SCISYS

SCISYS PLC

Annual Report and Financial Statements
for the year ended 31 December 2016

16

INNOVATIVE. GROWING. SCISYS

30 YEARS OF LONG-TERM GROWTH

The SCISYS Group is a leading developer of IT 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.

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SCISYS

London Stock Exchange AIM

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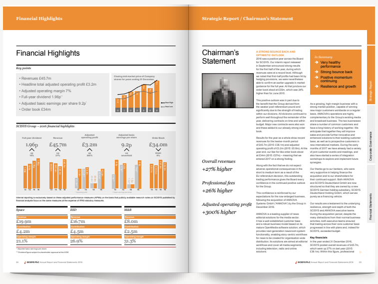

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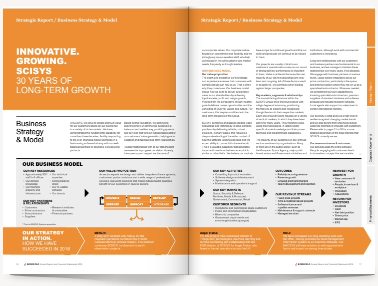

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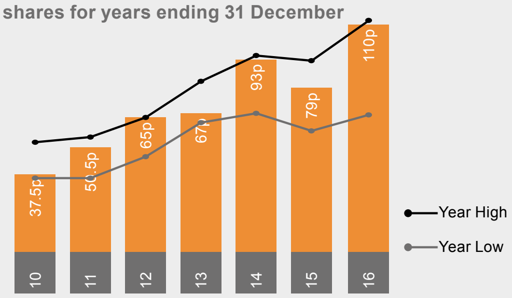
Key points

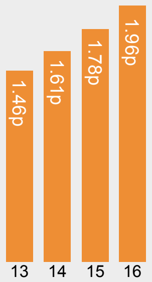
- Revenues £45.7m
- Headline total adjusted operating profit £3.2m
- Adjusted operating margin 7%
- Full-year dividend 1.96p**
- Adjusted basic earnings per share 9.2p*
- Order book £34m

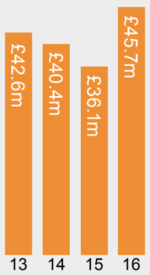
Closing mid-market price of Company shares for years ending 31 December

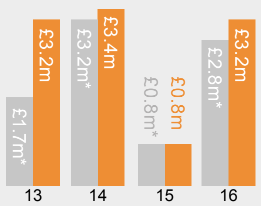


SCISYS Group – 2016 financial highlights

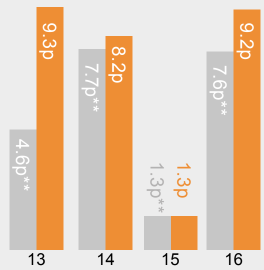
Full-year dividend	Revenue	Adjusted operating profit	Adjusted basic earnings per share	Order Book
1.96p	£45.7m	£3.2m	9.2p	£34.0m
up 10%	up 27%	up 300%	up sevenfold	down 8%



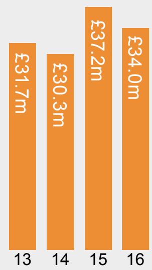




* Operating profit



** Basic earnings per share



Internal reporting is exclusively based on these adjusted performance measures (APMs) on the basis that publicly available research notes on SCISYS published by financial analysts focus on the same measures at the expense of IFRS statutory measures.

	Space	*ESD*	*M&B*
Revenue	£19.9m	£16.7m	£8.0m
Contribution	£4.2m	£4.5m	£2.5m
Operating margin	21.1%	26.9%	31.3%

* Adjusted basic earnings per share

** Dividend figure subject to shareholder approval at the AGM

Chairman's Statement

Overall revenues

+27% higher

Professional fees

+26% higher

Adjusted operating profit

+300% higher

A STRONG BOUNCE BACK AND OPTIMISTIC OUTLOOK

2016 was a positive year across the Board for SCISYS. Our interim report released in September announced strong results for the first half of the year, during which revenues were at a record level. Although we noted that first-half profits had been hit by hedging provisions, we were nevertheless able to confirm an earlier upgrade in market guidance for the full year. At that juncture our order book stood at £35m, which was 24% higher than for June 2015.

This positive outlook was in part due to the benefit that the Group derived from the weaker post-referendum pound and significantly due to the strength of trading within our divisions. All divisions continued to perform well throughout the remainder of the year, delivering contracts on time and within budget. Major new contracts were also won and these added to our already strong order book.

Results for the year as a whole show record revenues for the twelve-month period of £45.7m (2015: £36.1m) and adjusted operating profit of £3.2m (2015: £0.8m). At the year end, our like-for-like order book stood at £34m (2015: £37m) – meaning that we entered 2017 on a strong footing.

