risk management role. Information from Divisional board meetings as to the operational and financial status of individual projects is also reported and considered on a monthly basis at these meetings, by the Chief Executive Officer, the Finance Director and (as appropriate) the Technical Director. From these board meetings the Board elicits assurance that the Company's risk management is effective or identifies areas of weakness. Divergences from expected financial and project performances are followed up rigorously. Details of the regular additional board meetings and other governance meetings and processes governance can be found above and are considered comprehensive, given the size and resources of the Group.

External advice on significant matters

The Company confirms that in 2018 it took external advice from its advisers on a significant matter, namely its Brexit strategy, which resulted in re-domiciling its Group parent company to Ireland. Ongoing advice that it takes includes advice regarding AIM/ESM rules and procedures, Irish legal advice, funding, tax, health and safety, share option schemes and reporting, and corporate structure.

All such advice is and remains confidential. It is in most instances legally privileged, and such privilege is not waived. The Company's regular advisers include: its nominated adviser ("NomAd") finnCap; Burges Salmon, Mason Hayes Curran and Cooper Cavendish (legal advisers); Grant Thornton and PwC (tax advisers). It also engages EY (auditors) where appropriate.

Code principle:
- Seek to understand and meet shareholder needs and expectations.
- Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

SHAREHOLDER RELATIONS

Relations with shareholders

The Board recognises its primary role of representing and promoting the interests of the Group's shareholders. The Board is accountable to shareholders for the long-term performance and success of the Company.

Being an AIM/ESM quoted company, the Non-Executive Chairman, Finance Director and Chief Executive Officer continue to hold regular meetings and investor lunches with institutional shareholders and private client brokers to discuss and review the Group's activities, strategies and performance. The Chief Executive Officer and Finance Director generally meet institutional shareholders and other investors at twice yearly investor roadshows set up by our public relations consultants (Walbrook PR), at which financial results are presented. This provides a dialogue with current and potential future shareholders, brokers, and an opportunity to explain the Group's strategy and performance. These are usually hosted by Walbrook PR or our NomAds (also our brokers). Investor feedback is provided by finnCap (in their capacity as brokers) and Walbrook PR. The contact point for investors is Walbrook PR (tom.cooper@walbrookpr.com) or investorrelations@scisys.co.uk. The Chief Executive Officer and Finance Director also speak to larger shareholders by telephone when the Company's results are announced, as arranged by finnCap. This is their opportunity to gauge shareholder feedback and expectations.

The Annual General Meeting (AGM) in June is our main forum for meeting private shareholders. Shareholder and staff attendance are encouraged and around 60 shareholders attend. The Non-Executive Chairman leads the AGM and takes questions from the floor, together with the other Board members. Shareholder participation is welcomed; the AGM is an interactive event. After the formal AGM business, a lunch is provided, and this is an informal forum to meet and interact with shareholders.

An RNS is published after the AGM to announce the resolutions passed at the AGM (by way of a show of hands, with the proxy votes disclosed afterwards but not counted for the purposes of the show of hands). To date all AGM resolutions proposed have been passed; the Company has not experienced significant dissenting shareholder votes for resolutions proposed at the AGM (over 20%), including proxy votes. Should the Company experience significant dissenting shareholder votes it will engage with its shareholders to establish the root cause of discontent. AGM notices and financial reports over the last 5 years are published on our website.

The Company also puts its remuneration report to shareholders for approval at the AGM, published retrospectively as part of the Company's annual report and financial statements, and this remuneration report also contains the Company's remuneration principles and policies. The Remuneration Committee is tasked with seeking feedback annually through finnCap on the level of Director remuneration in comparison with other AIM/Euronext Growth quoted companies of its size and structure.

The Chief Executive Officer and the Finance Director are also available to meet shareholders during the year by appointment on a case-by-case basis. The Chairman and the Independent Non-Executive Director also make themselves available to discuss any issues or concerns that shareholders may have on a case-by-case basis.

We also distribute INSCIGHT newsletters, which updates shareholders and other stakeholders on our activities and progress. The Company website has a section for investors which contains all publicly available financial information, RNSs and news concerning the Company and provides details of how shareholders can directly discuss particular issues with the Company.

In conjunction with finnCap and other financial advisers we distribute news in a timely fashion through appropriate channels, to ensure that shareholders can access material information about the Company's progress.

Code principle:
- Promote a corporate culture that is based on ethical values and behaviours.
- Take into account wider stakeholder and social responsibilities and their implications for long-term success.

WIDER STAKEHOLDER CONSIDERATIONS

Other key stakeholders: how we engage with employees, customers, suppliers and lenders

Our approach to corporate social responsibility is set out in our annual report and reported annually on a retrospective basis. It can be found at page 36. We pay close attention to our relationships with key stakeholders, as we recognise that this is important for the success of the business.

Our staff are key to our business and the Directors recognise the need for engagement with employees. Executive Directors meet staff formally by providing twice-yearly results presentations at all office locations and for larger groups of off-site employees, at which questions can be put directly to Directors and feedback taken. Management staff meet the Directors through regular meetings (such as the meetings mentioned above), which provide a forum for feedback. Our smaller size means that Directors and management staff are relatively accessible to all employees. We encourage staff engagement, for example through Company share incentive plans and share option schemes and expect high standards of performance from our staff. Our smaller size also allows our management structures to be relatively flat.

Our customers are clearly essential to our business. We maintain long-term relationships with our customers. We operate a system of key account managers whose role is to communicate with them and ensure close liaison, in addition to the day-to-day communication that occurs with customer projects. Customer feedback is considered carefully at Divisional board meetings, and our software services offering evolves accordingly.

We consider feedback from our NomAds and other advisers and adapt our processes accordingly.

Our bankers are a key constituent of the Company's on-going ability to maximise profitability. We develop long standing relationships with our bankers and keep them regularly updated as to how the business is performing. We also seek to maintain long-term relationships with suppliers. We engage suppliers on industry-standard terms and conditions and seek to act reasonably and proportionately in our dealings with suppliers.

When Board decisions are taken, the Board considers promoting the success of the Company, the interests of shareholders as well as the interests of and relationships with suppliers, customer and employees.

The impact of the Company's operations on the community and the environment is also considered carefully and reported annually in our corporate social responsibility report. Our corporate social responsibility report is our way of illustrating how we deal with these responsibilities and how we promote ethics throughout the Group. Our core corporate values of openness and respect, set by the Board, seek to promote good corporate behaviours.

Audit Committee Report

PLC

David Coghlan

ANNUAL STATEMENT MADE BY THE AUDIT COMMITTEE CHAIRMAN

The Audit Committee's role is to assist the Board with the discharge of its responsibilities in relation to internal and external audits and financial controls. I chaired the Audit Committee which met twice during 2018. I have the requisite recent and relevant financial experience to do so. Meetings are planned around the financial calendar for the Company. The Finance Director and Chief Executive Officer and other senior management attend meetings by invitation only and the Committee also meets the external auditors without any SCISYS Executive Directors being present. On behalf of the Audit Committee I report to the Board on how it has discharged its responsibilities.

During the year the Audit Committee, operating under its terms of reference, reviewed and considered the following matters:

- the Company's interim and year-end financial statements, including consideration of the appropriateness of accounting policies and material assumptions and estimates adopted by management;
- developments in accounting and reporting requirements;
- the external auditors' plan for the year-end audit of the Company and its subsidiaries;
- the performance and effectiveness of the Audit Committee;
- the composition of the Audit Committee;
- the systems of internal financial control and risk management and their effectiveness;
- reporting and making new recommendations to the Board and receiving regular updates on key risk areas of financial control;
- the policy on whistleblowing, whereby staff may raise concerns in confidence about possible improprieties;
- the audit fees proposed or charged by the external auditors;
- the conduct of a competitive tender process resulting in the removal of KPMG LLP as the external auditor and the subsequent appointment of Ernst & Young LLP (explained in more detail below);
- the evaluation of the performance and independence of KPMG LLP as the Group's external auditor until July 2018 and Ernst & Young LLP subsequently;
- the review and approval of the external auditor's fees for 2018, including the review of the policy for the provision of non-audit fees by the auditor;
- the review and approval of the external auditor's plan for 2018, which detailed the proposed audit scope and risk and governance assessment; and
- the arrangements in respect of internal audit, including a recommendation to the Board that, due to the current size and complexity of the Group, a formal internal audit function was not required at this time.

Given the nature of the Company's business, the Audit Committee pays particularly close attention to reviewing (directly and in discussion with the external auditors) management's judgements on the application of SCISYS' revenue-recognition policies in relation to material projects.

FINANCIAL REPORTING

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

The Audit Committee recognises the importance of understanding changes in accounting policies and practice, and receives regular updates from both the external auditors, and the Company's finance team on key changes in this area. The Audit Committee continued its review of the impact on the Group of the implementation of IFRS 15 concerning revenue recognition, IFRS 9 concerning financial instruments and IFRS 16 concerning leases.

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

Area of focus	How the matter was addressed by the Audit Committee
Revenue recognition and contract accounting	The Audit Committee reviewed the controls in place to ensure the appropriateness of estimates used in assessing contractual stages of completion, anticipated profitability and the amounts recognised in the financial statements. The Audit Committee agreed with the conclusions reached.
Goodwill impairment review	The Audit Committee reviewed a management report outlining the approach taken on impairment testing and the key assumptions and sensitivities supporting the conclusions. The Audit Committee agreed with the conclusions reached on impairment.
Recoverability of the Company's investment in and intercompany balances with subsidiaries	The Audit Committee reviewed the assessment by management of the carrying value of the Company's investment in subsidiaries, and intercompany balances with them, using the value-in-use model used in supporting the carrying value of goodwill. The Audit Committee agreed with the conclusions reached.
Re-structuring of Group with the insertion of a new Irish parent company	The Audit Committee reviewed the assessment of external tax advisors in the Scheme of Arrangement tax statements and agreed with the conclusions reached.

RISK MANAGEMENT AND INTERNAL CONTROL

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

RISK MANAGEMENT

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

EFFECTIVE INTERNAL CONTROL

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

The controls relating to financial reporting include:

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

Details of the system of internal control, the principal risks facing the Group, and the strategies put in place to mitigate them, are set out in the Risk Management section on pages 32 to 35.

EXTERNAL AUDIT

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

APPOINTMENT OF THE EXTERNAL AUDITOR

The Audit Committee reviews and makes recommendations regarding the appointment and reappointment of the external auditors. In making this recommendation, the Audit Committee considers the auditors' effectiveness and independence, and any other factors which may impact upon reappointment.

Following a thorough competitive audit tender process during the year, the Audit Committee made a recommendation to the Board, who endorsed the appointment of Ernst & Young LLP as the Company's new auditors, with effect from October 2018. A resolution authorising the Directors to fix the auditors' remuneration will be proposed at the forthcoming AGM.

AUDIT INDEPENDENCE

The Audit Committee and the Board place great emphasis on the objectivity of the external auditor in its reporting to shareholders. The audit partner and senior manager are present at Audit Committee meetings as required to ensure full communication of matters relating to the audit. The overall performance of the auditor is reviewed annually by the Audit Committee, taking into account the views of management, and feedback is provided when necessary to senior members of the audit firm unrelated to the audit. The Audit Committee also has discussions with the auditors, without management being present, on the adequacy of controls and on any judgemental areas. The scope of the forthcoming year's audit is discussed in advance by the Audit Committee. In respect of 2018, this has involved the need for compliance with IFRS 15. Preparations in this regard were ongoing throughout 2018. Audit fees are approved in advance by the Audit Committee.

SCISYS' policy on engaging the external auditors for non-audit services is designed to ensure: that such engagements do not result in the creation of a mutuality of interest between the auditor and the Group; that a transparent process and reporting structure is established to enable the Audit Committee to monitor policy compliance; and that unnecessary restrictions on the engagement of the auditors for non-audit services are avoided where the provision of such advice is commercially sensible and is more cost effective than other providers.

The auditors provide annually a letter to the Audit Committee confirming their independence and stating the methods they employ to safeguard their independence.

David Coghlan
Chairman of the Audit Committee
10 April 2019

Remuneration Report

PLC

Mike Love

ANNUAL STATEMENT MADE BY THE REMUNERATION COMMITTEE CHAIRMAN

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2018. This report has been prepared by the Remuneration Committee and is approved by the Board.

The Remuneration Committee seeks to make disclosures clear and transparent, taking into account the principles of the Quoted Companies Alliance Corporate Governance Code (the "QCA Code"). Each of the disclosures required by the QCA Code can be found at www.scisys.co.uk/who-we-are/corporate-governance.html. SCISYS Group PLC is quoted on AIM and Euronext Growth; it is not subject to schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. However, we aim to provide clarity in our disclosures. Full retrospective disclosure is provided in this report for 2018 Executive Director performance-related pay targets. We are mindful of increased shareholder interest in this area; we seek to implement remuneration policies promoting long-term value creation for the Group.

The Remuneration Committee has taken the commitment and calibre of individuals into account generally when setting remuneration awards for 2019. The responsibility for deciding on individual Director's remuneration rests with the Remuneration Committee alone and no Director is involved in deciding his or her own remuneration. The Remuneration Committee also considers the pay for senior managers.

Our remuneration policy remains to attract talent, to retain and incentivise high-quality individuals in order to implement our business strategy. Salary increases for 2019 are justified by the solid performance of the Group and further organic growth, increasing commitments required as a result of the scope and complexities of Director's roles. We believe that our remuneration policy promotes the long-term success of the Group. The remuneration of each Director is linked to the performance of the individual and the Group financial performance through base salary and performance-related pay, together with other benefits. There is an upper cap on all elements of remuneration and no bonus opportunities exceed 100% of salary. Performance-related elements should be transparent and stretching. The Remuneration Committee and the Board continue to balance reward with restraint.

I look forward to your support for the resolution seeking approval of the Remuneration Report at the forthcoming Annual General Meeting.

Mike Love
Remuneration Committee Chairman

10 April 2019

ROLE OF THE REMUNERATION COMMITTEE

The Remuneration Committee has responsibility for making recommendations to the Board on the remuneration packages of the Executive Directors, as well as monitoring the level and structure of remuneration for senior management, which includes:

- making recommendations to the Board on the Company's existing remuneration policy for Directors and senior staff, and overseeing long-term incentive plans (including share option schemes);
- ensuring basic remuneration is appropriate to the level of responsibility and adequate to attract and retain high calibre individuals;
- ensuring variable remuneration is appropriately linked with overall corporate performance; and
- aligning remuneration policy with current industry practice.

The Remuneration Committee has sole responsibility for deciding the remuneration for Executive Directors, divisional directors, directors of subsidiaries and managers of profit centres. It is sensitive to possible conflicts of interests when receiving views from Executive Directors about its proposals. No director is involved in deciding his or her own remuneration.

REMUNERATION POLICY

The table below shows how the remuneration policy is linked to overall Group strategy.

EXECUTIVE DIRECTORS

Element	Objective and link to strategy	Operation	Maximum potential value	Performance conditions
Base salary	Reflects level of responsibility and experience of the individual. Aids recruitment and retention and is set at a level to recruit suitable individuals. Maintains an appropriate balance between fixed basic income and variable pay, ensuring good risk management and no undue emphasis on variable pay.	Base salary is set annually on 1 January. Salary levels are reviewed on an annual basis by reference to comparable positions in similarly sized AIM/Euronext Growth listed companies. We do not depend on formulaic methods for determining this salary.	When considering any increases to base salaries in the usual course of events (as opposed to a change in scope of the role or responsibility), the Committee will take into consideration increases being given in comparable groups, pay and conditions of employees throughout the Group, and inflation.	Not applicable
Performance-related variable salary	The payment of performance-related pay is linked to the profitability of the Company and agreed key personal objectives, and drives short- and medium-term performance.	Cash payments. Executive Directors participate in an annual performance-related payment scheme. For short-term targets quarterly payments are made based on an assessment of progress towards the annual target. 25% is retained until the year-end accounts are completed to allow for any downturn in trading later in the year. Payments are made once the accounts for a quarter have been approved by the Board (i.e. Q1 payment is paid in May payroll, Q2 in Sep, Q3 in Nov and Q4 in Mar). Entitlements are assessed cumulatively so that under-performance in earlier quarters, which is subsequently recovered, will result in a catch up of payments. There is no repayment if the quarterly payments on account already made exceed the total due for the year. Variable pay linked to medium-term targets will be paid after the audited statutory accounts of SCISYS Group PLC for the last year of the respective medium-term period have been published. There are no claw-back or malus withholding provisions.	During 2018 the split of total variable pay between payments related to Company profitability (Performance Related Pay "PRP") and personal Key Performance Indicators (KPI) was 70%:30%. During 2018, 50% out of the 70% PRP element related to a short-term adjusted Group EBITA target (25%) and to a medium-term adjusted Group EBITA target (25%) averaged over the 3 year period 2016 to 2018. The short-term adjusted EBITA target for 2018 was £4.9m. This target is set and reviewed annually. The remaining 20% of the PRP was split between two targets, namely a short-term total revenue target (10%) and a medium-term total revenue target (10%). The short-term total revenue target for 2018 was £58.9m*. This target is set and reviewed annually. Personal KPI-based payments represented a maximum of 30% of the variable pay total for Executive Directors. Performance was reviewed in May/June and December by the Executives' peers.	Profitability linked to achievement of an adjusted Group EBITA target. Revenue performance was related to a total Group revenue target. KPI tied to individual objectives set for each Executive Director to achieve during the year.
Long-term incentive	Long-term incentives are awarded to align the interests of the Executive Director with shareholders and drive long-term performance.	Executive Directors received an annual allocation of share options. These are subject to vesting performance conditions to be met over a period of 3 years. The performance conditions have been chosen to align the long-term incentive to the continued performance of the business. There is no prescribed holding period following exercise.	Options awarded during 2018 were set at an option price of 163p. The maximum potential benefit is therefore linked to the upward movement in the share price at the time the Executive Director elects to exercise the option should the performance conditions be achieved at the end of the 3-year vesting period. The Option may be exercised between 3 and 10 years from the date it was granted, subject to performance conditions being met.	During 2018 the performance condition was tied to the long-term financial performance of the group based on growth in EPS and average adjusted pre-tax earnings over a 3-year period.
Pension	To provide competitive levels of retirement benefit.	The UK-domiciled Executive Directors are entitled to a Company pension contribution at a rate from 6.75% to 8.5% of pensionable pay to be paid into the defined contribution pension scheme open to all the Company's permanent employees. Pensionable pay is set at basic salary plus 10%. During 2018 Klaus Heidrich, as a German-domiciled Executive Director, received a separate pension contribution.	Not applicable	Not applicable

EXECUTIVE DIRECTORS (CONTINUED)

Element	Objective and link to strategy	Operation	Maximum potential value	Performance conditions
Other benefits	To provide competitive levels of employment benefits.	Benefits for Executive Directors principally comprise: medical insurance, death-in-service life assurance, permanent health insurance, car allowance/company car and fuel expenses and reasonable business expenses. They are reported for individual Directors below.	Not applicable	Not applicable

*An adjustment will be made to take into account the impact of IFRS 15.