Along with the fact that we do not expect adverse operational consequences in the short to medium term as a result of the EU referendum decision, this outstanding trading performance gives the Board every confidence in the continued positive outlook for the Group.

This confidence is reinforced by our expectations for the now enlarged business, following the acquisition of ANNOVA Systems GmbH ("ANNOVA") by the Group in December 2016.

ANNOVA is a leading supplier of news editorial solutions for the media sector. It has a well-established customer base and a robust business model based on its mature OpenMedia software solution, which provides next-generation newsroom system functionality, enabling story-centric workflows for news to be created for organisation-wide distribution. Its solutions are aimed at editorial workflows and cover all media segments, including television, radio and online solutions.

In Summary

- Very healthy performance
- Strong bounce back
- Positive momentum continuing
- Resilience and growth

As a growing, high-margin business with a strong market position, capable of winning new major customers worldwide on a regular basis, ANNOVA's operations are highly complementary to the Group's existing media and broadcast business. The two businesses share a number of common customers and have a long history of working together. We anticipate that together they will improve sales and provide further innovative and enhanced solutions to their existing customer base, as well as to prospective customers in new international markets. During the early months of 2017 we have already had a variety of joint customer events and meetings, and also have started a series of integration workshops to explore and implement future synergies.

Our thanks go to our bankers, who were very supportive in helping finance the acquisition and to our shareholders for their continued support. Both ANNOVA and SCISYS Deutschland GmbH are now structured so that they are owned by a new SCISYS German holding subsidiary, SCISYS Deutschland Holding GmbH, which serves purely as a financing vehicle.

Our results are a testament to the underlying resilience, strength and depth of both the SCISYS and ANNOVA executive teams. During the acquisition period, despite the many distractions from their normal business activities, both executive teams ensured that trading across their core customer base progressed in line with plans and, indeed for SCISYS, exceeded budget.

Key financials

In the year ended 31 December 2016, SCISYS posted overall revenues of £45.7m, which were up 27% on last year (2015: £36.1m). Within this figure, professional fees were 26% higher at £37.6m (2015: £29.8m). The Group delivered an adjusted operating profit of £3.2m (2015: £0.8m), a 300% uplift on 2015. Operating profit was £2.8m (2015: £0.8m). Adjusted basic earnings per share were 9.2p (2015: 1.3p); basic earnings per share were 7.6p (2015: 1.3p). Cash generation remained healthy and, prior to allowing for the acquisition of ANNOVA, would have resulted in an estimated net inflow of £1.6m. The Group's pre-acquisition net cash position was £0.6m at year's end. At 7% (2015: 2%), our adjusted operating margin (adjusted operating profit divided by revenue) returned to historic levels – reflecting the conclusion to the project challenges faced by SCISYS in 2015.

Management uses adjusted performance measures to facilitate comparison between trading periods by excluding the distortions arising from exceptional items such as acquisition costs.

Our people are the key to our success

As always, our thanks rightly go to all of 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 time-scales, 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 divisions and who have made an important contribution to these results. Above all, our thanks go to the team led by Klaus Meng, which put many long hours into negotiating and completing the acquisition of ANNOVA.

Additionally, we welcome as new colleagues to the SCISYS Group a team of approximately 70 staff from ANNOVA, who are based at its Munich headquarters and at offices in London and Paris.

Dividend

We reinstated the interim dividend in September 2016 and an interim dividend of 0.53p per share was paid on 10 November 2016. The Directors are now recommending a final dividend of 1.43p per share, subject to approval by shareholders at the Annual General Meeting on 8 June 2017. The proposed final dividend will be paid on 14 July 2017 to shareholders on the register at 16 June 2017. The shares will go ex-dividend on 15 June 2017. This makes the dividend for the full year to 31 December 2016 1.96p (2015: 1.78p) per share and maintains our stated strategy of progressive dividend growth.

Governance matching our needs

We are committed to high standards of corporate governance. We have established strong governance frameworks throughout the Group in balance with its growth. SCISYS is compliant with the UK Corporate Governance Code, where appropriate for a company of its size.

LOOKING TO THE FUTURE

Strategy focused on revenue growth and margin improvement

The key elements of the Group's strategy remain unchanged and we have reinstated the medium-term strategic objectives of £60m revenues and double-digit operating margin that we published a few years ago. We continue to focus on balanced revenue growth, margin improvement, management and control of risk and succession planning.

Outlook

We are pleased with the strong bounce-back reported above and the healthy organic growth in revenues achieved during 2016.

Given the strength of our current order book and short-term pipeline, we expect the top-line momentum achieved in 2016 to continue into 2017, albeit our usual bias to the second half of the year will become more pronounced following the acquisition of ANNOVA. All divisions are performing well and we anticipate continued organic growth within the core SCISYS businesses, in line with our medium-term objectives. We also expect to see further positive impacts on profitability from the weaker pound, if this trend continues in 2017.