Executive Directors' remuneration

The remuneration package of the Executive Directors includes basic salary, other benefits and performance-related pay. Details of the payments made to Executive Directors for the year ended 31 December 2018 are as follows:

Executive Directors	Annual Salary £	Performance related pay £	Benefits in kind £	Total 2018 £	Total 2017 £	Pension contribution 2018 £	Pension contribution 2017 £
David Jones	40,000	12,902	-	**52,902**	63,668	**-**	-
Chris Cheetham	130,800	44,714	3,049	**178,563**	162,747	**10,230**	9,804
Steve Brignall	116,800	40,805	2,757	**160,362**	147,961	**8,453**	8,134
Klaus Heidrich	154,315	106,180	5,699	**266,194**	244,151	**19,540**	18,516
Klaus Meng#	67,581	28,220	-	**95,801**	90,807	**-**	-
Total	**509,496**	**232,821**	**11,505**	**753,822**	**709,334**	**38,223**	36,454

Klaus Meng also received £94,000 remuneration for his duties as a director of subsidiary SCISYS Deutschland GmbH during 2018.

For completeness, Natasha Laird was appointed to the Board on 18 December 2018, however by mutual agreement her remuneration package as a Director will take effect from 1 January 2019 and will be reported in full in next year's annual report. Her annual salary in 2019 is £100,800 with performance-related pay of up to £20,000.

NON-EXECUTIVE CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Chairman

Element	Objective and link to strategy	Operation	Maximum potential value	Performance conditions
Base salary	To attract a Chairman with the requisite skills and experience to perform this role.	Base salary is set annually on 1 January. Salary levels are reviewed on an annual basis by reference to comparable positions in similar sized AIM/Euronext Growth listed companies. The Chairman's salary is determined by the Remuneration Committee in consultation with the Executive Directors. We do not depend on formulaic methods for determining this salary. Base salary is not pensionable.	When considering any increases to base salaries in the usual course of events (as opposed to a change in scope of the role or responsibility), the committee will take into consideration increases being given in comparable groups, pay and conditions of employees throughout the Group and inflation.	Not applicable
Performance-related variable salary	The payment of performance-related pay is linked to profitability of the Company and the key strategic objectives and drives short-term and medium-term performance.	Cash payments. The Chairman participated in an annual performance related payment scheme covering a part of his total potential earnings. Quarterly payment arrangements are on the same terms as for the Executive Directors, as set out above. No clawback or malus withholding provisions apply.	During 2018 the split of total variable pay between payments related to Company profitability (Performance Related Pay "PRP") and personal Key Performance Indicators (KPI) was 70%:30%. During 2018, 50% out of the 70% PRP element related to a short-term adjusted Group EBITA target and to a medium-term adjusted Group EBITA target averaged over the 3-year period 2016 to 2018. The short-term adjusted EBITA target for 2018 was £4.9m. The remaining 20% of the PRP is split between two targets, namely a short-term total revenue target (10%) and a medium-term total revenue target (10%). The short-term revenue target for 2018 was £58.9m*. Performance against the personal objectives of the Chairman was reviewed by the CEO in May and December.	Profitability linked to achievement of an adjusted EBITA target. Revenue performance was related to a total revenue target. Individual objectives for the Chairman to achieve during the year were set by the CEO.
Other benefits	To provide competitive levels of employment benefits.	Benefits for the Chairman principally comprise reasonable business expenses.	Not applicable	Not applicable

*An adjustment will be made to take into account the impact of IFRS 15.

Non-Executive Director

Element	Objective and link to strategy	Operation	Maximum potential value	Performance conditions
Base salary	To attract an independent Non-Executive Director with the requisite skills and experience to perform this role.	Base salary is set annually on 1 January. Salary levels are reviewed on an annual basis by reference to comparable positions in similarly sized AIM/Euronext Growth listed companies. We do not depend on formulaic methods for determining this salary. The Non-Executive's salary is determined by the full Board. He was first appointed in January 2013 and reappointed on 1 January 2016 for a further 3-year term. His current appointment is on a rolling basis without a specific end date.	When considering any increases to base salaries in the normal course of events (as opposed to a change in role or responsibility), the Board will take into consideration increases being given in comparable groups, pay and conditions of employees throughout the Group and inflation.	Not applicable
Other benefits	To provide competitive levels of employment benefits.	Benefits for the Non-Executive Director comprise reasonable business expenses.	Not applicable	Not applicable

Non-Executive remuneration

	Fees £	Benefits £	Performance-related pay £	2018 Total £	2017 Total £
Mike Love	34,000	-	12,902	46,902	44,854
David Coghlan	26,000	-	-	26,000	26,000
Total	60,000	-	12,902	72,902	70,854

The aggregate emoluments of the highest paid Director were £266,194 (2017: £244,151).

Significant remuneration policy changes

A previously reported bonus of up to £40,000 for Chris Cheetham, Klaus Heidrich and Steve Brignall, tied to an ambitious surplus increase in adjusted Group EBITA during the period 2016 to 2018, will not be paid, as this surplus was not achieved.

Service contracts

The Company's policy on Directors' service contracts is that they should be on a rolling basis without a specific end date. Under German law, unless the termination is caused by their default, on termination Directors are entitled to be compensated based on 24 months' salary. The service contracts provide for termination on giving 12 months' notice. To align the service contracts of the UK resident Directors with those of the DE resident Directors, following a change of control causing the termination of their service contracts UK resident Directors are entitled to the equivalent of 24 months' salary (unless such termination resulted from their default or the previous poor performance of the Company, as decided in the sole discretion of the Remuneration Committee).

Under their letters of appointment, the Chairman and Non-Executive Director are entitled to receive 6 months' notice of termination of their employment.

Director	Effective Term	Notice period #
Steve Brignall	Rolling (with no fixed expiry date)	12 months by the Company and by the Director
Chris Cheetham	Rolling (with no fixed expiry date)	12 months by the Company and by the Director
Klaus Heidrich	Rolling (with no fixed expiry date)	12 months by the Company and by the Director
David Jones	Rolling (with no fixed expiry date)	12 months by the Company and by the Director
Klaus Meng	Rolling (with no fixed expiry date)	12 months by the Company and by the Director
Natasha Laird	Rolling (with no fixed expiry date)	12 months by the Company and by the Director

As the Board's policy is that service contracts of Executive Directors should provide for termination by SCISYS on no more than 12 months' notice.

DIRECTORS' INTERESTS IN SHARES

The Directors who held office at the end of the financial year reported having the following beneficial interests in the 25p ordinary shares of the Company as at the end of December 2018:

	Interest in ordinary shares		Total interest in HMRC-approved Company Share Option Plan (CSOP)		Total interest in Unapproved Share Option Plan		Total interest in shares	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Mike Love	**4,377,451**	4,337,103	**40,000**	75,000	**-**	-	**4,417,451**	4,412,103
Steve Brignall	**208,627**	168,632	**40,460**	135,000	**79,540**	-	**328,627**	303,632
Chris Cheetham	**194,271**	114,978	**18,404**	135,000	**61,596**	-	**274,271**	249,978
David Jones	**266,960**	187,668	**-**	125,000	**50,000**	-	**316,960**	312,668
Klaus Meng	**2,587,826**	2,832,826	**-**	-	**-**	-	**2,587,826**	2,832,826
Klaus Heidrich	**102,760**	102,760	**-**	-	**136,000**	106,000	**238,760**	208,760
David Coghlan	**106,276**	6,276	**-**	-	**-**	-	**106,276**	6,276
Natasha Laird	**164,001**	N/A	**9,000**	N/A	**N/A**	N/A	**173,001**	N/A
Totals	**8,008,172**	7,750,243	**107,864**	470,000	**327,136**	106,000	**8,443,172**	8,326,243

Ordinary shares under option by Directors as at the end of December 2018 were as follows – all options have performance conditions applied:

	As at 1 January 2018	Granted	Exercised	Lapsed or forfeited	As at 31 December 2018	Date of grant	Date from which options can be exercised
Mike Love							
CSOP option price of 25p	35,000	-	35,000	-	-	Jan-09	2012
CSOP option price of 52p	20,000	-	-	-	20,000	Apr-10	2013
CSOP option price of 50.50p	20,000	-	-	-	20,000	Apr-11	2014
Total	75,000	-	35,000	-	40,000		

	As at 1 January 2018	Granted	Exercised	Lapsed or forfeited	As at 31 December 2018	Date of grant	Date from which options can be exercised
Steve Brignall							
CSOP option price of 25p	35,000	-	35,000	-	-	Jan-09	2012
CSOP option price of 52p	20,000	-	-	-	20,000	Apr-10	2013
CSOP option price of 50.50p	20,000	-	-	-	20,000	Apr-11	2014
Unapproved option price of 51p*	20,000	-	-	-	20,000	Apr-12	2015
Unapproved option price 71p*	20,000	-	-	-	20,000	Apr-16	2019
Unapproved option price 101.50p*	20,000	-	-	-	20,000	Apr-17	2020
CSOP option price of 163p	-	460	-	-	460	Apr-18	2021
Unapproved Option Price of 163p	-	19,540	-	-	19,540	Apr-18	2021
Total	135,000	20,000	35,000	-	120,000		

	As at 1 January 2018	Granted	Exercised	Lapsed or forfeited	As at 31 December 2018	Date of grant	Date from which options can be exercised
Chris Cheetham							
CSOP option price of 25p	35,000	-	35,000	-	-	Jan-09	2012
CSOP option price of 52p	20,000	-	20,000	-	-	Apr-10	2013
CSOP option price of 50.50p	20,000	-	20,000	-	-	Apr-11	2014
Unapproved option price of 51p*	20,000	-	-	-	20,000	Apr-12	2015
Unapproved option price 71p*	20,000	-	-	-	20,000	Apr-16	2019
Unapproved option price 101.50p*	20,000	-	-	-	20,000	Apr-17	2020
CSOP option price 163p	-	18,404	-	-	18,404	May-18	2021
Unapproved option price 163p	-	1,596	-	-	1,596	May-18	2021
Total	135,000	20,000	75,000	-	80,000		

	As at 1 January 2018	Granted	Exercised	Lapsed or forfeited	As at 31 December 2018	Date of grant	Date from which options can be exercised
David Jones							
CSOP option price of 25p	35,000	-	35,000	-	-	Jan-09	2012
CSOP option price of 52p	20,000	-	20,000	-	-	Apr-10	2013
CSOP option price of 50.50p	20,000	-	20,000	-	-	Apr-11	2014
Unapproved option price of 51p*	50,000	-	-	-	50,000	Apr-12	2015
Total	125,000	-	75,000	-	50,000		

	As at 1 January 2018	Granted	Exercised	Lapsed or forfeited	As at 31 December 2018	Date of grant	Date from which options can be exercised
Klaus Heidrich							
Unapproved option price of 52p	8,000	-	-	-	8,000	Apr-10	2013
Unapproved option price of 50.50p	8,000	-	-	-	8,000	Apr-11	2014
Unapproved option price of 51p	30,000	-	-	-	30,000	Apr-12	2015
Unapproved option price of 71p	30,000	-	-	-	30,000	Apr-16	2019
Unapproved option price of 101.50p	30,000	-	-	-	30,000	Apr-17	2020
Unapproved option price of 163p	-	30,000	-	-	30,000	May-18	2021
Total	106,000	30,000	-	-	136,000		

* Previously incorrectly reported as CSOP awards, but which took effect as non-tax advantaged Unapproved Options.

David Coghlan holds 106,276 ordinary shares in SCISYS Group PLC but does not hold any options over SCISYS Group PLC shares. Klaus Meng does not hold any options over SCISYS Group PLC shares.

The Register of Directors' interests is available for inspection during business hours at the Group's head office at Methuen Park, Chippenham, and also at the 2019 Annual General Meeting.

COMPANY SECRETARY INTEREST IN SHARES

Please refer to the table at page 56, as Natasha Laird is also the Company Secretary.

SHARE SCHEMES

Share Incentive Plan

The Group operates an all-staff HMRC-approved Share Incentive Plan ('SIP') which was set up in 2001. The UK Directors may participate in this scheme. During the year, eligible staff were able to invest up to £1,800 per annum out of pre-tax pay in purchasing Partnership Shares. At certain times the Company may award free shares to eligible employees under the SIP.

As at 31 December 2018 the trust set up to administer the Free and Partnership shares held: 760,412 ordinary shares (2017: 843,652) in SCISYS Group PLC.

Share Option Schemes

The Company continues to operate share plans for senior executives and managers as a combined reward and incentive for those who have made a major contribution to the business and will continue to play a key role in helping the Group achieve its strategic objectives. Additionally, awards are made to key staff with high potential or in recognition of significant achievements.

Company Share Option Plan (CSOP)

SCISYS adopted a CSOP approved by HMRC in January 2009. Options may be exercised between 3- and 10-years following grant, provided that the performance conditions have been met.

SHARE SCHEMES (CONTINUED)

During 2018 SCISYS awarded 191,994 options under the CSOP granted to Directors, senior managers and staff at an issue price of 163 pence per share. The total number of CSOP options that remain capable of being exercised at the year-end was 540,994. The number of CSOP options granted to Directors is reported on pages 56 to 57. No further awards can be made under this 2009 CSOP scheme.

A Performance Share Plan (PSP) will be put in place in 2019 and will offer shares to senior managers at a nominal price of 25p, with performance metrics measuring earnings per share growth and average adjusted pre-tax earnings growth. The Remuneration Committee will determine the levels of awards, which will be comparable with the value of current share option awards, but with restrictions on the ability to exercise options if the share price has fallen below any corresponding decrease in the AIM All Share Index, and an annual cap on the number of options that can be granted to any individual.

Unapproved Share Option Scheme

The CSOP scheme provides tax benefits for recipients providing they are resident in the UK. For our senior managers in Germany this would be inappropriate so since January 2008 we have awarded options to them under an unapproved scheme but in accordance with similar rules to the CSOP.

During 2018 SCISYS awarded 164,006 options under the unapproved scheme granted to Directors and senior managers at an issue price of 163 pence per share. The total number of these options that remain capable of being exercised at the year-end was 975,506. (270,000 options previously reported as CSOP exceeded the CSOP tax thresholds and took effect as unapproved options and are included in the sum of 975,506.) Options may be exercised between 3- and 10-years following grant, provided that the performance conditions have been met. The number of unapproved options granted to Directors is reported on pages 56 to 57.

Share Option Performance Conditions

The Remuneration Committee sets performance conditions each time an award of options is made under the CSOP and Unapproved schemes. The EPS growth and average adjusted pre-tax earnings are the two key performance measures currently applied. Both EPS growth and average adjusted pre-tax earnings remain substantially within the control of Directors and management and therefore the Remuneration Committee considered them to be appropriate measures of the underlying financial performance of the Group.

Options exercised during the year

Directors exercised a total of 220,000 share options during 2018. The total number of options held by Directors is reported on pages 56 to 57.

Dilution

Awards granted under the CSOP and Unapproved schemes are satisfied either with treasury shares or with a new issue of shares which is subject to an informal 10% dilution limit in any 10-year period. The current potential dilution is below this level. The total of share options awarded and remaining exercisable at year end was 1,516,500. The Company's current commitment as at 31 December 2018 in respect of its option grants (assuming all performance conditions are met, and all option and award holders remain in employment to the final date of exercise under the scheme rules) could be satisfied by issuing this number of new shares.

Share Price

The closing mid-market price of the Company's shares on 31 December 2018 (the last business day in 2017) was 147.5 pence per share. The high and low share mid-market prices during 2018 were 194 pence and 123 pence, respectively.

The report of the Remuneration Committee has been approved by the Board of Directors for submission to shareholders for their approval at the Annual General Meeting.

Directors' Report

PLC

Natasha Laird

Chris Cheetham

INTRODUCTION

The Directors present their Annual Report and Financial Statements of SCISYS Group PLC ("the Company") a public limited company incorporated in the Republic of Ireland, and its subsidiary undertakings (together the "Group"), for the year ended 31 December 2018. The following matters are reported by the Directors in accordance with the Irish Companies Act 2014 requirements (the "Companies Act") for the Group.

PRINCIPAL ACTIVITIES

The Group is a supplier of software services operating on a pan-European basis. Its principal activities, including in the field of research and development, are set out within the Strategic Report which comprises the Chairman's Statement and the Strategic Review on pages 6 to 38.

BUSINESS REVIEW

A review of the Group's business activities as well as important events during the year and its prospects for the future can be found in the Strategic Report on pages 6 to 38. These reports together with the Corporate Governance Statement, the Remuneration Committee Report and the Audit Committee Report, are incorporated into this report by reference. This review is a fair, balanced and comprehensive analysis of the financial position, business developments and performance of the Group during the financial year, consistent with the size and complexity of the Group. It also gives an indication of likely future development in the Group's business activities, and the assets, liabilities and financial position of the Company.

GROUP RESULTS AND DIVIDENDS

The Consolidated Income Statement for the year ended 31 December 2018 is set out on page 72. The Group's consolidated accounts show adjusted operating profit for the year of £5.1m (2017: £4.4m restated) on revenue of £58.4m (2017: £53.2m as restated in accordance with IFRS 15 – see the Finance Director's Report above). The Company paid an interim dividend 0.65 pence per share on 8 November 2018 and the Directors are recommending the payment of a final dividend of 1.73p per share.
A further explanation of the amounts included in the financial statements can be found in the Finance Director's report on page 15.

KEY PERFORMANCE INDICATORS

The Directors measure the Group's performance principally using the financial indicators (as reflected in this Annual Report) as stated on page 20.

PRINCIPAL RISKS AND UNCERTAINTIES

Under section 327(1)(b) of the Companies Act, the Directors are required to give a description of the principal risks and uncertainties considered by the Board to affect the Group. These are set out on pages 32 to 35. The Group's viability statement can be found on page 14. Financial risk management is also reported on in the Audit Committee Report on pages 50 to 51.

CORPORATE GOVERNANCE STATEMENT

The corporate governance statement required by the Quoted Companies Alliance Corporate Governance Code can be found on page 42, with the corporate governance report on pages 43 to 49.

ACCOUNTING RECORDS

The Directors believe that they have complied with the requirements of sections 281 to 285 of the Companies Act which requires that adequate accounting records are kept by the Company. They have employed professionally qualified accounting personnel with appropriate expertise and have provided adequate resources to the finance function. The accounting records of the Company are maintained at Methuen Park, Chippenham, UK; accounting records disclosing the assets, liabilities, profits, losses and financial position in compliance with section 283 of the Companies Act are kept at its registered office at 6th Floor, South Bank House, Barrow St, Dublin 4, Ireland.

DIRECTORS AND COMPANY SECRETARY

The names of the current Directors and their biographical details are set out on pages 44 to 45. Details of the interests of the Directors in the Company's shares at year end are set out in the Remuneration Report on pages 56 to 57. The Board has resolved to continue the retirement of Directors by rotation in the same sequence as before the re-organisation of the SCISYS Group and the insertion of the new parent company. On this basis, Mike Love, Chris Cheetham, Steve Brignall and David Coghlan will stand for re-election at the Annual General Meeting in 2019. Natasha Laird, who was appointed to the Board on 18 December 2018, is required to stand for election at this AGM. The names of the current divisional directors and directors of subsidiary companies are set out on pages 47 to 48. The powers of the Company's Directors and rules that apply to changes in the Directors are set out in the Company's Articles of Association (the 'Articles'). Any changes to the Articles would require the consent of the Company's shareholders given by way of special resolution.

INTERESTS OF DIRECTORS AND COMPANY SECRETARY

Details of the Directors' and Company Secretary's interests in the Company share capital are set out in the Remuneration Report on pages 52 to 58.

DIRECTORS' AND OFFICERS' INSURANCE

The Group maintains insurance cover for all Directors and Officers of Group companies against liabilities that may be incurred by them while acting as Directors and Officers.

DIRECTORS' INDEMNITY PROVISIONS

As permitted by the Articles, each of the Directors has the benefit of an indemnity which is a permitted third-party indemnity under the Companies Act. The indemnity was in force throughout the financial year and is currently in force. No indemnity is provided for the Company's auditor.

DIRECTORS' CONFLICTS OF INTEREST

The Company has procedures in place for managing conflicts of interest. Should a Director become aware that they, or their connected parties, have an interest in an existing or proposed transaction with SCISYS Group PLC or any Group company, they are required to notify the Board of the Group company in writing or at the next Board meeting. Internal controls are in place to ensure that any related party transactions involving Directors, or their connected parties, are conducted on an arm's length basis, and related party transactions meeting the AIM/ESM reporting thresholds are reported upon in the financial statements. Directors have a continuing duty to update any changes to these conflicts.

COMPANY INFORMATION AND CAPITAL STRUCTURE

The Company was incorporated in Ireland on 31 August 2018 with a registered number of 633147. On 27 November 2018 it acquired the entire issued share capital of SCISYS PLC, registered number 3426416, a company incorporated in England and Wales. This was by way of a court sanctioned scheme of arrangement under the UK Companies Act 2006. SCISYS PLC re-registered as a private limited company and was re-named SCISYS UK Holding Ltd.

The share capital of SCISYS Group PLC, issued and unissued, is comprised of ordinary shares of £0.25 each and deferred redeemable shares of €1.00 each. The authorised share capital is £12,500,000 comprising 50,000,000 ordinary shares of £0.25 each and €25,000 made up of 25,000 deferred redeemable shares of €1.00 each. The number of ordinary shares in issue at 31 December 2018 was 29,584,660. The number of deferred redeemable shares in issue at 31 December 2018 was 25,000. Each ordinary share ranks equally and carries the same rights to vote and receive dividends and other distributions declared, made or paid by the Company.

RESTRICTIONS ON TRANSFER OF SECURITIES

There are no specific restrictions on the transfer of securities in the Company, which is governed by the Articles of Association and prevailing legislation. Nor is the Company aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or that may result in restrictions on voting rights.

SUBSIDIARY UNDERTAKINGS AND BRANCHES

The Company's subsidiaries are: SCISYS UK Holding Limited, SCISYS UK Limited, Xibis Limited, SCISYS Deutschland Holding GmbH, SCISYS Deutschland GmbH and SCISYS Media Solutions GmbH (previously Annova Systems GmbH). The Group has branches in the UK (Chippenham, two branches in Bristol, London, Reading, Oadby), France (Paris) and Germany (Bochum, Darmstadt, Dortmund, Munich, Cologne, Hamburg).

SUBSTANTIAL HOLDINGS

As at 28 February 2019, the Company has been notified, of the voting rights held as a shareholder of the Company over 3% as shown in the table below.

Investor	Number of Shares held	% interest in the total voting rights in SCISYS Group PLC shares
Dr. M.D. Love	4,377,451	14.80
Dr. Meng GmbH	2,587,826	8.75
Hargreaves Lansdown	2,468,404	8.34
Herald Investment Trust	2,443,691	8.26
Charles Stanley	1,392,732	4.71
Mr. P.K. Taylor	1,200,000	4.06
Interactive Investor (EO)	1,075,445	3.64
Rowan Dartington & Co	908,891	3.07

DIRECTORS' COMPLIANCE STATEMENT

As required by section 225 (2) of the Companies Act, the Directors acknowledge that they are responsible for securing compliance by the Company with its relevant obligations (as defined by section 225 (2) of the Companies Act). The Directors have drawn up a compliance policy statement (as defined by section 225 (3) (a) of the Companies Act). Appropriate arrangements and structures are in place that are, in the Directors' opinion, designed to secure material compliance with these obligations. These arrangements and structures were reviewed during the financial year. In discharging their obligations under section 225 (2), the Directors relied on the advice of persons employed by the Company and of professional advisers, who they believe have the requisite knowledge and experience to advise the Company.

FINANCIAL INSTRUMENTS

Details of financial instruments to which the Group is a party where material, are shown in note 21 to the financial statements.

TREASURY SHARES

Since its incorporation on 31 August 2018 the Company has not held any shares in Treasury, these were previously held (by the then parent company SCISYS PLC) to support the trustee of the SCISYS Share Incentive Plan (SIP) if the SIP trust is unable to procure sufficient shares in the market to fulfil the monthly purchase requirements of staff members of the SIP. In such circumstances the Company would sell sufficient shares from Treasury at the prevailing market price. Treasury shares are also used to fulfil the exercise of share options by employees. All such transactions are announced in accordance with the AIM/Euronext Growth Rules.

ACCOUNTABILITY AND AUDIT

The Directors have set out their responsibility for the preparation of the financial statements on page 63. They have also considered the going concern position of the Company and their conclusions are set out below. The Board established an Audit Committee and the Audit Committee report can be found on pages 50 to 51.

AUDIT INFORMATION

In the case of each of the persons who are Directors of the Company at the date when this Annual Report was approved:

- In so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware.
- Each of the Directors has taken all the steps that he/she 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.

SOCIAL, ENVIRONMENTAL AND ETHICAL REPORT

These are set out in the Corporate Social Responsibility report on pages 36 to 38.

EMPLOYEE POLICIES

The Group has established employment policies that comply with current legislation and codes of practice, including in the areas of health and safety, diversity and equal opportunities. The Group consults employees on developments and changes to take account of their views when making decisions that may impact on their interests. The Group makes efforts to recruit and continue the employment, training and promotion of those persons who are or become disabled. From 2018 the Remuneration Committee had oversight of any employment policy issues affecting pay, notified to it by local Human Resources centres.

EMPLOYEE ENGAGEMENT

The Group engages with its employees regularly through various media: email alerts, bulletins, newsletters, team briefings and twice-yearly all-staff presentations. Details of the performance of the Group are shared with all employees at the appropriate time using these methods.

The Company operates a HMRC-approved Share Incentive Plan (SIP) in the UK to encourage employees to take a greater interest in the Group's performance through share ownership. Details are set out in the Remuneration Committee Report.

POLICY ON PAYMENT OF SUPPLIERS

The Group's policy during the year was to pay suppliers in accordance with agreed terms which align with good industry practice.

POLITICAL DONATIONS

No political donations were made (2017: £nil) and it is Company policy not to make such donations.

GOING CONCERN

The financial statements have been prepared on a going concern basis. The Directors have reviewed the Group's objectives, policies and processes for managing its capital, financial risk management, financial instruments, exposure to credit and liquidity risk, as well as financial forecasts. As a result of this review the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going-concern basis in preparing the financial statements. Where the *Annual Report and Financial Statements* makes forward-looking statements, these are made by the Directors in good faith based on the information available to them when approving these documents. These statements should be treated with caution due to the inherent uncertainties in respect of forward-looking information.

POST BALANCE SHEET EVENTS.

There are no important events affecting the Company which have occurred since the end of the financial year to report.

ANNUAL GENERAL MEETING

The Company's Annual General Meeting will be held at offices located at Methuen Park, Chippenham, Wiltshire, SN14 0GB, UK, on Thursday 6 June 2019 at noon. The Notice convening the Annual General Meeting and an explanation of the business to be put to the meeting is contained in the separate circular sent to shareholders and on the website at www.scisys.co.uk/who-we-are/investors.html. The AGM will be accessible via video conferencing from Ireland.

AUDITOR

For the purposes of Section 383 (2) of the Companies Act, the auditors, Ernst and Young LLP, Chartered Accountants, have stated that they are willing to continue in office. Accordingly, Ernst and Young LLP are deemed to be re-appointed as auditors of the Company. A resolution authorising the Directors to fix the auditor's remuneration will be proposed at the Annual General Meeting.

AIM AND EURONEXT GROWTH RULES COMPLIANCE REPORT

SCISYS Group PLC is quoted on AIM and the ESM. We have complied with AIM Rule 31 and ESM Rule 31 during 2018 by:

- having sufficient procedures, resources and controls in place to enable compliance with the AIM and Euronext Growth Rules;
- seeking advice from our Nominated Adviser ("NomAd") and Euronext Growth Advisor regarding compliance with the AIM and Euronext Growth Rules whenever appropriate and taking that advice into account;
- providing the Company's NomAd with any information reasonably requested for our NomAd to carry out their responsibilities under the AIM and Euronext Growth Rules for Nominated Advisers;
- ensuring that each of the Company's PLC Directors accepts full responsibility, collectively and individually, for compliance with the AIM and Euronext Growth Rules; and
- ensuring that each PLC Director discloses without delay all information which the Company needs in order to comply with AIM Rule 17 and Euronext Growth Rule 17 (Disclosure of Miscellaneous Information) and AIM Rule 11 and Euronext Growth Rule 11 (General Disclosure of price-sensitive information) insofar as that information is known to the Director or could with reasonable diligence be ascertained by the Director.

GENDER PAY GAP REPORTING 2019

SCISYS UK Limited has published its 2018 gender pay gap report. It met the employee threshold for gender pay gap reporting on the snapshot date in April 2018. The Group was not required to publish a gender pay gap report for the snapshot date in April 2017 as no UK subsidiary had at that stage exceeded the required minimum employee count.

DIVERSITY POLICY

SCISYS UK Limited has a written equality and diversity policy in place and the Group aims to create a workforce that is diverse and positive, regardless of the age, gender, ethnicity, background or other characteristics of our employees. Equality and diversity are encouraged throughout the Group.

RISK OF BRIBERY, FACILITATING TAX EVASION BY OTHERS AND MODERN SLAVERY STATEMENT 2018

The Group has an anti-bribery policy in place. Each of its subsidiaries has implemented this policy and has appropriate procedures required to prevent bribery. It has procedures in place aimed at preventing the facilitation of tax evasion by third parties. The Chief Executive Officer is the Board member responsible for the Group's compliance. The Group's anti-bribery policy is reviewed regularly.

The Group is also fully committed to eradicating human trafficking and modern slavery. The Company publishes an annual modern slavery statement pursuant to the UK Modern Slavery Act 2015, which can be found at http://www.scisys.co.uk/who-we-are/corporate-governance/scisys-plc-anti-slavery-statement.

SECTION 172 OF THE UK COMPANIES ACT 2006

While the Directors are aware of and comply with their statutory duties under section 228 of the Companies Act, the Board is also aware of, and considers as good practice the matters required under section 172 of the UK Companies Act 2006. When making decisions the Board considers promoting the success of the Group, and has regard to stakeholders, considers long term consequences of decisions, applies high standards of business conduct, considers the impact of the operations on the community and environment, as well as the need to cement business relationships with customers and suppliers.

Approved by the Board of Directors and signed on behalf of the Board.

Natasha Laird
Legal Director

Chris Cheetham
Finance Director

10 April 2019

SCISYS Group PLC
Registered number: 633147

Registered office: 6th Floor, South Bank House, Barrow St, Dublin 4, Ireland.

Statement of Directors' Responsibilities

PLC


Klaus Heidrich


Chris Cheetham

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

Irish Company law requires the Directors to prepare Group and company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange and Euronext Growth Rules of Euronext Dublin, the Directors are required to prepare Group financial statements in accordance with IFRSs as adopted by the EU, and under Irish Company law, have elected to prepare the company financial statements in accordance with accounting standards, including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position, of the Group and Company as at the end of the financial year, and the profit or loss for the Group for the financial year, and otherwise comply with the Companies Act 2014.

In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable Irish Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2014. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Under applicable law, the Directors are also responsible for preparing a Directors' Report that complies with the Companies Act 2014.

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

Signed on behalf of the Board.

Klaus Heidrich
Chief Executive Officer

Chris Cheetham
Finance Director

10 April 2019

Strategic Report
Corporate Governance
Financial Statements

Financial Statements

IMAGE: R SAULL/SCISYS

FINANCIAL STATEMENTS

EY

Independent Auditor's Report to the members of SCISYS Group PLC

Opinion

We have audited the financial statements of Scisys Group Plc ('the Company') and its subsidiaries ('the Group') for the year ended 31 December 2018, which comprise the Consolidated Income Statement for the year then ended, Consolidated Statement of Financial Position as at 31 December 2018, Consolidated Statement of Comprehensive Income for the year then ended, Consolidated Statement of Changes in Equity for the year then ended, Consolidated Statement of Cash Flows for the year then ended, related notes 1 to 33 to the financial statements, including the summary of significant accounting policies and for the Parent Company Balance Sheet as at 31 December 2018, Company Statement of Changes in Equity for the year then ended and related notes 1 to 8 to the financial statements including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is Irish Law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the Company financial statements, Accounting Standards including FRS 101 Reduced Disclosure Framework applicable in the UK and Republic of Ireland (Irish Generally Accepted Accounting Practice), as applied in accordance with the provisions of the Companies Act 2014.

In our opinion:

- the Group financial statements give a true and fair view of the assets, liabilities and financial position of the group as at 31 December 2018 and of its profit for the year then ended;
- the Company financial statements give a true and fair view of the assets, liabilities and financial position of the company as at 31 December 2018;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with Irish Generally Accepted Accounting Practice, as applied in accordance with the provisions of the Companies Act 2014; and
- the Group financial statements and Company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group and the Company in accordance with ethical requirements that are relevant to our audit of financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA) as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

EY

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue Recognition, specifically estimation of costs to complete on contracts (£58,405,000, PY comparative £53,204.000). *Refer to the Audit Committee Report (page 50); Accounting policies (pages 76 and 77); and Note 2 of the Consolidated Financial Statements (pages 80 to 83).* The Group's operations involve long term contracts and as a result there are assumptions and estimates used by management to determine the degree of contract completed and in the estimates of costs to complete a contract. In addition, and during the financial year, the company has adopted IFRS 15 "Revenue from contracts with customers", which introduced a more prescriptive approach in recognising revenue from customers. Revenue is recognised by reference to the degree of completion of the contract. The degree of completion is measured by reference to costs incurred at the balance sheet date as a percentage of total estimated costs to complete the contract. The risk has increased in the current year due to the increase in revenue.	The Our audit approach to the risk focussed on: • Holding discussions with the project controllers for a sample of material contracts. Material contracts were selected on a judgmental basis (either due to being material by value or by their nature and status). We corroborated the year end income statement and balance sheet position of each of the selected contracts through obtaining support from management during the contract review discussions with the project controllers and validating against original and updated contract documentation during the audit. • Attended contract review meetings in both the UK and Germany performed by management in January and February 2019. • Performed cut-off testing, testing of hours charged against timesheets, direct costs incurred on contracts against supporting invoice or payroll documentation and subsequent cash receipts testing on trade debtors, including in our cut off population the whole month of December 2018. • Performed a retrospective review of material estimates on contracts to determine the accuracy of previous estimates in relation to contract and revenue recognised. • We will audit management's papers and documents including the calculation of the amounts included contract provisions and determine that they are appropriately prepared in order to ensure the amounts included in the contract provisions at year end are appropriate. • Testing of 2017 IFRS 15 restatement and disclosures of conversion to IFRS 15 – we obtained the breakdown of contracts at 31 December 2017 and compared the revenue figures to that of revenue recognised under the milestone billing model to ensure adherence to IFRS 15. For selected contracts which have revenue movements greater than performance materiality we tested the accuracy of the restatement by obtaining: the original contract, estimate of costs, and the breakdown of cost to date. • In performing our journal testing as part of the Data Analytics work undertaken, we gave increased attention to entries impacting revenue, particularly those raised close to the balance sheet date. We performed full and specific scope audit procedures over this risk area in 4 locations, which covered 100% of the risk amount.	We did not identify material errors in revenue recognition, nor evidence of management manipulation of amounts included in revenue recognition or estimate of costs to complete on contracts. We have concluded that for the year-ended 31 December 2018 the recognition of revenue in the Group financial statements is materially correct.
Carrying value of goodwill (£16,075,000, PY comparative £15,913,000) *Refer to the Audit Committee Report (page 50); Accounting policies (page 76 and 77); and Note 13 of the Consolidated Financial Statements (pages 87 and 88).* We focussed on this area due to the size of the goodwill balance and because the Directors' assessment of 'value in use' of the Group's Cash Generating Units (CGUs) involves judgement about the future results of the business and the discount rates applied to future cash flow forecasts. The risk has increased in the current year due to exchange rate adjustments impacting the carrying value of goodwill.	Our approach focussed on: • Confirming that the CGUs identified are the lowest level at which management monitors goodwill. • Validating that the cash flow forecasts used in the valuation are consistent with information approved by the Board and reviewing the historical accuracy of management's forecasts. • Evaluating the implied growth rates beyond FY18 by considering evidence available to support these assumptions, their consistency with findings from other areas of our audit and by performing sensitivity analyses. • Assessing the discount rates and long term growth rates applied within the model, including comparison to economic and industry forecasts. • Performing sensitivity analyses by stress testing key assumptions in the model to consider the degree to which these assumptions would need to change before an impairment charge is triggered.	Value in use assessments inherently have a number of estimates and judgements due to the use of future cash flow forecasts as well as the discount rates, growth rates and CGU identification which can have a significant impact on the calculations. Our year-end audit procedures have not identified any material issues with the carrying value of goodwill, and therefore we conclude that goodwill is appropriately valued at 31 December 2018.
Parent Company: Carrying value of investments (£25,118,000 PY comparative £17,029,000) *Refer to the Audit Committee Report (page 50); Accounting policies (page 106); and Note 4 of the Company Financial Statements (page 107)* The assessment of the parent company's investment involves judgement about the future results of the business and the discount rates applied to future cash flow forecasts and growth rates. In addition management's assessment will need to determine whether an impairment triggering event has occurred. The risk has increased in the current year due to the increase in the fair value of the investments following the Irish Holding Company Group reconstruction in the year.	Our procedures included assessing forecasts including the work on the Group's forecasts as indicated in the carrying value of goodwill above.	Value in use assessments inherently have a number of estimates and judgements due to the use of future cash flow forecasts as well as the discount rates, growth rates and CGU identification which can have a significant impact on the calculations. Our year-end audit procedures have not identified any material issues with the carrying value of investments, and therefore we conclude that investments are appropriately valued at 31 December 2018.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Group reconstruction with Irish Holding Company (£25,118,000 PY comparative £value nil) *Refer to the Audit Committee Report (page 50); Accounting policies (page 75); and Note 27 of the Consolidated Financial Statements (page 100)* The assessment of the Group reconstruction that took place in the last quarter of 2018 involves ensuring that the Group and management have complied with all aspects of the Irish Companies Acts.	Our approach included ensuring that the Group complied with all aspects of Irish Companies Act and ensuring that the Group had correctly dealt with the accounting arising out of the Group reconstruction. We reviewed the scheme of arrangement documentation, the legal advice provided and the associated accounting.	We consider that the accounting under the scheme of arrangement is appropriate. We have ensured the disclosures are appropriate under Irish Company Law.