Guidance going forward has been restated to reflect the positive contribution to both sales and profits that we anticipate from the acquisition of ANNOVA. Although our primary focus in 2017 will be on the successful integration of ANNOVA into the Group, we will nevertheless continue to look for opportunities, where there is a good market, product and cultural fit, to grow through acquisition. We believe there are other good acquisition opportunities in the UK and Europe that would prosper under SCISYS' ownership.

Based on current performance on projects and order pipeline across the entire Group, including ANNOVA, the Directors remain fully confident in the future prospects of the Group.

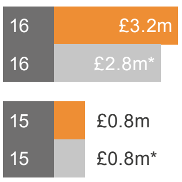
Dr. Mike Love

Chairman

Chief Executive’s Review

SCISYS Group	2016	2015
	£m	£m
Revenue	**45.7**	36.1
Professional fee revenues	**37.6**	29.8
Operating margin	**7%**	2%

Adjusted operating profit (£m)



* Operating profit

ESD division	2016	2015
	£m	£m
Revenue	**16.7**	12.2
Divisional contribution	**4.5**	1.7
Operating margin	**26.9%**	13.9%

RECORD REVENUES SHOW SCISYS STRONGLY BACK ON TRACK

I am extremely pleased to report the very healthy performance of SCISYS in 2016. Each of our operating divisions made a positive contribution to what was a very successful year on all fronts. We benefited from favourable currency effects, but more importantly each division made significant progress and delivered on the positive outlook picture painted in last year’s annual report. In particular, revenues were at a record high which, with the acquisition of German newsroom computer specialist ANNOVA Systems at the year end, puts us well on course for further growth in 2017.

Our interim results, announced in September 2016, reinforced the view that H1 2015 was both an isolated event and put behind us. At that point, we were still maintaining a fairly cautious outlook. However, as a direct result of the continued excellent performance of all divisions, strong recurring business and various major new contract wins, we were subsequently able to announce in early November 2016 that our trading performance for the full year was likely to be ahead of market expectations.

With revenues of £45.7m and an adjusted operating profit of £3.2m, we can now confirm that the business has delivered strongly, sending the unambiguous message that SCISYS is firmly back on track.

In line with our medium-term growth objectives, we not only drove organic growth across the business but also pursued a number of M&A activities throughout the year. This resulted in the completion on 31 December 2016 of the acquisition of the German company ANNOVA Systems. ANNOVA complements our Media & Broadcast division ideally and we expect it to play a strong role in helping us to grow our market for media & broadcast technology.

Enterprise Solutions & Defence (ESD)

With revenues of £16.7m and a divisional contribution of £4.5m, our Enterprise Solutions & Defence (ESD) division impressively underpinned the recovery. The division’s revenues and contribution for the full year are at a record level and demonstrate its ability to be an engine for organic growth.

ESD has had notable success targeting the defence, security and marine segments where electronic architectures remain a key technology for use in armoured fighting vehicles and vessels. These allow SCISYS to position itself as a well-recognised specialist in this area and further raise its profile in the maritime defence segment. Key successes to note include:

In Summary

- Successful year on all fronts
- Revenues at record high
- Good organic growth across divisions
- Acquisition of ANNOVA Systems

- Following the award of a multi-million research contract in support of the Maritime Air Defence Command in late 2015, the UK Ministry of Defence (MoD) and its Defence Science and Technology Laboratory (Dstl) have contracted research and software development services from SCISYS to create and demonstrate a new decision support system for use by the Royal Navy. The initial phase is valued at £1.2m, with the potential for this to grow to £3m as subsequent phases are commenced over the next two years.
- Another important step was made late last year when ESD won a contract to design and deliver the Customs Compliance Management Information System (CCMIS) application for the MoD at a value of £4m. The initial key delivery milestone was met successfully ahead of schedule and to the full satisfaction of the customer, demonstrating an excellent track record for the division as part of the MoD’s supply chain and in delivering complex business systems.
- The ongoing and large long-term framework in the security sector, which we were able to first report on in the last annual report, has contributed a substantial amount of time & material-based revenues and continues to establish SCISYS in this domain.

Recurring revenues and long-term customer relationships are key to ESD’s position in the UK public SITS (Software and IT Services) sector and 2016 saw encouraging extensions, particularly in the area of OpenGIS ▷

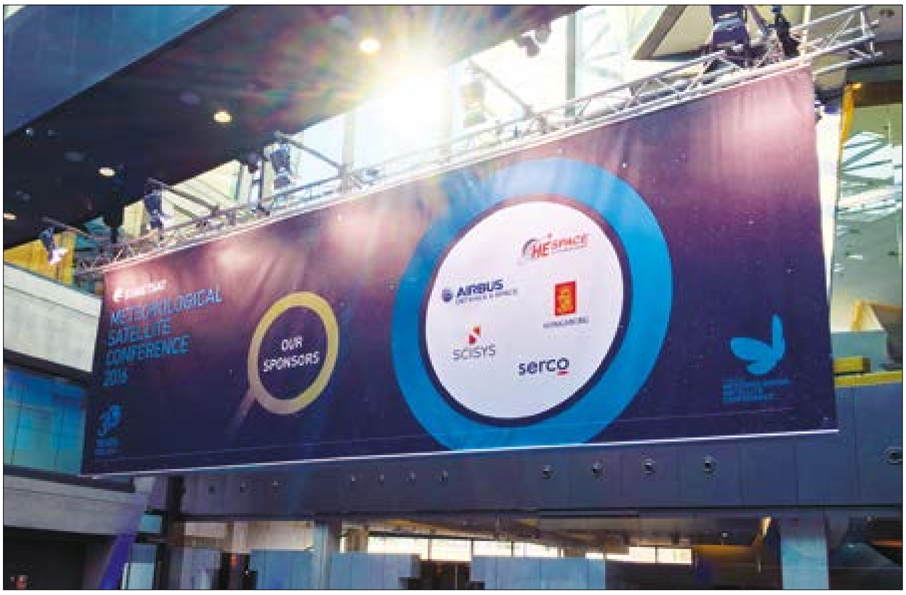
solutions with new and existing customers. Activities in the commercial sector benefited from strong relationships with key customers such as Vodafone, Capgemini, RNLI, Siemens, TfL and UKPN, as well as a number of UK local authorities in central government. This also included securing new customers, some won in joint bids with Xibis.

Media & Broadcast (M&B)

2016 was an impressive year for our Media & Broadcast (M&B) division, with impressive growth in both revenue and contribution. Major opportunities that the team had worked on in 2015 bore fruit early in the year and – in combination with the strong element of over 40% recurring maintenance revenues and additional contracts from the established client base – formed the basis of this excellent success.

Going forward the acquisition of ANNOVA significantly strengthens SCISYS' position in the media & broadcast technology sector in general and in the growing automation & control sub-sector in particular. By joining forces we anticipate that M&B and ANNOVA will be able to find synergies on various fronts. While concentrating on their respective complementary dira! and OpenMedia products and customer relationships they will jointly explore cross-selling and co-selling opportunities, they will have better access to untapped markets, and they will also look to extend their product and services portfolio in the medium term. Both businesses have known each other for many years, and the joint initiatives are already very encouraging.

M&B secured its first win in South Africa in April. A €2m contract with South Africa Broadcasting Corporation (SABC) further demonstrated the international reputation of the dira! product suite, which has been won over many years with state broadcasters in Europe. The scope of this new contract is to roll out the dira! radio production and playout suite to all of SABC's commercial, non-commercial and local radio networks. In just over two years, SCISYS will replace existing incumbent systems with dira! in Johannesburg and across fifteen regional sites of SABC. The division also commenced on two leading-edge joint projects with Norddeutscher Rundfunk (NDR), to create a system for intelligent recording of live music events, and with Westdeutscher Rundfunk (WDR), to take recordings of programmes in the day to re-purpose them automatically for broadcast in the evening.



A second major win in 2016, adding to a £2m contract with a major UK radio broadcaster, was won in February under an ongoing framework agreement. The scope of this contract is to change the way that radio is operated today, such that local radio is hosted in a central datacentre. This concept – also referred to as ViLoR (Virtual Local Radio) – means that regional studios can use a bare minimum of equipment installed locally to produce and broadcast, with the rest of the support services accessed over a wide-area network.

Full-year results totalling revenues of £8.0m and a divisional contribution of £2.5m confirm the positive outlook we reported at half year. Year-on-year revenues are up by 26% and

M&B division	2016	2015
	£m	£m
Revenue	**8.0**	6.4
Divisional contribution	**2.5**	2.0
Operating margin	**31.3%**	31.5%


SCISYS
Turnkey
Ground Segment
Solutions and Services
SCISYS
SCISYS
Ready to connect established business with NEW SPACE business models
SCISYS
A TRUSTED PARTNER IN NUMEROUS
EUROPEAN SPACE PROGRAMMES
ENGINEERING SERVICES
AT THE HEART OF YOUR SPACE MISS
420
SCISYS

contribution up by 25% – a combination of double-digit growth on a constant currency basis and a favourable exchange rate. With a divisional margin of 31%, M&B substantiates again the strength of its product-centric business model.

Innovation continuously plays an important role for M&B's business, which is centred round its proprietary dira! product. An initial project was delivered to the BBC which provides a cloud hosted service for the music industry and producers to upload music for review and consumption by BBC editors. The product range for collaborative use of media has been extended by the dira! Scotty solution for web and mobile computing. Projects with German customers such as NDR and WDR were also extended, which established innovative, more efficient workflows between production & playout and newsroom computer systems.