In the current year, following the formation of the new Irish Holding Company a key audit matter is included to address this.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £261 thousand (2017: £530 thousand), which is 5.7% (2017:0.9% of Group revenue before IFRS 15 adjustments) of the Group's 2018 adjusted profit before tax. We believe that the Group's 2018 adjusted profit before tax provides us with the most appropriate materiality basis and measure of materiality to be used for the Group. The reduction in the Group materiality from the prior year is that the previous auditors used 0.9% of total revenue before IFRS 15 adjustments as their basis for calculating materiality.

We determined materiality for the Parent Company to be £130 thousand (2017: £350 thousand), which is 1% (2017: 1.5% of company total assets) of company net assets. The reduction in the materiality is that the previous auditors used a benchmark of company total assets as the measure for materiality.

Starting basis
- Profit before tax £1,994,000

Adjustments
- Adjustments to operating profit and profit before tax £2,625,000

Materiality
- Adjusted profit before tax £4,619,000 [materiality basis]
- Materiality of £261,000 (5.7% of materiality basis)

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2017: 75.5%) of our planning materiality, namely £196 thousand (2017: £400 thousand). We have set performance materiality at this percentage as we do not expect there to be misstatements above 25% of planning materiality. The reduction in performance materiality from the previous year is due to the previous auditors used total revenue before IFRS 15 adjustments as the basis for planning materiality.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £29 thousand to £127 thousand (2017: £28 thousand to £400 thousand).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £13 thousand (2017: £25 thousand), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

The reduction in the reporting threshold is due to the change in calculating planning materiality from that of total revenue before IFRS 15 adjustments used by the previous auditors to adjusted profit before tax for 2018.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

An overview of the scope of our audit report

Tailoring the scope

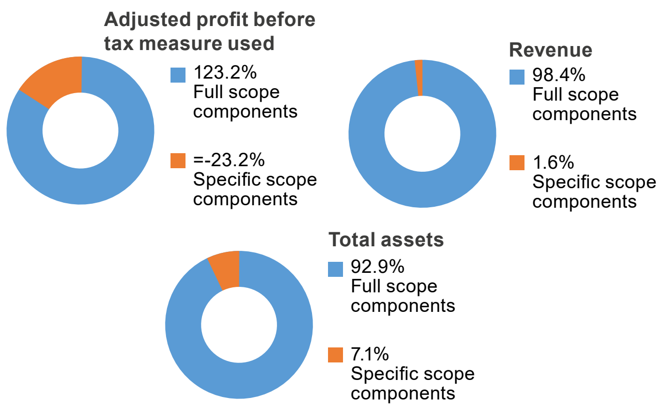
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group wide controls, changes in the business environment and other factors when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 7 reporting components of the Group, we selected 7 components covering entities within the UK and Germany, which represent the principal business units within the Group.

Of the 7 components selected, we performed an audit of the complete financial information of 5 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 2 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100% (2017: 100%) of the Group's adjusted profit before tax measure used to calculate materiality, 100% (2017:100%) of the Group's revenue and 100% (2017: 100%) of the Group's total assets. For the current year, the full scope components contributed 123.2% (2017: 100%) of the Group's adjusted profit before tax measure used to calculate materiality, 98.4% (2017: 100%) of the Group's revenue and 92.9% (2017: 100%) of the Group's total assets. The specific scope components contributed -23.2% (2017: 0%) of the Group's adjusted profit before tax measure used to calculate materiality, 1.6% (2017: 0%) of the Group's Revenue and 7.1% (2017: 0%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant tested for the Group.

The charts below illustrate the coverage obtained from the work performed by our audit teams.



Changes from the prior year

The previous auditors completed full scope audits of all 6 components in the Group during 2017. During 2018 we considered that it was more appropriate to perform full scope audits of 5 components and specific scope audits of 2 components. In addition, we performed the audit using a planning materiality based on adjusted profit before tax whereas the previous auditors used total revenue before IFRS 15 adjustments as the measure in calculating the materiality they applied for the 2017 financial statements.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 5 full scope components, audit procedures were performed on 3 of these directly by the primary audit team and 2 by a component audit team. For the 2 specific scope components the work was performed by the primary audit team on 1 of these components and for the other specific scope audit the work was performed by a component audit team, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visits the components in Germany. During the current year's audit cycle, visits were undertaken by the primary audit team to the component teams in Germany. These visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, attending planning, contract review and closing meetings, reviewing key audit working papers on risk areas. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report on pages 1 to 112 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 this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2014
Based solely on the work undertaken in the course of the audit, we report that:

- in our opinion, the information given in the directors’ report is consistent with the financial statements; and
- in our opinion, the directors’ report is prepared in accordance with the Companies Act 2014.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the Company statement of financial position are in agreement with the accounting records.

Matters on which we are required to report by exception
Based on the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors’ report.

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors’ remuneration and transactions required by sections 305 to 312 of the Act are not made. We have nothing to report in this regard.

Respective responsibilities
Responsibilities of directors for the financial statements
As explained more fully in the directors’ responsibilities statement set out on page 63, 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 they 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 and the parent Company’s ability to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the parent Company or to cease operations, or has 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 (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA’s website at: http://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf. This description forms part of our auditor’s report.

The purpose of our audit work and to whom we owe our responsibilities
Our report is made solely to the Company’s members, as a body, in accordance with section 391 of the Companies Act 2014. 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.

John Howarth
for and on behalf of
Ernst & Young Chartered Accountants and Statutory Audit Firm
Office: Bristol
Date: 10 April 2019

Notes:
1. The maintenance and integrity of the Scisys Group plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Income Statement for the year ended 31 December 2018

	Note	2018 £'000	2017 Restated £'000
Revenue	2	**58,405**	53,204
Operating costs		**(55,912)**	(48,793)
Share of results of associates		**-**	39
Operating profit	5	**2,493**	4,450
"Adjusted operating profit" being operating profit before share based payments, exceptional items and amortisation arising on business combinations		**5,118**	4,357
Share based payments	29	**(36)**	-
Amortisation of Intangible assets		**(1,252)**	(1,982)
Exceptional items	8	**(1,337)**	2,075
Operating profit	5	**2,493**	4,450
Finance costs	7	**(502)**	(718)
Finance income	6	**3**	8
Profit before tax		**1,994**	3,740
Tax charge	9	**(558)**	(593)
Profit for the year attributable to equity holders of the parent		**1,436**	3,147

	Note	2018	2017 Restated
Earnings per share	11		
Basic		**4.9p**	10.8p
Diluted		**4.8p**	10.6p

Consolidated Statement of Comprehensive Income for the year ended 31 December 2018

	2018 £'000	2017 Restated £'000
Profit for the year	**1,436**	3,147
Other comprehensive expense not recycling through the Income Statement		
Currency translation differences on foreign currency investments net of tax	**158**	369
Total comprehensive income for the year attributable to equity holders of the parent	**1,594**	3,516

Consolidated Statement of Financial Position as at 31 December 2018

	Note	2018 £'000	2017 Restated £'000
Non-current assets			
Goodwill	13	**16,075**	15,913
Other intangible assets	14	**3,981**	5,173
Property, plant and equipment	15	**9,411**	9,261
Other receivables		**196**	92
Deferred tax assets	22	**456**	26
		30,119	30,465
Current assets			
Inventories	16	**79**	198
Trade and other receivables	18	**21,466**	18,911
Corporation tax receivable		**100**	450
Cash and cash equivalents	19	**8,065**	8,021
		29,710	27,580
Total assets		**59,829**	58,045
Equity			
Issued share capital	26	**7,420**	7,329
Share premium account		**-**	268
Merger reserve		**5,850**	943
Retained earnings		**11,216**	14,931
Translation reserve		**2,048**	1,890
Other reserves		**-**	83
Equity attributable to equity holders of the parent		**26,534**	25,444
Current liabilities			
Trade and other payables	23	**17,205**	15,121
Bank overdrafts and loans	20	**5,278**	2,290
Corporation tax payable		**910**	347
Deferred income	25	**449**	240
		23,842	17,998
Non-current liabilities			
Bank loans	20	**5,886**	11,667
Other payables	24	**937**	-
Provisions	24	**1,402**	1,572
Deferred tax liability	22	**1,228**	1,364
		9,453	14,603
Total liabilities		**33,295**	32,601
Total equity and liabilities		**59,829**	58,045

The financial statements were approved by the Board of Directors on 10 April 2019 and signed on its behalf by:

K M Heidrich
Director

C A Cheetham
Director

Consolidated Statement of Changes in Equity for the year ended 31 December 2018

2018	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Capital Redemption Reserve £'000	Translation Reserve £'000	Retained Earnings £'000	Total £'000
Restated balance as at 1 January 2018	7,329	268	943	83	1,890	14,931	25,444
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	1,436	1,436
Other comprehensive income							
Foreign currency translation	-	-	-	-	158	-	158
Total comprehensive income for the year	-	-	-	-	158	1,436	1,594
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends paid	-	-	-	-	-	(655)	(655)
Issue of new shares	91	371	-	-	-	-	462
Share based payments	-	-	-	-	-	36	36
Treasury shares	-	-	-	-	-	(6)	(6)
Exercise of share options	-	-	-	-	-	(341)	(341)
Group reconstruction on formation of Irish holding company	-	(639)	4,907	(83)	-	(4,185)	-
Total contributions by and distributions to owners	91	(268)	4,907	(83)	-	(5,151)	(504)
Balance as at 31 December 2018	**7,420**	**-**	**5,850**	**-**	**2,048**	**11,216**	**26,534**

2017	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Capital Redemption Reserve £'000	Translation Reserve £'000	Retained Earnings £'000	Total £'000
Balance as at 1 January 2017	7,272	143	943	83	1,521	12,751	22,713
Adjustment on initial application of IFRS15 (net of tax)	-	-	-	-	-	(68)	(68)
Adjusted balance as at 1 January 2017	7,272	143	943	83	1,521	12,683	22,645
Total comprehensive income for the year							
Profit for the year restated	-	-	-	-	-	3,147	3,147
Other comprehensive income							
Foreign currency translation	-	-	-	-	369	-	369
Total comprehensive income for the year	-	-	-	-	369	3,147	3,516
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends paid	-	-	-	-	-	(586)	(586)
Issue of new shares	57	125	-	-	-	-	182
Treasury shares	-	-	-	-	-	(471)	(471)
Exercise of share options	-	-	-	-	-	158	158
Total contributions by and distributions to owners	57	125	-	-	-	(899)	(717)
Balance as at 31 December 2017	7,329	268	943	83	1,890	14,931	25,444

Consolidated Statement of Cash Flows for the year ended 31 December 2018

	Note	2018 £'000	2017 Restated £'000
Cash flow from operating activities			
Profit before tax		**1,994**	3,740
Net finance costs		**499**	710
Operating profit		**2,493**	4,450
Increase in trade receivables		**(2,540)**	(1,602)
Decrease in trade payables		**3,059**	6,105
Decrease in deferred consideration		**-**	(1,626)
Depreciation and amortisation		**2,594**	3,081
Share of profit of associate		**-**	(39)
Share based payments		**36**	-
Net tax (payments)/refunds		**(257)**	147
Net cash flow from operating activities		**5,385**	10,516
Cash flow from investing activities			
Acquisition of investment in an associate		-	82
Proceeds from disposal of property, plant and equipment		34	4
Purchase of plant, property and equipment		(1,463)	(1,259)
Interest received		3	8
Net cash flow from investing activities		**(1,426)**	(1,165)
Cash flows from financing activities			
Dividends paid	10	**(655)**	(586)
Interest paid	7	**(502)**	(718)
Issue of new shares		**462**	182
Investment in own shares		**(6)**	(471)
Exercise of share options		**(341)**	158
Loans received		**-**	262
Debt repayments		**(2,793)**	(3,716)
Net cash flow from financing activities		**(3,835)**	(4,889)
Net increase in cash and cash equivalents		**124**	4,462
Cash and cash equivalents at the start of the period		**8,021**	6,666
Exchange and other movements		**(80)**	(3,107)
Cash and cash equivalents at the end of the period	19	**8,065**	8,021
Cash and cash equivalent deposits held in non-UK based banks		**7,769**	6,435
Net cash deposits with UK based banks		**296**	1,586
		8,065	8,021

Principal accounting policies

Statement of compliance

SCISYS Group PLC (the "Company") is a public company incorporated, domiciled and registered in Ireland. The registered number is 633147 and the registered address is 6th Floor South Bank House, Barrow Street, Dublin 4 Ireland.

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The company financial statements present information about the Company as a separate entity and not about its group.

The group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Company has elected to prepare its parent company financial statements in accordance with FRS 101; these are presented on pages 104 to 108.

Basis of preparation

The accounting policies have, unless otherwise stated, been applied consistently to all periods presented in these group financial statements and on a historical cost basis, with the exception of derivative financial instruments, which are recognised at fair value.

The following standards, amendments and interpretations have been adopted for the first time in 2018:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 2	(Amendment) Classification and Measurement of Share-based Payment Transactions
IAS 40	Transfers of Investment Property
IFRIC 22	Foreign Currency Transactions and Advance Consideration

Annual Improvements to IFRSs (2014 - 2016):

IFRS 1	(Amendment) First-time Adoption of International Financial Reporting Standards
IAS 28	(Amendment) Investments in Associates and Joint Ventures

The Group has initially applied IFRS 9 and IFRS 15 with effect from 1 January 2018. Under the transition method chosen, comparative information has been restated following the change in accounting policy. The Group has included additional line items in the notes to the financial statements as their omission would make the financial statements potentially misleading.

IFRS 9 is applicable to financial assets and financial liabilities and covers the classification, measurement, impairment and de-recognition of financial assets and liabilities together with a new hedge accounting model. Implementation of IFRS 9 had an immaterial impact on the results and financial position of the Group in 2018.

The adoption of IFRS 15 has resulted in changes to disclosures on the face of the financial statements and in the accompanying notes. Disclosures have been extended to include the disaggregation of revenue recognised from contracts with customers into categories that depict how the nature, amount, timing, and uncertainty of revenue and associated cash flows are affected by economic factors. Further analysis is provided about movements in contract balances and the notes show additional information regarding unsatisfied performance obligations at the end of the reporting period and an explanation of when the Group expects the amounts to be recognised as revenue.

Implementation of IFRS 15 had a minor impact on the phasing of anticipated operating profits, although reported revenues and costs are more significantly reduced when compared with the previously applied treatment because the Company acts as an agent in certain circumstances.

None of the other new standards or interpretations endorsed by the EU during the year impacted on the financial results or presentation in 2018.

The following standards, amendments and interpretations have been issued but have not been applied by the Group in these financial statements:

Annual Improvements to IFRS Standards 2015–2017 Cycle (1 January 2019)
Prepayment Features with Negative Compensation (Amendments to IFRS 9) (1 January 2019)
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) (1 January 2019)
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) (1 January 2019)
IFRIC 23 Uncertainty over Income Tax Treatments (1 January 2019)
IFRS 16 Leases (1 January 2019)
Definition of a Business (Amendments to IFRS 3) (1 January 2020)
Definition of Material (Amendments to IAS 1 and IAS 8) (1 January 2020)
IFRS 17 Insurance Contracts (1 January 2021)

Of the above standards, amendments and interpretations in issue but not yet effective, only IFRS 16 Leases, is anticipated to have any potentially material impact on the results and financial position of the Group.

IFRS 16 will become effective from 1 January 2019 and requires operating leases with more than one year to run to be reflected on-balance sheet in the form of fixed assets and lease liabilities. The Group has commenced an initial analysis of the anticipated impact of adopting IFRS 16 on future financial statements and expects both fixed assets and lease liabilities to be in the region of £1.5m higher, with a minimal effect on operating profit.

The group financial statements are presented in pounds sterling and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

The Directors consider that it is appropriate to prepare the financial statements on a going concern basis due to the healthy position of the order book and the availability of committed borrowing facilities

Principal accounting policies (continued)

that provide adequate headroom over forecast working capital requirements for 2019.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Consolidation

The group financial statements comprise the financial statements of the Company and its subsidiaries made up to 31 December each year. The financial statements of subsidiaries are prepared for the same reporting period as the Company, and adjustments are made where necessary to align accounting policies across the Group.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The Group reconstruction and addition of the Irish holding company has not impacted the group accounting as continuation accounting has been used.

The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting power of another entity. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. For all acquisitions prior to 1 January 2010, the cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquired subsidiary, plus any costs directly attributable to the business contribution. Since that date, IFRS 3 (2008) applies and all acquisition costs are expensed as incurred unless related to the raising of finance. The acquired subsidiaries' identifiable assets, liabilities and contingent liabilities that meet the requirement for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

The transaction incorporating the establishment of an Irish holding company is accounted under IFRS 3 as an intra-group reconstruction so that the Group continues to account as before and the parent company accounts for the investment in the previous parent at book value. The excess over the nominal value of newly issued share capital is credited to a merger reserve.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Revenue

Revenue from consultancy and other professional services is recognised in accordance with IFRS 15 either as the contract progresses or, if the criteria for such Performance Over Time recognition are not satisfied, at a specific *Point in Time*.

Performance Over Time recognition is applicable in the following circumstances:

1. Where the customer simultaneously receives and consumes the benefits of SCISYS' service (e.g. for time-hire contracts where SCISYS staff operate under the customer's management);
2. Where SCISYS creates or enhances an asset that the customer controls as the asset is created or enhanced (e.g. maintenance agreements or system enhancements); and
3. Where SCISYS creates a bespoke solution and has an enforceable right to payment for performance completed to date if the customer were to terminate without SCISYS' default before expiry of the natural contract term (e.g. unique delivery contracts with an appropriate termination for convenience clause and a contractual entitlement to recover costs incurred plus some profit).

When applied to staff-related costs, professional fees revenue is recognised, as the services are performed, by reference to the degree of completion of the project. The degree of completion is measured by reference to own labour costs incurred by the balance sheet date as a percentage of the total estimated own labour costs to completion for each project. Provision is made for all foreseeable losses as soon as they are identified.

Principal accounting policies (continued)

Maintenance services are considered to be service warranty and involve standing ready to provide the services for handling calls, defect fixing and delivery of new releases to the customer on a regular basis. Revenue is recognised evenly over the time period (e.g. at one twelfth of the annual charge per month).

For *Point In Time* recognition, revenue is recognised when the transfer of the goods/services to the customer has taken place or the customer benefits from the goods/service. This is usually taken to be at acceptance of the goods/service.

Revenues associated with subcontractors or bought-in goods that contribute to a performance obligation are recognised when the goods are purchased and when the subcontractor's deliverables are accepted. Where SCISYS acts in the role of principal by exercising control over a subcontractor's goods/services before transfer to the customer (e.g. by integrating goods/services, assuming responsibility for customer acceptance, taking inventory risk or exercising discretion over pricing) SCISYS recognises as revenue the gross amount of consideration to which it expects to be entitled for the transfer of goods/services to the customer. Where SCISYS operates as an agent by arranging for the provision of the specified goods/services by another party then only the mark-up is recognised as revenue.

Recognition of revenue for non-refundable software licences is dependent on how the licences relate to associated services. A distinction is drawn between two types of licence-related services:

1. Configuration services, routinely performed by SCISYS to create the customer's unique solution and without which the customer obtains no benefit from the licences – licence revenue is recognised in line with the service revenue, either on a performance over time basis or at a point in time as appropriate.
2. Installation services to replicate an already-configured solution in further instances where SCISYS has no control over when beneficial use of the licences is obtained. These are capable of being performed by the customer or a system integrator working from installation instructions/release notes – licence fees are recognised at the point of transfer to the customer, regardless of whether SCISYS is engaged to do the installation work.

Licences sold without the need for configuration services (e.g. additional concurrent users) are recognised at the Point in Time when the licences are transferred to the customer.

All revenues are stated net of discounts, VAT and other sales related taxes.

The timing of revenue recognition, invoicing and cash collection results in billed accounts receivable, unbilled receivables (contract assets) and customer advances and deposits (contract liabilities) on the consolidated balance sheet. Within the SCISYS Group, amounts are billed as work in progress in accordance with agreed contractual terms, either at periodic intervals (e.g. monthly) or upon achievement of contractual milestones. Invoicing typically occurs subsequent to revenue recognition, resulting in contract assets although advances or deposits can be received from customers, particularly on larger contracts, before revenue is recognised, resulting in contract liabilities. These assets and liabilities are reported on the consolidated balance sheet on a contract-by-contract basis at the end of each reporting period.

Deferred income comprises the element of maintenance revenues invoiced for which the period of maintenance extends beyond the year end.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease rentals are recognised as an expense in the Income Statement on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

IFRS 16 will become effective from 1 January 2019 and requires operating leases with more than one year to run to be reflected on-balance sheet in the form of fixed assets and lease liabilities. The Group has commenced an initial analysis of the anticipated impact of adopting IFRS 16 on future financial statements and expects both fixed assets and lease liabilities to be in the region of £1.5m higher, with a minimal effect on operating profit.

Exceptional items

Items which are both material and considered by the Directors to be unusual in either nature or size are separately disclosed on the face of the Consolidated Income Statement.

Foreign currency translation

The presentation currency of the Group is pounds sterling (£), which is also the functional currency of the Company and the UK-based group companies. The functional currency of the German subsidiaries is the euro (€). Transactions in foreign currencies are initially recorded at the foreign exchange rate prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the rate of exchange ruling at that date. All differences are recognised in the Consolidated Income Statement.

Assets and liabilities of foreign subsidiaries, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at the rate of exchange ruling at the balance sheet date. Revenues and expenses are translated at the mean of the month-end exchange rates for the year. The exchange differences arising on the retranslation of the opening net investment in subsidiaries, and from the translation of the results of those subsidiaries at average rate, are taken directly to a separate component of equity.

The Group has taken advantage of the exemption available under IFRS 1 to deem the cumulative translation differences for all investments in foreign operations to be zero at 1 January 2006, the date of transition to adopted IFRS. Exchange differences arising after 1 January 2006 from the translation of the net investment in foreign operations are taken to a translation reserve. They are released into the income statement on disposal of the investment.

Principal accounting policies (continued)

Pensions

The Group operates defined-contribution group personal pension plans, the assets of which are held separately from those of the Group in independently administered funds. The amount charged against profits represents the contributions payable to the schemes in respect of the accounting period.

Taxation

Tax on profits or losses for the year comprises current and deferred tax and is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

The tax currently payable is based on the taxable profit for the year and calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax is provided, using the balance sheet liability method, for temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or the initial recognition (other than in a business combination) of an asset or liability in a transaction that affects neither the accounting nor taxable profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries unless the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Freehold land	Not depreciated
Freehold buildings	16 to 50 years
Long leasehold property	Lower of the lease term or 50 years
Short leasehold property	Over the lease term
Plant & machinery	5 to 20 years
Office equipment	3 to 13 years
Motor vehicles	5 years
Computer equipment	2 to 7 years

Goodwill

Goodwill on consolidation represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets, liabilities and contingent liabilities acquired at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment charges are deducted from the carrying value of goodwill and recognised immediately in the Income Statement. For the purpose of impairment testing, goodwill is allocated to each of the Group’s cash-generating units (CGUs) expected to benefit from the synergies of the combination. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Other intangible assets

Other intangible assets are stated at fair value at date of acquisition less accumulative amortisation. The amortisation periods for the intangible fixed assets are based on their estimated useful lives as follows:

Software licences	3 to 5 years
Annova order book	11 years
Annova development expenditure	3 years

Impairment of non-current assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. If such an indication exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset’s fair value less disposal costs and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the amount of goodwill allocated to the applicable CGUs and then to reduce the carrying amount of the other assets on a pro-rata basis. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

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

Inventories

Inventories are valued at the lower of purchase or production cost and net realisable value. Purchase or production cost is based on weighted average values and includes direct costs and attributable indirect costs required by the production process. Net realisable

Principal accounting policies (continued)

value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Trade and other receivables

Trade and other receivables are stated at their fair value on initial recognition and subsequently at amortised cost, i.e. less any impairment losses.

Trade and other payables

Trade and other payables are stated at fair value at initial recognition and subsequently at amortised cost.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Derivative financial instruments

Derivatives are used by the Group to reduce or eliminate exposure to foreign exchange risk. Instruments used include forward exchange deals, cylinder options and currency swaps. The Group does not use derivative financial instruments for speculative purposes.

Changes in the fair value of derivative financial instruments are recognised in the Income Statement as they arise.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value if the effect of the time value of money is material.

Employee benefits

The Group makes provision for employees' holiday pay. The expected cost and associated liability is measured as the additional amount the Group expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

Share-based payment transactions

Employees (including Executive Directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The fair values of the share option schemes in operation have been assessed using Black-Scholes and similar models, as are appropriate to each scheme at the date of grant. The fair values of the schemes are expensed evenly over the period between grant and vesting to the extent expected to vest.

1 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, management has made the following judgements and estimations that have the most significant effect on the amounts recognised in the financial statements.

Revenue recognition

The revenue and profit of fixed-price contracts is recognised in accordance with IFRS 15 when the outcome of a contract can be reliably estimated. Management exercises judgement in determining whether a contract's outcome can be reliably estimated. In addition, management estimates the remaining costs to completion of contracts and the analysis of transaction price into fixed and variable components. These are used in determining the percentage of completion and the value of contract assets.

Using a risk basis selection, Directors perform biannual independent reviews of key contracts.

Impairment of goodwill

Goodwill is tested for impairment on an annual basis based on management's estimation of the value in use of the cash generating units (CGUs) to which the goodwill has been allocated. The value in use calculation is dependent on management's estimate of future cash flows expected to arise from the CGU and a suitable discount rate.

Cash flows are based on approved detailed operating budgets for the forthcoming year, updated as appropriate, for actual performance since the year end. Annual growth rates derive from divisional management's 4-year business plans that, in turn, reflect independent research analysts' market commentaries.

The discount rate represents the weighted average cost of capital of a market participant, based on management's estimate of the following input parameters for the capital asset pricing model.

- Risk free return: adopted as the yield on 30-year UK Treasury Bonds.
- Market risk premium: derived from academic research by the London Business School.
- Beta factor: approximate market participant value is determined from statistics quoted by Bloomberg for SCISYS Group PLC and a sample of comparable competitor companies.
- Alpha factor: derived from the return on equity applied by the Group's professional advisers.
- Gearing: approximate market participant value is determined from statistics quoted by Bloomberg for SCISYS Group PLC and a sample of comparable competitor companies.
- Cost of debt: based on current borrowing rates from the Group's bankers.

Factors also considered:

- Country risk: the Group monitors country risk and carefully considers both the level of provisions against such risk and whether the risk disclosures provide the market with a clear picture of actual and potential exposures,
- Forecasting risk: the use of statistics and modelling to determine future performance based on current and historical data, taking factors such as revenue and economic indicators into account.

The same discount rate has been used for different markets and geographies. The Group's divisions predominantly deal with governments, pseudo-government bodies or large corporations and the Directors consider the risk profile of these contracts to be broadly comparable. Taken together with euro cash flows, the derivation of the discount rate is applicable for the different currency flows. A portfolio of multiple contracts allows the Group's divisions to be treated with the same cost of capital, which reflects the Group's aggregated portfolio risks. The only exception is the discount rate used for goodwill impairment testing of the Xibis CGU, which is higher than for the other subsidiaries to reflect the higher perceived risk attaching to smaller entities.

Capitalisation of development expenditure

Development costs associated with the development of software products or enhancements and their related intellectual property rights are expensed as incurred until management judges that all of the following criteria can be demonstrated, in which case it is capitalised as an intangible asset:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- An intention to complete the intangible asset and use or sell it.
- Ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- An ability to measure reliably the expenditure attributable to the intangible asset during its development.

2 Operating segments

The management structure and reporting of financial information to the Chief Operating Decision Maker (the SCISYS Group PLC Board) is the basis used to define operating segments.

The Group provides IT services to commercial and public sector organisations through the following four divisions:

- Space
- Enterprise Solutions & Defence (ESD) (includes Xibis Limited from 1 January 2018)
- Media & Broadcast (M&B)
- ANNOVA Systems (Annova)

With effect from 1 January 2019 the M&B and Annova divisions will operate as a single division, named Media Solutions, under common management. The results of the two current divisions are shown both individually and aggregated in the segmental analysis below.

2 Operating segments (continued)

Divisional results, assets and liabilities represent items directly attributable to a division. Unallocated expenses comprise central overheads and corporate expenses. Assets and liabilities that are allocated to operating divisions comprise trade receivables, contract assets, inventories and contract liabilities.

Information about reportable segments

External revenues	Space £'000	ESD £'000	M&B £'000	Annova £'000	Media Solutions £'000	Total £'000
Year ended 31 December 2018						
Professional fees revenue	**21,293**	**17,966**	**7,696**	**8,746**	**16,442**	**55,701**
Other revenue	**-**	**1,925**	**380**	**-**	**380**	**2,305**
External revenue for reportable segments	**21,293**	**19,891**	**8,076**	**8,746**	**16,822**	**58,006**
Other revenue not from contracts with customers						**399**
Consolidated revenue						**58,405**
Year ended 31 December 2017						
Professional fees revenue	18,629	14,164	7,958	7,291	15,249	48,042
IFRS 15 adjustments	-	-	-	(134)	(134)	(134)
Professional fees revenue restated	18,629	14,164	7,958	7,157	15,115	47,908
Other revenue	4,842	3,193	757	-	757	8,792
IFRS 15 adjustments	(3,447)	(379)	-	-	-	(3,826)
Other revenue restated	1,395	2,814	757	-	757	4,966
External revenue for reportable segments	20,024	16,978	8,715	7,157	15,872	52,874
Other revenue not from contracts with customers						330
Consolidated revenue restated						53,204

The following two tables disaggregate revenue from contracts with customers into categories that depict how the nature, timing and uncertainty of revenue and cash flow are affected by economic factors.

Timing of revenue recognition	Space £'000	ESD £'000	M&B £'000	Annova £'000	Media Solutions £'000	Total £'000
Year ended 31 December 2018						
Point in time	335	1,220	500	133	633	2,188
Performance over time	20,958	18,671	7,576	8,613	16,189	55,818
Total	21,293	19,891	8,076	8,746	16,822	58,006
Year ended 31 December 2017						
Point in time	196	1,499	786	365	1,151	2,846
Performance over time	19,828	15,479	7,929	6,792	14,721	50,028
Total	20,024	16,978	8,715	7,157	15,872	52,874

Certainty of revenues	Space £'000	ESD £'000	M&B £'000	Annova £'000	Media Solutions £'000	Total £'000
Year ended 31 December 2018						
100% - contract completed and paid	19,126	14,243	7,266	6,406	13,672	47,041
Contract completed, awaiting payment	1,203	235	677	1,160	1,837	3,275
Point in time, benefit transferred	85	884	-	177	177	1,146
Performance over time	879	4,529	133	1,003	1,136	6,544
Total	21,293	19,891	8,076	8,746	16,822	58,006
Year ended 31 December 2017						
100% - contract completed and paid	8,266	14,669	4,925	4,288	9,213	32,148
Contract completed, awaiting payment	7,931	603	2,414	283	2,697	11,231
Point in time, benefit transferred	698	579	786	160	946	2,223
Performance over time	3,129	1,127	590	2,426	3,016	7,272
Total	20,024	16,978	8,715	7,157	15,872	52,874

2 Operating segments (continued)

Information about reportable segments (continued)

Profit before tax	Space £'000	ESD £'000	M&B £'000	Annova £'000	Media Solutions £'000	Total £'000
Year ended 31 December 2018						
Reportable segment contribution	**5,098**	**5,809**	**1,955**	**1,134**	**3,089**	**13,996**
Other contribution	**(20)**	**(58)**	**-**	**-**	**-**	**(78)**
Contribution	**5,078**	**5,751**	**1,955**	**1,134**	**3,089**	**13,918**
Central overheads						**(8,800)**
Adjusted operating profit						**5,118**
Exceptional Charges						**(1,337)**
Share based payments						**(36)**
Amortisation of intangible assets arising on acquired software solution						**(737)**
Amortisation of intangible assets arising on acquired order book						**(515)**
Operating profit						**2,493**
Finance costs						**(502)**
Finance income						**3**
Profit before tax						**1,994**
Year ended 31 December 2017						
Reportable segment contribution	4,891	4,274	2,625	510	3,135	12,300
IFRS 15 adjustments	(41)	(27)	-	(134)	(134)	(202)
Reportable segment contribution restated	4,850	4,247	2,625	376	3,001	12,098
Other contribution	22	33	10	-	10	65
Contribution	4,872	4,280	2,635	376	3,011	12,163
Central overheads						(7,806)
Adjusted operating profit restated						4,357
Exceptional Charges						2,075
Share based payments						-
Amortisation of intangible assets arising on acquired software solution						(736)
Amortisation of intangible assets arising on acquired order book						(1,246)
Operating profit restated						4,450
Finance costs						(718)
Finance income						8
Profit before tax restated						3,740

2 Operating segments (continued)

Information about reportable segments (continued)

Group assets	Space £'000	ESD £'000	M&B £'000	Annova £'000	Media Solutions £'000	Total £'000
As at 31 December 2018						
Reportable segment – non-current assets	**3,531**	**1,110**	**3,380**	**8,054**	**11,434**	**16,075**
Reportable segment – current assets	**9,387**	**5,832**	**1,098**	**2,115**	**3,213**	**18,432**
	12,918	**6,942**	**4,478**	**10,169**	**14,647**	**34,507**
Other – non-current assets						**14,044**
Other – current assets						**11,278**
Total assets						**59,829**
As at 31 December 2017 restated						
Reportable segment – non-current assets	3,512	1,090	3,380	7,931	11,311	15,913
Reportable segment – current assets	9,089	4,303	1,446	2,660	4,106	17,498
	12,601	5,393	4,826	10,591	15,417	33,411
Other – non-current assets						14,552
Other – current assets						10,082
Total assets						58,045

Group liabilities	Space £'000	ESD £'000	M&B £'000	Annova £'000	Media Solutions £'000	Total £'000
As at 31 December 2018						
Reportable segment – current liabilities	**2,587**	**928**	**532**	**732**	**1,264**	**4,779**
Other – non-current liabilities						**9,453**
Other – current liabilities						**19,063**
Total liabilities						**33,295**
As at 31 December 2017						
Reportable segment – current liabilities	1,110	928	727	1,905	2,632	4,670
Other – non-current liabilities						14,603
Other – current liabilities						13,328
Total liabilities						32,601

Geographical split	UK £'000	Rest of Europe £'000	Other £'000	Total £'000
Year ended 31 December 2018				
Revenue from external customers by location of customers	**32,035**	**23,499**	**2,871**	**58,405**
As at 31 December 2018				
Non-current assets:				
Intangible assets	**1,110**	**18,946**	**-**	**20,056**
Tangible assets	**4,582**	**4,829**	**-**	**9,411**
Other long term assets	**398**	**254**	**-**	**652**
Year ended 31 December 2017				
Revenue from external customers by location of customers	28,485	27,273	1,406	57,164
IFRS 15 adjustment	(379)	(3,581)	-	(3,960)
Revenue from external customers by location of customers restated	28,106	23,692	1,406	53,204
As at 31 December 2017				
Non-current assets:				
Intangible assets	1,090	19,996	-	21,086
Tangible assets	5,847	3,414	-	9,261
Other long term assets	-	118	-	118

3 Staff numbers and costs

	2018 No.	2017 No.
The average number of persons employed by the Group during the year was as follows:		
Management	**45**	30
Professional	**534**	456
Administration	**69**	73
	648	559

	£'000	£'000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	**34,407**	29,583
Social security costs	**4,839**	4,134
Pension costs	**1,086**	907
IFRS2 share based payments charge	**36**	-
	40,368	34,624

No staff costs have been capitalised and the Company had no employees during the period.

4 Remuneration of Directors

Details of Directors' emoluments, share options and pension entitlements are given in the Remuneration Report on pages 52 to 58.

The remuneration of the highest paid director was £266,000 (2017: £244,000), and Company pension contributions of £20,000 (2017: £19,000) were made to a money purchase scheme on their behalf. Retirement benefits are accruing to 3 directors (2017: 3) under money purchase schemes. Directors' remuneration is borne by SCISYS UK Holding Limited (formerly SCISYS PLC) and recharged to the relevant Group companies. In addition to the above sums, one Director received £94,000 (2017: £80,000) for his duties as a director of SCISYS Deutschland GmbH. The aggregate amount of gains by the Directors on the exercise of share options was £284,000 (2017: £99,000).

5 Operating profit

	2018 £'000	2017 £'000
This is stated after charging/(crediting):		
Net foreign exchange gains on operating activities	**(78)**	(100)
Hire of other assets – operating leases	**155**	152
Inventory costs	**744**	824
Research and development costs	**3,965**	3,554
Depreciation of property, plant and equipment	**1,114**	952
Amortisation of intangible assets included in operating costs	**1,486**	146
Fees paid to the Company's auditors for the audit of the company's audited accounts	**32**	23
Fees paid to the Company's auditors for the audit of the Group financial statements	**140**	108
Total audit fees	**172**	131
Fees paid to the Company's auditors and their associates for other services to the Group		
Fees paid to the Company's auditors for tax advisory services to the Group	**8**	9
Fees paid to the Company's auditors for other non-audit services to the Group	**22**	24
Total non-audit fees	**30**	33

6 Finance income

	2018 £'000	2017 £'000
Bank deposit interest	**3**	8

7 Finance costs

	2018 £'000	2017 £'000
Interest on bank loans and overdrafts	**502**	718

8 Exceptional items

	2018 £'000	2017 £'000
Brexit restructuring	745	-
Increase/(decrease) in contingent consideration	621	(1,625)
German corporate reorganisation	350	-
R&D tax credits	(379)	(450)
Exceptional items	1,337	(2,075)

Since 2007 the Board has gauged the underlying performance of business using an adjusted operating profit measure that excludes the costs of the Group's long-term share incentive schemes, exceptional items and any amortisation of intangible assets arising on business acquisition. Internal reporting is exclusively based on adjusted performance measures to facilitate comparison between financial years and publicly available research notes on SCISYS published by financial analysts focuses on these same measures.