Space

Our Space division maintained the momentum reported for the first half of the year. It delivered a record performance for the year as a whole in terms of revenues of £19.9m and a divisional contribution of £4.2m, with growth rates of 21% and 27% respectively. While the division gained an advantage from the stronger euro – almost all of its business is euro denominated – the results on a constant-currency basis also show significant increases in both revenues (6%) and divisional contribution (11%).

The division progressed with its new re-usable proprietary PLENITER software suite, which it hopes will help to position SCISYS Space in the arena of commercial space flight and further improve the company's competitive edge in the well-established public space sector. This is one element of its strategic objectives to further grow its business sustainably with increasing margins.

As a first major reference for this new solution, SCISYS has signed a contract with WorldVu Satellites LLP, a global satellite communications service provider trading as OneWeb, that is building the world's largest satellite constellation. SCISYS will deliver satellite mission-planning software based on its PLENITER product suite for the OneWeb constellation, comprising several hundred satellites, which will provide connectivity to billions of people around the world.

The PLENITER product is just one element of the divisions' growth strategy. Additional momentum has built during 2016 from SCISYS' valuable contribution to other premium long-term programmes.

The European Galileo programme, which for SCISYS had its initial roots back in 1999, has again delivered a share of €6m of revenues. The programme is now moving into its next stage of operation and SCISYS Space, as a well-reputed specialist partner on the programme, can expect to see continued substantial involvement in 2017 and beyond.

Back in 2014, SCISYS established itself as one of the partners for the European ExoMars mission to Mars when it took on a €2m contract with the prime contractor Airbus Defence & Space to deliver the rover vehicle visual localisation flight software (VISLOC). This contract has been supplemented in 2017 by the ExoMars Mission Management System (MMS) software worth €3.4m that controls the numerous instruments on board the rover and manages the rover's operations on the ground.

Earth observation is another domain where SCISYS Space has been a key player for many years. As an innovative partner, the division always manages to be involved in the latest programmes thus expanding its expertise and reputation. In December 2016, it signed a €3.3m contract with Airbus to deliver central software and hardware for the MERLIN Payload Operations Centre. MERLIN (Methane Remote Sensing LIDAR Mission) is a French-German climate ▷

Space division	2016	2015
	£m	£m
Revenue	**19.9**	16.4
Divisional contribution	**4.2**	3.3
Operating margin	**21.1%**	20.0%

WHAT OUR CUSTOMERS SAY

"I appreciate the partnership that SCISYS has built with the Authority. We expect a lot from our staff and contractors and SCISYS have been patient, hardworking, people of their word and found solutions to change our business."

– Philip Lawrence,
Chief Executive,
The Coal Authority

"SCISYS has proven to be a proactive supplier to Lockheed Martin on Warrior CSP, and are well regarded throughout the programme. Their agility, insight and most importantly their can-do approach has proven invaluable in getting their product integrated into the programme."

– Steve Strachan,
Director, Global Supply Chain Operations,
Lockheed Martin UK (Ampthill)

"SCISYS brought a pragmatic responsive approach to development of the Space Weather propositions which delivered a sound user focused business case and outline technical solution."

– Mark Gibbs,
Space Weather Lead,
UK Met Office

"OneWeb is very pleased to partner with SCISYS for our fleet operations Mission Planning solution. Our team thoroughly researched existing mission planning systems and concluded the SCISYS products were the best fit for our automated Satellite Operations Center (SOC)."

– Eric Béranger,
Chief Executive Officer,
OneWeb (WorldVu Satellites LLP)

"ViLoR provides cutting edge kit to local radio stations, bringing them up to the level of network radio."

– Joe Pignatiello,
Principal Business Change & Training Manager,
ViLoR Programme (2015-2017), BBC

Citation published on the BBC Academy website

Risk and viability statement

Executive Directors and divisional directors meet at Divisional 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 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 Divisional Boards and discussed at each Divisional Board meeting, 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 at Divisional Board meetings and actions set in place to address them, and also discussed at SCISYS PLC 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.

mission, which SCISYS has been involved in from the initial study phases in 2013.

The second generation of EUMETSAT's Polar System (EPS-SG) is another major earth-observation programme. SCISYS secured its initial involvement when the contract was signed back in March 2014 and now enjoys ongoing involvement in the next phases of this project.

Charting course for further growth

The success achieved in 2016 is testimony to SCISYS' overarching commitment to run a resilient, well-balanced business, which promotes sustained commercial success. In line with our strategic objectives, we have been able to grow the Company by strengthening the position in our well-established niches and by moving into new ones on the back of our expert know-how, versatile skills and our commitment to innovation.

Much of our success is attributable to our staff, and we keep emphasising our core corporate values of mutual trust, respect and openness. In total, our teams have grown by 7% during 2016 across the UK, and by 6% in Germany, and during the year we have welcomed on board a significant number of young highly talented graduates. As the Company keeps growing it will be even more important to foster and to evolve our corporate culture in line with our values and strategic objectives so that SCISYS remains a motivating and rewarding company to work for.