The Brexit restructuring charge reflects external professional advice and costs in relation to the development and implementation of the Group's contingency plans to mitigate any potential adverse impact of Brexit on cross-border operations, particularly in the space sector. Costs principally relate to the establishment of the new ultimate holding company, SCISYS Group PLC, incorporated in Ireland, at the top of the Group structure by means of a Scheme of Arrangement approved by the members and the High Court.

Contingent consideration payable for the Annova acquisition was linked both to average profitability over a 3-year earn out period and achievement of key commercial milestones. The liability for forecast consideration payments was reviewed biannually to reflect prevailing business projections. When the anticipated total contingent consideration payable for Annova was reassessed at 31 December 2017, it resulted in an exceptional credit. The exceptional charge recognised in 2018 represents a fixed and final earnout payment to Annova's former owners in consideration for early termination of the acquisition ring-fence agreement. This enables accelerated achievement of potential medium-term benefits in combined media sector operations by the removal of constraints on collective management.

The German arm of the Group is in the process of being re-organised to simplify the corporate structure and facilitate the merger of the Annova and M&B divisions under common management. Costs incurred up to the end of 2018 comprise legal and professional fees, external change consultancy charges and costs for rationalisation of the divisional management team.

UK R&D tax credits were considered exceptional in 2017 for two reasons. Firstly, from 2017 the tax credits are disclosed as above-the-line deductions from operating charges instead of offsetting tax charges as previously reported so would otherwise distort comparisons of operating profit with earlier years. Secondly, SCISYS was correctly projected to exceed the qualification criteria for the SME tax credit scheme in 2018, with a consequential sharp reduction in the value of credit claims. The 2017 provision of £450,000 for anticipated credits proved to be conservative and the supplementary receipt is shown as a further exceptional credit in 2018. The 2018 R&D credit is not exceptional.

9 Tax

	2018 £'000	2017 £'000
Current tax:		
Adjustment relating to earlier years R&D tax credit (shown above the line 2018)	-	(281)
Adjustment relating to prior year tax charge	63	-
Overseas corporation tax	1,085	898
Total current tax	1,148	617
Deferred tax credit (note 22)	(590)	(24)
Total tax charge	558	593

The Company is resident in the UK for corporation tax purposes. The standard rate of tax for the year, based on the UK standard rate of corporation tax is 19.00% (2017: 19.25%). The actual effective tax rate for the current year is higher (2017: lower) than this standard rate.

A reduction in the UK corporation tax rate from 19% to 18% (effective 1 April 2020) was substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax assets and liabilities at 31 December 2018 have been calculated based on these rates.

9 Tax (continued)

The total tax charge for the year can be reconciled to the profit per the Income Statement as follows:

	2018 £'000	2017 Restated £'000
Profit from operations before taxation:	**1,994**	3,740
Tax charge at standard rate of 19.00% (2017: 19.25%)	**379**	720
Expenses not deductible for tax purposes	**638**	397
Other income non taxable	**(186)**	(1,545)
Other items including permanent differences		
Research & Development tax credits (2018 shown above the line)	**-**	(309)
Adjustment in respect of foreign tax and exchange rates	**63**	1,105
(Utilisation)/Increase in deferred tax asset not recognised	**(399)**	446
Movement in deferred tax rates	**-**	47
Adjustment relating to earlier years	**63**	(268)
Total tax charge	**558**	**593**

10 Dividends

	2018 £'000	2017 £'000
Final dividend for 2016 paid in the year: 1.43p per share	**-**	414
Interim dividend for 2017 paid in the year: 0.59p per share	**-**	172
Final dividend for 2017 paid in the year: 1.57p per share	**463**	-
Interim dividend for 2018 paid in the year: 0.65p per share	**192**	-
	655	586

The Board proposes payment of a final dividend for 2018 of 1.73p per share in July 2019.

11 Basic & diluted earnings per share

The calculation of the Group basic and diluted earnings per ordinary share is based on the following data:

	2018			2017		
Number of shares	Weighted average number of shares '000	Excluding own shares held '000	Net number of shares '000	Weighted average number of shares '000	Excluding own shares held '000	Net number of shares '000
Basic earnings per ordinary share	**29,465**	**(14)**	**29,451**	29,154	(83)	29,071
Diluted earnings per share	**30,099**	**(14)**	**30,085**	29,723	(83)	29,640

Earnings	2018 £'000	2017 Restated £'000
Profit on ordinary activities after taxation	**1,436**	3,147
Basic earnings per share	**4.9p**	10.8p
Diluted earnings per share	**4.8p**	10.6p

Own shares held

"Own shares held" represent the number of shares held in treasury.

Diluted earnings per share

The weighted average number of shares for the calculation of diluted earnings per share is computed using the treasury share method. This takes into account the entitlement of holders of CSOP and unapproved share options to purchase ordinary shares at an exercise price below the average market price for the year.

12 Adjusted earnings per share

In order to present a measure of earnings per share that is more representative of the Group's underlying operating performance, earnings are adjusted to be net of the pre-tax costs shown in the highlighted box on the face of the Income Statement. The calculation of the Group basic adjusted earnings and diluted adjusted earnings per ordinary share is based on the following data:

Number of shares	2018 Weighted average number of shares '000	2018 Excluding own shares held '000	2018 Net number of shares '000	2017 Weighted average number of shares '000	2017 Excluding own shares held '000	2017 Net number of shares '000
Basic earnings per ordinary share	**29,465**	**(14)**	**29,451**	29,154	(83)	29,071
Diluted earnings per share	**30,099**	**(14)**	**30,085**	29,723	(83)	29,640

Earnings	2018 £'000	2017 restated £'000
Profit on ordinary activities after taxation	**1,436**	3,147
Adjusted for:		
Amortisation of intangible assets arising on acquired software solution	**737**	1,246
Amortisation of intangible assets arising on acquired order book	**515**	736
Deferred tax on amortisation of intangible assets	**(213)**	(337)
Share based payments	**36**	-
Exceptional items	**1,337**	(2,075)
Adjusted profit after taxation	**3,848**	2,717
Basic adjusted earnings per share	**13.1p**	9.3p
Diluted adjusted earnings per share	**12.8p**	9.2p

Own shares held

"Own shares held" represent the number of shares held in treasury.

Diluted earnings per share

The weighted average number of shares for the calculation of diluted earnings per share is computed using the treasury share method. This takes into account the entitlement of holders of CSOP and unapproved share options to purchase ordinary shares at an exercise price below the average market price for the year.

13 Goodwill

On the acquisition of:	SCISYS DE GmbH £'000	MakaluMedia Internet & Engineering Services GmbH £'000	Xibis Limited £'000	Annova Systems GmbH £'000	Total £'000
Cost and carrying amount:					
At 1 January 2017	5,603	1,243	1,090	7,657	15,593
Exchange adjustments	-	45	-	275	320
At 1 January 2018	**5,603**	**1,288**	**1,090**	**7,932**	**15,913**
Adjustment	**-**	**-**	20	**-**	20
Exchange adjustments	-	20	-	122	142
At 31 December 2018	**5,603**	**1,308**	**1,110**	**8,054**	**16,075**

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination.

13 Goodwill (continued)

The carrying amount of goodwill has been allocated as tabulated below:

	2018 £'000	2017 £'000
Space	**3,531**	3,511
Xibis (ESD)	**1,110**	1,090
Media & Broadcast	**3,380**	3,380
Annova	**8,054**	7,932
Media Solutions	**11,434**	11,312
	16,075	15,913

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using post-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on divisional business plan forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the management for the forthcoming financial year. Anticipated growth rates for contribution and overheads for the subsequent three years are based on current business forecasts. The fourth year cash flows are then assumed to remain stable and continue to perpetuity. Cash flows for all CGUs except Xibis are discounted at 10.2% (2017: 10.1%), which the Directors believe to be an appropriate and prudent post-tax weighted average cost of capital (WACC) for a market participant in this segment at the year-end date. This corresponds to a pre-tax discount rate of 15.4% (2017: 14.7%). The WACCs for each of the Space and Media & Broadcast CGUs are not considered to be materially different due to the comparable nature of their operations and customer bases. Xibis cash flows are discounted at 11.5% (pre-tax discount rate of 12.0%) to reflect the higher perceived risk attaching to smaller entities.

The basis for the Directors' estimates of the input parameters for calculating the discount rate is outlined in note 1. To reduce the headroom in the impairment calculation to nil a post-tax WACC of 13.3% (2017: 12.9%) would be required for the Space and Media & Broadcast CGUs, 25.7% (2017: 15.4%) for the Annova CGU and 12.5% (2017: 11.5%) for the Xibis CGU.

14 Other intangible assets

	Acquired software solution £'000	Order book £'000	Software licences £'000	Total £'000
Cost:				
At 1 January 2017	2,209	4,433	812	7,454
Additions	-	-	208	208
Exchange adjustments	162	81	37	280
At 1 January 2018	2,371	4,514	1,057	7,942
Additions	-	-	186	186
Disposals	-	-	(206)	(206)
Exchange adjustments	70	37	21	128
At 31 December 2018	2,441	4,551	1,058	8,050
Amortisation:				
At 1 January 2017	-	-	606	606
Charge for the year	736	1,246	146	2,128
Exchange adjustments	-	-	35	35
At 1 January 2018	736	1,246	787	2,769
Charge for the year	736	515	235	1,486
Disposals	-	-	(206)	(206)
Exchange adjustments	-	-	20	20
At 31 December 2018	1,472	1,761	836	4,069
Carrying amount:				
At 31 December 2018	**969**	**2,790**	**222**	**3,981**
At 31 December 2017	1,635	3,268	270	5,173
At 1 January 2017	2,209	4,433	206	6,848

Amortisation is included in the income statement under operating costs.

15 Property, Plant and Equipment

	Freehold & long leasehold property £'000	Computer equipment £'000	Office equipment £'000	Plant & machinery £'000	Total £'000
Cost:					
At 1 January 2017	8,618	5,715	3,210	1,814	19,357
Additions	31	654	360	6	1,051
Transfers	-	-	19	(19)	-
Disposals	-	(67)	(11)	-	(78)
Exchange adjustments	95	86	46	44	271
At 1 January 2018	8,744	6,388	3,624	1,845	20,601
Additions	12	838	231	196	1,277
Disposals	-	(430)	(104)	(130)	(664)
Exchange adjustments	42	43	24	19	128
At 31 December 2018	8,798	6,839	3,775	1,930	21,342
Depreciation and impairment:					
At 1 January 2017	1,474	4,952	2,857	1,017	10,300
Charge for the year	207	491	129	126	953
Disposals	-	(65)	(10)	-	(75)
Exchange adjustments	27	74	35	26	162
At 1 January 2018	1,708	5,452	3,011	1,169	11,340
Charge for the year	206	610	173	125	1,114
Disposals	-	(416)	(98)	(96)	(610)
Exchange adjustments	14	42	18	13	87
At 31 December 2018	1,928	5,688	3,104	1,211	11,931
Carrying amount:					
At 31 December 2018	**6,870**	**1,151**	**671**	**719**	**9,411**
At 31 December 2017	7,036	936	613	676	9,261
At 1 January 2017	7,144	763	353	797	9,057

The plant, property and equipment are all shown at cost not valuation.

The Group has pledged freehold and long leasehold land and buildings having a carrying amount of £6,870,000 (2017: £7,036,000) to secure bank loans and overdrafts granted to the Group. The long leasehold property is in the UK and the lease has 98 years remaining.

At 31 December 2018, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £63,000 (2017: £7,000).

16 Inventories

	2018 £'000	2017 Restated £'000
Raw materials	**69**	187
Work-in-progress	**6**	5
Finished goods	**4**	6
	79	198

17 Contract balances

	2018 £'000	2017 Restated £'000
Contracts in progress at the balance sheet date:		
Contract assets	**8,257**	7,820
Contract liabilities	**(4,879)**	(4,669)
Net contract assets	**3,378**	3,151

17 Contract balances (continued)

The timing of revenue recognition, invoicing and cash collection results in billed accounts receivable, unbilled receivables (contract assets) and customer advances and deposits (contract liabilities) on the consolidated balance sheet. Within the SCISYS Group, amounts are billed as work in progress in accordance with agreed upon contractual terms, either at periodic intervals (e.g. monthly) or upon achievement of contractual milestones. Invoicing typically occurs subsequent to revenue recognition, resulting in contract assets although advances or deposits can be received from customers, particularly on larger contracts, before revenue is recognised, resulting in contract liabilities. These assets and liabilities are reported on the consolidated balance sheet on a contract-by-contract basis at the end of each reporting period. In the SCISYS Space division, deposits are generally received from customers upon contract execution and upon achievement of contractual milestones. These deposits are liquidated when revenue is recognised.

Changes in the contract asset and liability balances during the year ended 31 December 2018 were not materially impacted by any other factors.

Contract assets

Unbilled receivables represent revenue recognised on long term contracts (contract costs and estimated profits) less associated advances and progress billings. These amounts will be billed in accordance with the agreed upon contractual terms or upon achievement of contractual milestones. Contract costs may also include estimated contract recoveries for items such as contract change notes and claims for unanticipated contract costs. Revenue associated with these items is only recognised when the amount of recovery can be estimated reliably and realisation is probable. The revenue recognition profile is as follows:

	2018 £'000	2017 £'000
Within 1 year	**5,103**	5,419
Between 2 and 5 years	**1,895**	2,251
Over 5 years	**1,259**	150
Contract assets	**8,257**	7,820

Contract liabilities

Contract liabilities consist of advance payments from customers and deferred revenue. Movements in contract liabilities for the year ended 31 December 2018 are as follows:

	£'000
As at 1 January 2017	**4,463**
Advance payments received from customers	**27,742**
Revenue recognised in the period from:	
Amounts included in the contract liability at the beginning of the period	**(4,514)**
Advance payments applied to current period	**(23,080)**
Exchange adjustments	**58**
As at 1 January 2018	**4,669**
Advance payments received from customers	**18,541**
Revenue recognised in the period from:	
Amounts included in the contract liability at the beginning of the period	**(4,452)**
Advance payments applied to current period	**(13,911)**
Exchange adjustments	**32**
As at 31 December 2018	**4,879**

Contract liabilities will be recognised as revenue as the promised goods and services are transferred to the customers, which is expected to occur over the next 2 years.

Order book

The order book represents the consideration that the Group will be entitled to receive from customers when the Group satisfies the remaining performance obligations in the contracts. However the total revenue that will be earned by the Group will also include new wins, scope changes and anticipated contract extensions. These elements have been excluded from the figures in the table below as they are not contracted.

17 Contract balances (continued)

The transaction price associated with unsatisfied or partially unsatisfied performance obligations does not include variable consideration that is constrained, and is as follows:

	2018 £'000	2017 £'000
Within 1 year	**41,019**	32,580
Between 2 and 5 years	**49,077**	44,683
Over 5 years	**8,460**	10,928
Total	**98,556**	88,191

18 Trade and other receivables

	2018 £'000	2017 Restated £'000
Amounts receivable from the sale of goods and services	**11,137**	9,256
Contract assets (note 17)	**8,257**	7,820
Other receivables	**820**	927
Prepayments and accrued income	**1,252**	908
	21,466	18,911

The average credit period taken on settlement of sales invoices is 35 days (2017: 35).

Due to the nature of the Group's customer base, and in line with previous experience, the Directors consider that the level of irrecoverable amounts receivable is negligible. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

19 Cash and cash equivalents

	2018 £'000	2017 £'000
Cash and cash equivalents per balance sheet	**8,065**	8,021
Bank overdrafts	**-**	-
Cash and cash equivalents per cash flow statement	**8,065**	8,021

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying value of these assets approximates their fair value.

The Group maintains deposit accounts with a number of banks to suit local operations in Germany. In the UK, sterling and foreign currency cash deposit and overdraft facilities for trading operations are provided by two banking groups. The principal bankers operate a facility agreement that provides for netting off between deposits and borrowings such that interest is payable or receivable on the net overdrawn or credit balance respectively. A second bank provides an online current account with no overdraft facility.

20 Loans

	2018 £'000	2017 £'000
Loans – due within one year	**5,278**	2,290
Total due within one year	**5,278**	2,290
Loans – due in year 2	**2,623**	5,852
Loans – due in years 3-5	**3,017**	5,483
Loans – due after year 5	**246**	332
Loans - due after one year	**5,886**	11,667
	11,164	13,957

20 Loans (continued)

The Group's loans at the year end consisted of:

1. a euro-denominated loan of £516,000, being the balance remaining on a loan acquired with the SCISYS DE business in 2007. The loan is secured on SCISYS DE's freehold property in Bochum, Germany. Repayments are payable in equal monthly instalments until June 2025 at which time the terms and conditions for repayment and interest for the balance of the loan are renegotiable. Interest is payable monthly at a fixed rate of 1.55% p.a. until June 2025;
2. a term loan of £1,369,000, being the balance remaining on a 5-year term loan of £2,450,000 taken out in May 2011 (renewed for a further 5 years in May 2016) as part finance for the freehold purchase of the Group's Chippenham headquarters, on which the loan is secured. Repayment is by equal monthly instalments on the basis of a 15-year notional term. Interest is payable monthly at 3.0% p.a. above LIBOR;
3. a euro-denominated loan of £195,000, being the balance remaining on a £278,000 loan taken out in September 2012 to fund improvements to SCISYS DE's freehold property in Bochum, Germany on which the loan is secured. Repayments are by equal monthly instalments until Jan 2027. Interest is payable monthly at a fixed rate of 1.8% p.a;
4. a euro-denominated loan of £188,000, being the balance on a loan of £266,000 taken out in June 2017 to fund refurbishment of SCISYS DE's (leased) Dortmund office, Germany on which the loan is secured. Repayments are by equal monthly instalments until May 2022. Interest is payable monthly at a fixed rate of 1.59% p.a. until May 2022;
5. an unsecured director's loan of £500,000 drawn down in May 2011 as part finance for the freehold purchase of the Group's headquarters in Chippenham. Repayment is due on or before 23 May 2020. Interest is payable 6 monthly at 5.25% p.a. above bank base rate;
6. loan notes of £1,542,000, being the first tranche of notes issued under a £5 million loan note programme in December 2016 to part fund the acquisition of Annova. The notes are repayable on the 3rd anniversary of the issue date and have second-ranking security behind the senior debt providers. Interest is payable quarterly at a fixed rate of 7.0% p.a.;
7. an unsecured euro-denominated loan of £5,410,000 drawn down in December 2016 to part fund the acquisition of Annova. The loan is repayable in equal quarterly instalments over 5 years and bears interest at a fixed rate of 2.9% p.a. This loan value is net of £179k of capitalised deal fees;
8. a subordinated, euro-denominated loan of £1,623,000 provided as deferred consideration to part fund the acquisition of Annova on 31 December 2016. The loan bears interest at a fixed rate of 5% p.a. and was subsequently repaid in January 2019. Interest was payable annually in December.

Loan 2 is subject to an annual interest cover covenant and the loan notes 6 are subject to annual debt/EBITDA and debt service covenants.

The multicurrency UK bank overdraft facility of £2,500,000 available at the year end is subject to annual review. A covenant limits utilisation of the overdraft to 60% of trade receivables under 90 days old, invoiced by SCISYS UK Limited. Interest is payable at 3% over bank base rate or currency lending rate as appropriate. In addition, the Group has access to a foreign exchange hedging facility with a maximum exposure limit of £500,000. The UK working capital facilities are secured by debentures from SCISYS UK Holding Limited, SCISYS UK Limited and Xibis Limited and a first legal charge over the Group's long leasehold property in Bristol.

The Group's German bankers provide unsecured working capital facilities to cover overdraft and bank guarantee requirements. Total facilities comprise a £1,803,000 overdraft (2017: £1,776,000) and £4,959,000 of bank guarantee lines (2017: £4,884,000). At the year end, there were no overdraft borrowings (2017: £nil). Utilisation of the bank guarantee facilities was £312,000 (2017: £174,000).

21 Financial instruments

Financial risk and treasury policies

The Group finance department maintains liquidity, manages relations with the Group's bankers, identifies and manages foreign exchange risk and controls Group treasury operations. Treasury dealings such as investments, borrowings and foreign exchange are conducted only to support underlying business transactions. Consequently, the Group does not undertake speculative foreign exchange dealings for which there is no underlying exposure.

The Group's policies for management of the financial risks to which it is exposed are outlined below:

(a) Credit risk

The Group's principal financial assets are cash and cash equivalents, trade and other receivables and contract assets.

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and monies on deposit with financial institutions.

The customer base of the Group is primarily government or quasi-government agencies and major prime contractors. Previous experience has indicated that no allowance for doubtful receivables is necessary.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

21 Financial instruments (continued)

The Group has no significant concentration of credit risk. The Group's maximum exposure to credit risk at the reporting date is represented by the carrying value of financial assets, as follows:

	2018 £'000	2017 £'000
Trade receivables	**11,137**	9,256
Contract assets	**8,257**	7,820
Corporation tax receivable	**100**	450
Other receivables	**820**	927
Cash and cash equivalents	**8,065**	8,021
	28,379	**26,474**

	Trade receivables 2018 £'000	2017 £'000	Cash and cash equivalents 2018 £'000	2017 £'000
Sterling	**4,359**	2,508	**-**	4,054
Euro	**6,528**	6,589	**7,957**	3,756
US Dollars	**250**	159	**108**	211
	11,137	9,256	**8,065**	8,021

The aged analysis of trade receivables is:

	2018 £'000	2017 £'000
0 to 30 days	**7,476**	7,102
31 to 60 days	**3,054**	1,752
61 to 90 days	**286**	157
>90 days	**321**	245
	11,137	9,256

Standard credit terms are typically 30 days, although a small minority of contracts allow for payment up to 90 days from receipt of invoice or in quarterly instalments. The value of trade receivables included above which is due after more than one year is £27,000 (2017: £25,000).

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group uses a combination of monthly and weekly cash flow forecasts to monitor cash requirements and to optimise its return on investments.

The following are the contractual maturities of financial liabilities:

31 December 2018	Carrying amount £'000	Contractual cash flow £'000	Less than 12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Bank loans and overdrafts	**11,164**	**11,910**	**5,612**	**2,779**	**3,271**	**248**
Trade and other payables	**12,322**	**12,322**	**12,322**	**-**	**-**	**-**
Contract liabilities	**4,879**	**4,879**	**4,879**	**-**	**-**	**-**
Corporation tax payable	**910**	**910**	**910**	**-**	**-**	**-**
	29,275	**30,021**	**23,723**	**2,779**	**3,271**	**248**

21 Financial instruments (continued)

(b) Liquidity risk (continued)

31 December 2017	Carrying amount £'000	Contractual cash flow £'000	Less than 12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Bank loans and overdrafts	13,957	16,565	2,478	6,178	7,562	347
Trade and other payables	12,809	12,809	12,809	-	-	-
Contract liabilities	4,669	4,669	4,669	-	-	-
Corporation tax payable	347	347	347	-	-	-
	31,782	34,390	20,303	6,178	7,562	347

At 31 December 2018, the Group had available £4,303,000 (2017: £4,276,000) of undrawn committed borrowing facilities.

(c) Market risk

Market risk is the risk that changes in market prices, such as currency rates and interest rates, will affect the Group's results. The objective of market risk management is to manage and control risk to within suitable parameters.

(c) (i) Currency risk

The Group is exposed to foreign currency risk on transactions which are denominated in a currency other than sterling. The Group has investments in German operations. As a result, the Group's sterling income statement and balance sheet can be affected by movements in the euro/sterling exchange rates. A proportion of the Group's Media Solutions operations undertaken in Germany with costs in euros generate revenues in sterling. This creates a natural hedge against UK-based Space division contracts denominated in euros for which costs are incurred in sterling. The main net currency risk for such contracts lies in the period between tender and signature of contract during which it is impractical to enter into committed forward foreign exchange contracts.

In order to mitigate this risk, the Group's policy is to take out euro/sterling currency hedging agreements to cover anticipated invoicing under existing and tendered contracts up to 18 months in the future. The acquisition of Annova and the euro-denominated financing arrangements employed have created a stronger natural currency hedge for the group. Consequently, only a minimal level of external hedging contracts was entered into during each of 2017 and 2018 compared with previous years although the exposure position is regularly reviewed.

SCISYS DE entered into a series of relatively low-value forward contracts to swap sterling receipts for euros in 2019 and 2020. The fair value of all foreign exchange contracts that were outstanding at 31 December 2018 was an asset of £3,000 (2017: asset £4,000) reflected in trade and other receivables.

The Group does not currently designate its foreign currency denominated debt as a hedging instrument for the purpose of hedging the translation of its foreign operation.

Sensitivity analysis

It is estimated that, with all other variables held equal, a change of one cent in the value of the euro against sterling would have a £71,000 impact on the Group's operating profit for the year ended 31 December 2018. The method of estimation, consistently applied, involves assessing the transaction impact of euro cash flows and the translation impact of euro profits.

It is estimated that, with all other variables held equal, a change of one cent in the value of the US dollar against sterling would have a £1,000 impact on the Group's operating profit for the year ended 31 December 2018. The method of estimation, consistently applied, involves assessing the transaction impact of dollar cash flows and the translation impact of dollar profits.

The following significant euro/sterling exchange rates applied during the year:

	2018	2017
Year end rate	**1.109**	1.126
Average rate for the year	**1.128**	1.142

The analysis of borrowings by currency is:

	Sterling £'000	**Euro £'000**	**Total £'000**
31 December 2018			
Loans	**2,867**	**8,297**	**11,164**
31 December 2017			
Loans	3,230	10,727	13,957

21 Financial instruments (continued)

(c) (ii) Interest rate risk

The Group does not undertake any hedging activity in this area. The Group's financial performance is relatively insensitive to movements in loan interest rates as the majority of borrowing is on a fixed-rate basis.

Cash deposits in sterling and foreign currencies are made at prevailing interest rates. Where rates are fixed, the fixed interest period is generally no more than 3 months.

The weighted average interest rate profile for the Group's financial liabilities comprising bank overdrafts and loans is set out below:

	2018	2017
Bank overdrafts	**3.6%**	3.3%
Loans	**3.9%**	3.7%

Sensitivity analysis

An average rise in interest rates during the year of 1% would have increased interest charges by £16,000 (2017: £60,000).

The borrowings are repayable as follows:

	2018 £'000	2017 £'000
On demand or within one year	**5,278**	2,290
In the second year	**2,623**	5,852
In the third to fifth years inclusive	**3,017**	5,483
After five years	**246**	332
	11,164	13,957
Less: amount due for settlement within 12 months (shown as current liabilities)	**(5,278)**	(2,290)
Amount due for settlement after 12 months	**5,886**	11,667

The Group's net debt at the reporting date was:

	2018 £'000	2017 £'000
Loans	**(11,164)**	(13,957)
Total borrowings	**(11,164)**	(13,957)
Cash and cash equivalents	**8,065**	8,021
Group net debt	**(3,099)**	(5,936)

21 Financial instruments (continued)

(d) Capital risk management

The Group's objective when managing share capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure. In order to maintain or adjust the capital structure, the Group may adjust the dividends paid to shareholders, return capital to shareholders or issue new shares.

(e) Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet are:

	Carrying amount 2018 £'000	**Fair value 2018 £'000**	Carrying amount Restated 2017 £'000	Restated Fair value 2017 £'000
Trade receivables	**11,134**	**11,134**	9,256	9,256
Contract assets	**8,257**	**8,257**	7,820	7,820
Corporation tax receivable	**100**	**100**	450	450
Other receivables	**820**	**820**	927	927
Foreign currency derivatives - assets	**3**	**3**	4	4
Cash and cash equivalents	**8,065**	**8,065**	8,021	8,021
Loans	**(11,164)**	**(11,164)**	(13,957)	(13,957)
Corporation tax payable	**(910)**	**(910)**	(347)	(347)
Trade and other payables	**(12,318)**	**(12,318)**	(12,809)	(12,809)
Contract liabilities	**(4,879)**	**(4,879)**	(4,669)	(4,669)
	(892)	**(892)**	**(5,304)**	**(5,304)**

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

Derivatives

Foreign currency derivatives are valued at the year-end date on a mark-to-market basis.

Loans

For periods of fixed interest rates on outstanding loans, savings in interest compared with the application of market interest rates are discounted at the post-tax risk-free discount rate to derive the gain in fair value over carrying value.

Trade and other receivables/payables

For receivables/payables due after more than one year, the notional value is discounted at the post-tax weighted average cost of capital to reflect the fair value.

Fair-value hierarchy

The table below shows how the Group's financial instruments measured at fair value, fit with the following fair value hierarchy:

Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2)
Inputs for the asset or liability that are not based on observable market data (Level 3).

	Level 1 2018 £'000	2017 £'000	**Level 2 2018 £'000**	2017 £'000	**Level 3 2018 £'000**	2017 £'000
Financial assets						
Foreign currency derivatives - assets	**-**	-	**3**	4	**-**	-

Level 1 financial instruments

The fair value of financial instruments traded in active markets (commodity futures) is based on quoted market prices at the period end date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing services or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length. The Group has no Level 1 financial instruments.

Level 2 financial instruments

The fair value of financial instruments that are not traded in an active market (forward foreign exchange contracts) are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates.

The fair value of forward foreign exchange contracts are calculated at the present value of the future cash flows based on observable inputs drawn from a reputable third-party source.

21 Financial instruments (continued)

Level 3 financial instruments
The fair value of financial instruments is based on unobservable inputs that are supported by little or no market activity at the statement of financial position dates. These inputs generally reflect the Group's own assumptions about how a market participant would reasonably be expected to determine the price of a financial instrument.

For deferred consideration, in evaluating the significance of fair value inputs, the Group generally classifies assets or liabilities as Level 3 when their fair value is determined using unobservable inputs that individually, or when aggregated with other unobservable inputs, represent more than 10% of the fair value of the observable inputs of the assets or liabilities.

There have been no transfers between levels in the year (2017: no transfers in either direction).

Reconciliation of Level 3 fair value:
It is the Group's policy to recognise all the transfers into the levels at the end of the reporting period.

	Deferred consideration £'000
Cost and carrying amount:	
At 1 January 2017	(3,318)
Settlement	1,855
Writedown	1,648
Exchange adjustments	(185)
At 1 January 2018	-
Uplift	(621)
Settlement	621
At 31 December 2018	-

The following table shows the valuation techniques used for Level 2 and Level 3 fair values, as well as the significant unobservable inputs used for Level 3 items.

Financial instruments measured at fair value	Valuation technique	Significant unobservable inputs (Level 3 only)
Deferred consideration	The expected payment reflects the calculated cash out flows under possible earn out scenarios and is discounted using a risk-adjusted discount rate	The basis for the Directors' estimates of the input parameters for calculating the discount rate is outlined in note 1
Forward exchange contracts	Fair value is estimated from the difference between the contractual forward price and the current forward price for the residual maturity of the contract (based on a reliable third party provider)	
Financial instruments not measured at fair value		
Debt securities	Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.	
Other financial liabilities	Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.	

22 Deferred tax

The following are the major net deferred tax liabilities recognised by the Group and movements thereon during the current and prior reporting period:

	Temporary timing differences £'000
At 1 January 2017	1,329
Credit to income	(28)
Exchange differences	37
At 1 January 2018	1,338
Credit to income	(590)
Exchange differences	24
At 31 December 2018	**772**

The deferred tax is disclosed as follows:

	2018 £'000	2017 £'000
Deferred tax liabilities	**1,228**	1,364
Deferred tax assets	**(456)**	(26)
Net liability	**772**	1,338

Unused tax losses for which no deferred tax asset has been recognised are £1,377,000 (2017: £4,417,000), giving rise to a potential deferred tax asset of £234,000 (2017: £751,000). The group's policy is not to recognise deferred tax assets for losses until utilisation can be reasonably foreseen. Furthermore, there is an unrecognised deferred tax asset in respect of excess management expenses, deductible temporary differences and capital allowances of £977,000 (2017: £1,902,000). The total deferred tax asset not recognised, computed at the applicable rate of 17% is £1,211,000 (2017: £2,653,000).

23 Trade and other payables

	2018 £'000	2017 £'000
Trade payables	**3,764**	3,290
Contract liabilities (note 17)	**4,879**	4,669
Taxation and social security	**438**	351
Other payables	**4,868**	3,483
Accruals	**3,256**	3,328
	17,205	**15,121**

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 58 days (2017: 39 days). While the typical credit terms from suppliers require payment within 30 days, a significant proportion of costs for goods and third-party services in Germany are on longer contractual credit terms of up to 180 days.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

24 Provisions

	2018 £'000
As at 1 January 2017	-
Provided during the year	1,572
As at 1 January 2018	1,572
Re-classified as other long-term payables	(937)
Provided during the year	767
As at 31 December 2018	**1,402**

24 Provisions (continued)

The provisions represent future charges on long-term, fixed-price customer contracts where liabilities are uncertain in either, or both, timing and amount. Values reflect management's best estimate of expenditure required to settle present obligations, discounted to the balance sheet value using a risk-free pre-tax discount rate

25 Deferred income

	2018 £'000	2017 £'000
Fixed price support and maintenance contracts	**76**	70
Rent receivable	**373**	170
	449	240

26 Share capital and reserves

Share capital

	Authorised No of shares	Issued and fully paid-up No of shares	**Ordinary shares £'000**	Authorised No of shares	Issued and fully paid-up No of shares	**Deferred redeemable shares £'000**
Allotted during the year and in issue at the end of the year	50,000,000	29,584,660	**7,396**	25,000	25,000	**24**

The share capital of the Company comprises two classes of equity shares, Ordinary shares of £0.25 each and Deferred Redeemable shares of €1.00 each. Neither class of share carries any right to fixed income and both are presented as shares as opposed to liabilities.

Ordinary shares of £0.25 each were allotted during the year as follows:

- 2 shares were issued at par value to the subscribers to the memorandum of the Company on 31 August 2018
- 29,584,658 shares were issued under a Scheme of Arrangement to former shareholders of SCISYS UK Holding Limited (formerly SCISYS PLC) in a one-for-one share exchange sanctioned on 27 November 2018 valued at £13,245,000.

The deferred redeemable shares of €1.00 each were allotted on 24 September 2018 at par as a new class of ordinary shares to satisfy the minimum capital requirement of a public limited company in Ireland. The shares were subsequently converted on 10 October 2018 to non-equity shares and further converted on 16 October 2018 to deferred redeemable shares. The shares carry no voting rights and are redeemable at par value. The shares are redeemable at any time at the option of the Board of Directors.

The analysis of own shares, which are AIM and ESM listed investments, held by the Group is:

	No of own shares	% of issued share capital	Nominal value £'000	Market value £'000
31 December 2018				
SCISYS SIP	**138,840**	**0.5%**	**35**	**206**
	138,840	**0.5%**	**35**	**206**
31 December 2017				
SCISYS SIP	180,305	0.6%	45	208
Treasury	23,167	0.1%	6	27
	203,472	0.7%	51	235

SCISYS share incentive plan (SIP) is an all employee share plan which provides statutory tax relief for employees directly acquiring shares in their company share incentive plan (SIP).

Reserves

The Merger Reserve reflects the difference between the nominal value and agreed consideration value of shares issued as consideration for the acquisition of SCISYS UK Holding Limited (formerly SCISYS PLC) shares under the terms of the Scheme of Arrangement (note 27) and is not distributable.

The Translation Reserve comprises all foreign exchange differences arising from the translation of the financial statements of subsidiaries that do not report in pounds sterling.

27 Scheme of Arrangement

The establishment of a new Irish holding company for the Group became effective on 27 November 2018. Under a Scheme of Arrangement 29,584,658 new shares were issued to former shareholders of SCISYS PLC (now SCISYS UK Holding Limited) in a one-for-one share exchange. The transaction is accounted under IFRS 3 as an intra-group reconstruction so that the Group continues to account as before and the parent company accounts for the investment in the previous parent at its then book value of £13,245,000. The excess over the nominal value of newly issued share capital is credited to a merger reserve.

28 Operating lease arrangements

	2018 £'000	2017 £'000
Minimum lease payments under operating leases recognised as an expense in the year	**285**	331
Minimum sub-lease payments received during the year recognised as income in the year	**331**	313

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £'000	2017 £'000
Within one year	**1,413**	1,418
In second to fifth years inclusive	**3,247**	2,067
Over five years	**5,696**	3,157
	10,356	6,642

At the balance sheet date, the Group expected to receive future minimum lease payments under non-cancellable sub-leases as follows:

	2018 £'000	2017 £'000
Total minimum sub-lease payments receivable	**361**	553

Operating lease payments primarily represent rentals payable by the Group for certain of its office properties. Leases are typically negotiated for a minimum lease term of 3 to 5 years with rent reviews coinciding with the renewal dates. The balance of rentals payable are for operating leases on office equipment. Lease income is received from tenants of the Group's office properties and is shown in revenue in the Income Statement.

29 Share-based payment charges

The Group operates a number of share options plans as set out below. The fair values of these schemes have been assessed using the Black-Scholes model, as appropriate to the scheme at the date of grant. The fair values of the schemes are expensed over the period between grant and vesting. Charges for share-based payments under IFRS 2 have been recognised only for issues that were made after 7 November 2002 and had not vested at the transition date as prescribed by IFRS 2 for first-time adoption.

Under the Scheme of Arrangement in November 2018, holders of options over SCISYS PLC shares were entitled to exchange their options for equivalent options over SCISYS Group PLC shares without triggering any exercise conditions or suffering any change to the option terms.

Enterprise Management Incentives (EMI) scheme

The Group established an EMI scheme in April 2007 to incentivise and aid retention of key employees. EMI share options are exercisable at a price equal to the quoted mid-price of SCISYS PLC's shares on the dealing day last preceding the date of grant. The vesting period for the options is three years. There are various performance conditions attaching to the EMI share option grants, including EPS related conditions. If the EMI share options remain unexercised after a period of 10 years from the date of grant, the EMI share options expire. EMI share options are forfeited if the employee leaves the Group before the options vest. The charge recognised in the year was £nil (2017: £nil).