2016 was a good year for SCISYS and one that allowed the business to chart a course for future growth. In line with the momentum building in the Company as well as in some of our target markets, we continue to anticipate further organic growth. This confidence is underscored by our like-for-like year-end order book of £34m, our long-term customer relationships and the healthy amount of recurring revenues.

Furthermore, we anticipate that the acquisition of Munich-based ANNOVA Systems will significantly support our medium-term growth. With its leading OpenMedia newsroom software, ANNOVA introduces an exciting new dimension to our existing activities in the media & broadcast technology sector. ANNOVA brings a very healthy business and its proven track record suggests that it will continue to deliver decent double-digit revenue growth at high margins.

ANNOVA and SCISYS' Media & Broadcast division have already established joint innovative concepts for newsroom integration working alongside some of their key customers. Going forward, we are confident that more synergies can be identified and explored and that SCISYS, with this combined offering, will be further able to raise its profile in the growing segment of system automation & control solutions for the media & broadcast industry.

Importantly, we also see an excellent cultural fit between the two companies, with management and teams sharing the same corporate values of commitment, trust and openness. We welcome the ANNOVA team into the SCISYS Group and look forward to a positive joint future that benefits our customers, shareholders and joint teams alike.

My sincere thanks go out to our shareholders, our customers, our management, staff and all other stakeholders who have demonstrated strong support for SCISYS in 2016. The Group has made excellent progress during the year, and we are confident that we will be able to continue in the SCISYS way in 2017: expanding the business in a sustainable, resilient, balanced way; for the benefit of our shareholders, customers and staff.

Klaus M. Heidrich
Chief Executive

Finance Director's Report

Group Revenues

£45.7m
+27%

I am pleased to report that the confidence that we expressed in our Interim Report proved well founded as that positive momentum was maintained in the second half of the year. Foreign exchange fluctuations driven by the Brexit vote introduced some distortions into our results although all divisions delivered an improved year-on-year performance on a constant currency basis. An already successful year was capped off by the announcement and subsequent completion of our acquisition of ANNOVA Systems GmbH (ANNOVA) in November and December respectively.

In Summary

- Adjusted operating profit up fourfold
- Total revenues 27% higher
- Adjusted basic earnings per share up sevenfold

REVENUES

Total revenues for the year were 27% higher at £45.7m (2015: £36.1m), of which the component relating to professional fees was £37.6m (2015: £29.8m). 49% of total revenues were from Eurozone customers (2015: 49%). In contrast to the previous two years where the euro depreciated in value against the pound, the euro strengthened in 2016, which boosted the revenue figures. On a constant currency basis (assuming that 2015 exchange rates applied in 2016) total revenues rose 17% to £42.4m and professional fees increased 17% to £34.7m.

PROFITS

The underlying measure of trading performance, adjusted operating profit, which excludes the costs of the Group's long-term share incentive schemes, exceptional items and any amortisation of intangible assets arising on business acquisition, was up fourfold on 2015 at £3.2m (2015: £0.8m). Statutory operating profit was £2.8m (2015: £0.8m) after bearing transaction costs incurred in the acquisition of ANNOVA that could not be capitalised under IFRS 3.

Exceptional charges for acquisition costs amounted to £0.5m (2015: £nil) and represent fees for external legal, accounting and tax advice during the due diligence and deal completion phases. Share-based payment charges were immaterial for the second successive year because the three-year performance criteria for vesting of option awards granted in 2014 were not achieved as a consequence of the disappointing 2015 trading results.

As outlined in the Chief Executive Officer's report, each operating division exceeded its budgeted contribution target for the year, which was a welcome return to form all round.

The Group generates surplus euro income from its German operations and UK-based space market activities. We seek to protect the sterling value of these funds by entering into forward contracts to sell expected euro receipts at rates fixed in advance. In recent years, gains on such hedging contracts have offset revenues devalued on translation into sterling. However, in 2016 the Brexit vote had a considerable impact on the euro–pound exchange rate and the ensuing revenue gains were offset by hedging contract losses. During the year, the realised loss on currency trading contracts was £0.6m (2015: gain £0.3m) and at the end of the year the unrealised loss on commitments for 2017 was £0.3m (2015: £0.1m).

While revenues benefited from a stronger euro the same foreign exchange rate movement increased the sterling value of our euro-denominated costs in Germany. On a constant currency basis and excluding exceptional acquisition transaction costs, Group overheads, representing the costs for provision of shared business services to the divisions, were 10% higher than 2015 at £6.9m (2015: £6.3m).

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 seven times higher at 9.2p (2015: 1.3p). Basic EPS were 7.6p (2015: 1.3p).