	Number of share options	Weighted average exercise price	Exercise price range
Outstanding at 1 January 2017	205,113	£0.463	£0.463
Lapsed during the year	(1,679)	£0.463	£0.463
Exercised during the year	(203,434)	£0.463	£0.463
Outstanding at 1 January 2018 and 31 December 2018	-	-	-

29 Share-based payment charges (continued)

Company Share Option Plan (CSOP)
The Group introduced an HMRC approved CSOP scheme in January 2009 to incentivise and aid retention of key UK employees. CSOP share options are exercisable at a price equal to the quoted mid-price of SCISYS Group PLC's shares on the last dealing day preceding the date of grant. The vesting period for the options is three years. There are various performance conditions attaching to the CSOP share option grants, including EPS-related conditions. If the CSOP share options remain unexercised after a period of 10 years from the date of grant, the CSOP share options expire. CSOP share options are forfeited if the employee leaves the Group before the options vest. The charge recognised in the year was £16,000 (2017: £nil).

	Number of share options	Weighted average exercise price	Exercise price range
Outstanding at 1 January 2017	987,500	£0.568	£0.250 to £0.825
Granted during the year	202,500	£1.015	£1.015
Lapsed during the year	(205,500)	£0.822	£0.710 to £0.825
Exercised during the year	(72,000)	£0.440	£0.250 to £0.520
Outstanding at 1 January 2018	912,500	£0.620	£0.250 to £1.015
Granted during the year	191,994	£1.630	£1.630
Options previously disclosed as CSOPs and redesignated as unapproved	(270,000)	£0.719	£0.510 to £1.015
Lapsed during the year	(2,500)	£0.710	£0.710
Exercised during the year	(291,000)	£0.364	£0.250 to £0.520
Outstanding at 31 December 2018	540,994	£1.066	£0.505 to £1.630

The information below was used to calculate the IFRS 2 charge for the year.

	29 Apr 2015	21 Apr 2016	27 Apr 2017	03 May 2018
Share price at grant	£0.825	£0.710	£1.015	£1.630
Exercise price	£0.825	£0.710	£1.015	£1.630
Expected life (years)	6.5	6.5	6.5	6.5
Expected volatility	40%	40%	40%	40%
Risk free rate	2.7%	2.3%	1.7%	1.9%
Expected dividends	1%	1%	1%	1%
Fair value charge per share	£0.131	£0.098	£0.107	£0.186

Expected volatility was determined by information that was then currently available to the Group.

Unapproved share options
Those Group employees who have exceeded the value limit of £30,000 for tax-advantaged CSOP awards or who are subject to German payroll tax are unable to benefit from the favourable tax treatment available to qualifying UK employees through the CSOP scheme. To incentivise and aid retention of these key employees, they were awarded unapproved share options. The unapproved share options are exercisable at a price equal to the quoted mid-price of SCISYS Group PLC's shares on the dealing day last preceding the date of grant. The vesting period for the options is three years. There are various performance conditions attaching to the unapproved share option grants, including EPS related conditions. If the unapproved share options remain unexercised after a period of 10 years from the date of grant, the options expire. Unapproved share options are forfeited if the employee leaves the Group before the options vest. The charge recognised in the year was £20,000 (2017: £nil).

	Number of share options	Weighted average exercise price	Exercise price range
Outstanding at 1 January 2017	693,000	£0.552	£0.250 to £0.825
Granted during the year	137,500	£1.105	£1.105
Exercised during the year	(166,500)	£0.424	£0.250 to £0.463
Lapsed during the year	(115,000)	£0.825	£0.825
Outstanding at 1 January 2018	549,000	£0.650	£0.250 to £1.015
Granted during the year	164,006	£1.630	£1.630
Options previously disclosed as CSOPs and redesignated as unapproved	270,000	£0.719	£0.510 to £1.015
Exercised during the year	(7,500)	£0.512	£0.505 to £0.520
Outstanding at 31 December 2018	975,506	£0.835	£0.250 to £1.630

29 Share based payment charges (continued)

The information below was used to calculate the IFRS 2 charge for the year:

	29 Apr 2015	21 Apr 2016	27 Apr 2017	03 May 2018
Share price at grant	£0.825	£0.710	£1.015	£1.630
Exercise price	£0.825	£0.710	£1.015	£1.630
Expected life (years)	6.5	6.5	6.5	6.5
Expected volatility	40%	40%	40%	40%
Risk free rate	2.7%	2.3%	1.7%	1.9%
Expected dividends	1%	1%	1%	1%
Fair value charge per share	£0.131	£0.098	£0.107	£0.186

Expected volatility was determined by information that was then currently available to the Group.

Exercises of share options has been re-categorised in the cash flow statement from within Net cash flow from investing activities to within Net cash flow from financing activities. This change is intended to improve the predictability of claims on future cash flows by providers of capital to the Group.

30 Employee's Share Trusts

The Group results include those of the SCISYS Share Incentive Plan.

SCISYS Share Incentive Plan (SIP)

The SCISYS Group PLC shares held in the SIP on behalf of SCISYS Group employees comprise Partnership Shares and Free Shares. Partnership shares are purchased by employees under an HMRC-approved plan from monthly payroll deductions. The Free Shares were issued by the Group in October 2009 as SCISYS PLC (since renamed SCISYS UK Holding Limited) shares and these were exchanged for an equal number of SCISYS Group PLC shares under the terms of the Scheme of Arrangement in November 2018. The SIP is consolidated into the results of both the Group and the Company to the extent that the shareholding relates to the Free Shares in accordance with the principles of IAS 32 and the cost of the Free Shares is deducted from equity.

Administrative costs, such as stamp duty, dealing commission and legal fees, are borne by the Group. All costs are accounted for as they accrue.

31 Pensions

The Group operates a defined contribution group personal pension plan in the United Kingdom. The pension charge for the year, which represents contributions payable by the Group to these schemes together with the cost of retirement provision outside the United Kingdom, amounted to £1,086,000 (2017: £907,000). The balance of outstanding payments at 31 December 2018 was £188,000 (2017: £154,000).

32 Related-party transactions

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

In May 2018 the Company made awards of share options, either unapproved or under a CSOP scheme, to certain employees of the Group at an exercise price of £1.63. The Directors' interests in the CSOP options are disclosed in the Remuneration report on page 52. Of the 170,130 CSOP and 112,870 Unapproved options awarded to other employees, senior managers receiving awards of over 10,000 each are set out in the following table:

	No of share options
D Gawthorpe	20,000
K-W Pieper	20,000
A Whitehead	20,000
H Wulf	20,000

32 Related-party transactions (continued)

In May 2011, the SCISYS Group PLC Chairman, Dr M D Love, made a personal loan to the Group on arm's length, commercial terms for part financing of the purchase of the freehold in the Group headquarters offices in Chippenham. The terms of the loan are detailed in note 20. Dr M D Love also subscribed for £500,000 of the first tranche of loan notes detailed in note 20 on the same commercial terms as other unrelated party investors and subscribed for the 25,000 deferred redeemable shares described in note 26.

A component of the funding structure for the acquisition of Annova on 31 December 2016 was a subordinated loan from the vendor, ANNOVA Holding GmbH (now ANNEO Management Holding GmbH), which is majority-owned by four senior employees of ANNOVA Systems GmbH. The terms of the loan are detailed in note 20 under reference 8.

The Group rents office space and related services in Dortmund from a company controlled by a SCISYS Group PLC director, Dr K-G Meng. The office space is primarily used by several directors of SCISYS Group PLC and the rent is chargeable at an arms-length market rate of €13,000 p.a.

33 Contingent liabilities

The Group is investigating whether it has a liability for VAT associated with the operations of a French branch office acquired with the Annova Systems GmbH business in 2016. Neither the extent nor timing of any potential liability is currently known but the Company has brought the matter to the attention of the French tax authorities and is currently monitoring the situation.

Strategic Report
Corporate Governance
Financial Statements

Company Balance Sheet as at 31 December 2018

	Note	£'000	2018 £'000
Fixed assets			
Investments	4		**25,118**
			25,118
Current assets			
Debtors	5	**9**	
Cash and cash equivalents		**72**	
Current liabilities			
Creditors: amounts falling due within one year	6	**(12,226)**	
Net current liabilities			**(12,145)**
Net assets			**12,973**
Capital and reserves			
Called-up share capital	7		**7,420**
Merger reserve			**5,847**
Profit and loss account			**(294)**
Shareholders' funds			**12,973**

SCISYS Group PLC reported a loss for the period from incorporation on 31 August 2018 to 31 December 2018 of £294,000.

The accounts were approved by the Board of Directors on 10 April 2019 and were signed on its behalf by:

K M Heidrich,
Director

C A Cheetham,
Director

Company incorporated in Ireland under registered number: 633147

Company Statement of Changes in Equity

2018	Share capital £'000	Merger reserve £'000	Profit & loss account £'000	Total equity £'000
Balance as at 1 January 2018	-	-	-	-
Total comprehensive income for the period				
Loss for the period	-	-	(294)	(294)
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Issue of new shares	7,420	5,847	-	13,267
Total contributions by and distributions to owners	7,420	5,847	-	13,267
Balance as at 31 December 2018	**7,420**	**5,847**	**(294)**	**12,973**

1 Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

Basis of preparation
These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2014 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Under section s304 of the Companies Act 2014 the company is exempt from the requirement to present its own profit and loss account.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

A Cash Flow Statement and related notes;
Comparative period reconciliations for share capital and tangible fixed assets;
Disclosures in respect of transactions with wholly owned subsidiaries;
Disclosures in respect of capital management;
The effects of new but not yet effective IFRSs; and
Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

IFRS 2 Share Based Payments in respect of group settled share-based payments.
IFRS 13 Fair Value Measurement.
IFRS 7 Financial Instrument

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Investments
Investments in subsidiaries are shown at cost less provision for impairment.

Share-based payment transactions
Employees (including Executive Directors) of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The fair values of the share option schemes in operation have been assessed using the Black-Scholes model, as appropriate to each scheme at the date of grant. The fair values of the schemes are expensed evenly over the period between grant and vesting.

Where share options and free issue shares are provided to employees of the Company's subsidiaries, the IFRS 2 charge is added to the carrying value of the investment in subsidiaries and recycled in equity. Recharges to subsidiaries by the Company which are clearly linked to the share based payment are considered to be capital transactions and are deducted from the cost of investment in the subsidiaries.

Employee share schemes/Own shares held
Own shares held in the SCISYS Share Incentive Plan (the SIP) to the extent relating to the issue of free shares in October 2009 are treated as being those of the Company and are therefore reflected in the Company financial statements as follows:

Other assets and liabilities of the SIP are recognised as the assets and liabilities of the Company;
Consideration paid or received for the purchase or sale of the Company's own shares are shown in the reconciliation of movements in shareholders' funds;
Finance costs and any administration expenses of the SIP are charged as they accrue;
Dividends on the free shares held in the SIP are paid to the employee owners.

The SIP has been aggregated with the results of the Company only to the extent that the underlying assets relate to the free share award in October 2009.

Foreign currencies
Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rate and gains or losses on translation are included in the profit and loss account.

2 Loss for the period

As permitted under Section 304(2) of the Companies Act 2014 the Company has elected not to present its own profit and loss account for the period. The Company's loss for the period from incorporation on 31 August 2018 to 31 December 2018 of £294,000 is stated after charging:

	2018 £'000	2017 £'000
Fees paid to the Company's auditors for the audit of the Company's financial statements	32	-

3 Staff numbers and costs

Directors' remuneration (as set out in the Remuneration Report on pages 52 to 58) is borne by the subsidiary, SCISYS UK Holding Limited and recharged to other Group undertakings. The charge borne by the Company was £nil.

4 Investments

	Investment in subsidiaries £'000
Cost and net book value	
At 1 January 2018	-
Acquisition of SCISYS PLC	13,245
Intra-Group transfer of 11% of SCISYS Deutschland GmbH	10,660
Intra-Group transfer of SCISYS Deutschland Holding GmbH	1,213
At 31 December 2018	**25,118**

The Company was established as the holding company of the SCISYS Group by means of a Scheme of Arrangement on 27 November 2018 when it acquired the previous ultimate group parent company, SCISYS PLC (now SCISYS UK Holding Limited), through a share-for-share exchange. A further group reorganisation followed on 18 December 2018 when ownership of the sub-group of German subsidiaries was transferred from SCISYS UK Holding Limited to the Company.

The Company has investments in the following companies that affected the profits and net assets of the Group:

Company	Country of registration	Principal activity	Shareholding	Class of shares
SCISYS UK Holding Limited (formerly SCISYS PLC)	UK	Holding company	100%	£0.25 ordinary
SCISYS UK Limited	UK	Computer software and consultancy	100%	£1 ordinary
SCISYS Deutschland GmbH	Germany	Computer software and consultancy	100%	No-par-value shares representing €673,400
Xibis Limited	UK	Computer software	100%	£1 ordinary
SCISYS Deutschland Holding GmbH	Germany	Holding company	100%	No-par-value shares representing €25,000
SCISYS Media Solutions GmbH (formerly ANNOVA Systems GmbH)	Germany	Computer software	100%	No-par-value shares representing €325,000

The investments in SCISYS UK Holding Limited, SCISYS Deutschland Holding GmbH and 11% of SCISYS Deutschland GmbH are held directly by the Company. 100% of SCISYS UK Limited and Xibis Limited are held by SCISYS UK Holding Limited while 100% of SCISYS Media Solutions GmbH and 89% of SCISYS Deutschland GmbH are held by SCISYS Deutschland Holding GmbH. All investee companies principally operate in the country in which they are registered.

The registered addresses of related undertakings are as follows:

Company	Registered address
SCISYS UK Holding Limited (formerly SCISYS PLC) SCISYS UK Limited Xibis Limited	2 Methuen Park, Chippenham, Wiltshire SN14 0GB UK
SCISYS Deutschland GmbH SCISYS Deutschland Holding GmbH	Borgmann Str 2 44894 Bochum DE
SCISYS Media Solutions GmbH (formerly ANNOVA Systems GmbH)	Lyonel-Feininger-Str 26, 80807 Munich DE

5 Debtors

	2018 £'000	2017 £'000
Prepayments and accrued income	9	-

6 Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Trade creditors	**52**	-
Amounts owed to Group undertakings	**11,873**	-
Accruals	**301**	-
	12,226	-

Amounts owed to Group undertakings is payable on demand and bears interest at 5% per annum to be paid together with the purchase price.

7 Called-up share capital

	Authorised No of shares	Issued and fully paid-up No of shares	**Ordinary shares £'000**	Authorised No of shares	Issued and fully paid-up No of shares	**Deferred redeemable shares £'000**
Allotted during the period and in issue at the end of the period	50,000,000	29,584,660	**7,396**	25,000	25,000	**24**

The share capital of the Company comprises two classes of shares, Ordinary shares of £0.25 each and Deferred Redeemable shares of €1.00 each. Neither class of share carries any right to fixed income and both are presented as shares as opposed to liabilities.

Ordinary shares of £0.25 each were allotted during the period as follows:

- 2 shares were issued at par value to the subscribers to the memorandum of the Company on 31 August 2018
- 29,584,658 shares were issued under a Scheme of Arrangement to former shareholders of SCISYS UK Holding Limited (formerly SCISYS PLC) in a one-for-one share exchange on 27 November 2018 valued at £13,245,000.

The deferred redeemable shares of €1.00 each were allotted on 24 September 2018 at par as a new class of ordinary shares to satisfy the minimum capital requirement of a public limited company in Ireland. The shares were subsequently converted on 10 October 2018 to non-equity shares and further converted on 16 October 2018 to deferred redeemable shares. The shares carry no voting rights and are redeemable at par value. The shares are redeemable at any time at the option of the Board of Directors.

The Company held none of its own shares at 31 December 2018.

Other reserves

The Merger Reserve reflects the difference between the nominal value and agreed consideration value of shares issued as consideration for the acquisition of SCISYS UK Holding Limited (formerly SCISYS PLC) shares under the terms of a Scheme of Arrangement in 2018 described in note 27 to the Group financial statements and is not distributable.

8 Contingent liabilities

The Company has provided an all assets debenture in favour of the security trustee for and on behalf of the holders of the loan notes described in paragraph 6 of note 20 to the Group financial statements.

Shareholders' Enquiries
If you have an enquiry about the Company's business, or about something affecting you as a shareholder (other than queries that are dealt with by the Computershare as registrar), you should contact the Company Secretary by letter to the Company's registered office or by email to investors@scisys.co.uk.

Share Register
Computershare Investor Services (Ireland) Limited maintains the register of members of the Company.

If you have any questions about your personal holding of the Company's shares, please contact:

> Computershare Investor Services (Ireland) Limited, 3100 Lake Drive, Citywest Business Campus, Dublin 24, D24 AK82, or use their investor centre portal at www.uk.computershare.com/investor/.

If you change your name or address or if details on the envelope enclosing this Annual Report, including your postcode, are incorrect or incomplete, please notify the registrars in writing or use their investor centre portal.

Daily Share Price Listings
The Financial Times – AIM, www.euronext.com for the Euronext Growth.

Financial Calendar
Annual General Meeting 6 June 2019

Final dividend payable 26 July 2019

Expected announcement of results for the year ending 31 December 2019:

Half-year announcement September 2019
Full-year preliminary announcement March 2020

Company Registered number 633147

SCISYS Group PLC is a company registered in Ireland

Dividend Tax Allowance
The Company will continue to provide registered shareholders with a confirmation of the dividends paid by SCISYS Group PLC and this should be included with any other dividend income received when calculating and reporting their total dividend income. It is the shareholder's responsibility to take advice on their tax position and to include all dividend income when calculating any tax liability.

Registered Office
6th Floor
South Bank House
Barrow St
Dublin 4

Sign up to Electronic Communications
Help us to save paper and get your shareholder information quickly and securely by signing up to receive your shareholder communications by email. Registering for electronic communications is very straightforward. Just visit www.investorcentre.co.uk/ecomms. All you need is your investor code which can be found on your share certificate or your dividend tax voucher.

Bankers
National Westminster Bank
32 Corn Street
Bristol BS99 7UG

Legal Advisers
Burges Salmon
One Glass Wharf
Bristol BS2 0ZX

Mason Hayes Curran
6th Floor
South Bank House
Barrow St
Dublin 4

Auditor
Ernst & Young LLP
The Paragon Counterslip
Bristol BS1 6BX

Nominated Adviser and Brokers (AIM)
finnCap Group plc
60 New Broad Street
London EC2M 1JJ

For Euronext Growth, our brokers are Davy stockbrokers, see www.davy.ie.

Trademarks
Our Group registered and unregistered trademarks include:

dira!	**2met!**	**egmc²**	**MACSYS**	**PLENITER**	**SEAF**	**Digiright**
SEAF	**OpenMedia**	**Infinity**	**Now**	**Vision**	**NEWSBOARD**	**Cartosys**

Disclaimer
To the extent permissible, this material is provided for general information purposes only and is not intended to confer any legal rights on you. Investors should determine for themselves whether any investment is suitable for their investment needs and seek professional advice for their particular situation. The information is given as of the dates specified and is not updated. Any forward-looking statements are made subject to changes and uncertainties in market conditions, which means that actual results may differ in material respects.

Notes

SCISYS Group PLC
Methuen Park
Chippenham
Wiltshire
SN14 0GB
Tel: +44 (0)1249 466466
www.scisys.co.uk

Registered office: 6th Floor, South Bank House, Barrow Street, Dublin 4, Ireland