ACQUISITION OF ANNOVA SYSTEMS GMBH

The acquisition was completed on 31

* Subject to shareholder approval at the AGM

December 2016. Consequently ANNOVA did not contribute to the Group income statement for 2016 although its balance sheet and the transaction-financing cash flows do feature in the financial statements. The acquisition vehicle was a newly formed intermediate holding company in Germany, SCISYS Deutschland Holding GmbH.

The purchase consideration is payable in euros and comprises an initial element paid in cash at completion and incremental earn-out payments contingent on achievement of key commercial milestones and ANNOVA's trading performance over the three-year period ending 31 December 2018. The earn-out consideration is payable in a combination of cash and SCISYS PLC shares. Funding for the initial consideration of €11.4m (£9.7m) was principally financed through an unsecured loan of €10.0m (£8.5m) from Deutsche Bank, repayable in instalments over a five-year term and bearing interest at a fixed annual rate of 2.9%.

The balance of the initial consideration, together with the transaction fees, were financed from the Group's internal resources together with a first-tranche placing of second-ranking, non-convertible loan notes of £1.5m under a new loan-note programme of up to £5.0m established by Lesmoir-Gordon, Boyle & Co Ltd (LGB). The first tranche of loan notes was issued for a three-year term at a coupon of 7%. To the extent that earn-out payments are satisfied in cash rather than new shares they will be funded from further loan-note placings in combination with internal resources. The contingent liability for earn-out payments included in the consolidated financial statements is £3.3m compared with a contractual cap of €16.5m (£14.1m).

In accordance with the terms of the ANNOVA share purchase agreement, SCISYS will receive a rebate from the vendors of £0.3m following approval of ANNOVA's German GAAP accounts for 2016.

The total cost of investment was £12.7m or £10.5m net of acquired cash.

IFRS 3 requires SCISYS to make consolidation adjustments to the ANNOVA balance sheet to reflect fair values on acquisition. Intangible assets for fair-value recognition comprise the order book at 31 December 2016 and the internally developed intellectual property rights in ANNOVA's Open Media product. Recognition of these assets in the consolidated Group balance sheet in 2016 will lead to non-cash amortisation charges to the income statement over the remaining estimated economic life of the assets.

CASH AND DEBT

The aggregate year-end net debt position was not directly comparable with the prior year because of distortions introduced by the ANNOVA acquisition funding. Including the ANNOVA acquisition finance, net debt was £10.2m (2015: £1.0m). The Group closed the year with bank deposits (net of overdrafts) of £6.7m (2015: £3.6m), while Group borrowings amounted to £16.9m (2015: £4.6m), On a like-for-like basis the opening 2016 net debt of £1.0m was converted to net cash of £0.6m although this represents a £0.8m cash outflow for the second half of the year. The figures reconcile as follows:

	£m
Net (debt) disclosed in accounts	(10.2)
Add back capitalised costs netted off	(0.2)
Net amounts owed to lenders	(10.4)
Adjustments for acquisition net debt:	
Deutsche Bank loan	8.5
LGB loan notes	1.5
Acquired ANNOVA net debt	1.0
Pre-acquisition net cash	**0.6**

The Group's cash flow is notoriously lumpy and the timing of two particular events contributed to the year-end net cash being almost £2m below the anticipated level. Firstly, an anticipated December tax credit receipt of £0.7m from HMRC did not materialise until early January. Secondly, SCISYS was caught in the fallout from the Ministry of Defence's troubled implementation of a new contractor payment system. This left invoices to the value of £1.2m overdue for settlement at the year end and this problem has only begun to be resolved in March 2017.

Unutilised working capital facilities at the year end totalled £4.4m (2015: £3.6m).

In May the Barclays property-backed term loan fell due for repayment and was renewed with no change of terms until May 2021. The unsecured loan made by SCISYS' Chairman, Mike Love, remains in place until May 2020.

TAX

The effective Group tax rate for the year reduced to 15% (2015: 39%) from the anomalously high level in 2015 when losses in UK-based operations depressed Group pre-tax profits while profits generated in Germany were subject to a tax rate of over 30%. The availability to SCISYS of R&D tax credits continued to produce a negative effective tax rate on UK profits although this benefit will become less generous if and when the average Group headcount exceeds five hundred.

ACCOUNTING STANDARDS

No material changes in accounting standards have impacted the Group accounts for 2016. The next significant change affecting SCISYS is expected to be in 2018 when IFRS 15 Revenue from contracts with customers will be adopted. The SCISYS Board established a project team to confirm how the new standard will affect revenue recognition across the Group, to introduce workflows to capture new data requirements and to provide training to staff in IFRS 15's application.

ORDER BOOK

Excluding ANNOVA, the year-end order book was 8% lower than the record prior-year level at £34.1m (2015: £37.2m) although the value invoiceable within one year was practically unchanged at £25.7m (2015: £25.8m). Of the total order book, 55% (2015: 51%) was denominated in euros. ANNOVA's order book at acquisition was £30.4m, of which £5.5m is invoiceable in 2017.

After a relatively sluggish first half-year, 2016 has gone from strength to strength with repeated upgrades in expectations and, if unrealised hedging losses are excluded, it ranks as our most profitable year on record. With a substantial proportion of budgeted revenues for 2017 underpinned by a strong opening order book and with the addition of ANNOVA to the Group's ranks, the outlook for the coming year is even more encouraging.

Chris Cheetham
Finance Director

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

Business Strategy & Model

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 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. Honesty, transparency and respect are the core of

OUR BUSINESS MODEL

OUR KEY RESOURCES

- Approximately 500* staff in 6 offices
- Our domain knowledge
- Our freehold property and infrastructure
- Our technical expertise
- Strong balance sheet
- Our re-usable software
- Our brands

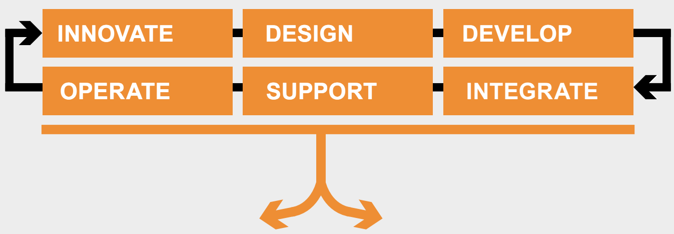
OUR KEY PARTNERS & RELATIONSHIPS

- Customers
- Prime contractors
- Subcontractors
- Suppliers
- Research institutes & universities
- Financial partners

* Prior to ANNOVA Systems acquisition

OUR VALUE PROPOSITION

As sector experts we design and deliver bespoke software systems, customised product solutions and a wide range of professional services: real world solutions that create indispensable business benefit for our customers in diverse sectors.



OUR STRATEGY IN ACTION.
HOW WE HAVE SUCCEEDED IN 2016

MERLIN:
A long-term contract with Airbus, for the Payload Operations Centre for the French-German MERLIN climate mission. The contract continues SCISYS' involvement in earth-observation projects.

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

The depth and breadth of our knowledge and experience ensures that customers with complex issues can rely on us. That is often why they come to us. Our business model shows how we seek to deliver sustainable value to our shareholders by achieving top-line sales, profit and margin growth. Viewed from the perspective of staff, healthy growth delivers career opportunities and the upholding of SCISYS' values and culture. For customers, this inspires confidence in the long-term prospects of the Group.

SCISYS combines and applies 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.

Our projects are usually critical to our customers' operational success so our record of strong delivery performance 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 businesses with a high degree of autonomy, positioning themselves as experts and recognised thought leaders in their respective markets. Each one of our divisions focuses on a variety of vertical markets, in which they have been active for many years. They therefore excel using their specialised, in-depth sector-specific domain knowledge and their proven technical and programmatic capabilities.

The majority of our customers in any of these sectors are blue-chip organisations. Many of them are in the public sector, such as the European Space Agency, major public broadcasters and Government ministries and institutions, although work with commercial customers is increasing.

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

Our diversity is what gives us a high level of resilience against changing market trends and we also benefit from sharing divisional expertise internally to innovate with customers. Please refer to pages 21 to 28 for a more detailed description of the focal markets that SCISYS currently serves.

Our revenue streams & outcomes

Our activities span the entire software lifecycle: engaging with customers leads to innovative concepts that we translate

OUR KEY ACTIVITIES
- Consulting & product innovation
- Software design and development
- System integration
- Maintenance and operations support

OUR KEY MARKETS

Space, Security & Defence, Maritime, Media & Broadcast, Government, Commercial, Retail

CUSTOMER SEGMENTS
- Institutional and commercial space customers
- Public and commercial broadcasters
- Blue-chip companies
- Government departments and arms-length bodies (quangos)

OUTCOMES
- Reliably recurring revenue
- Revenue growth
- Growing profit and margins
- Talent development and retention

OUR REVENUE STREAMS
- Fixed-price projects
- Time & material-based projects
- Software licence and royalties revenues
- Maintenance & support contracts
- Managed services

REINVEST FOR GROWTH
- New customers & territories
- People, know-how & workplace
- Innovation
- Acquisitions

RETURN FOR INVESTORS
- Dividends
- Cash
- Net debt position
- Share price
- Market cap
- EPS

Angel Trains:
For this project Xibis combined Internet of Things (IoT) technologies, machine learning and remote monitoring and collaborated with the ESD division of SCISYS for Angel Trains, who lease to the rail operators across the UK.

RNLI:
We have increased our long-standing work with the RNLI, having provided our boat management information system to 22 Shannon lifeboats. Our MACSYS software solution is well regarded and has a real impact on saving lives at sea.

ACQUISITION OF ANNOVA SYSTEMS

In November 2016, we signed the sale and purchase agreement for the acquisition of ANNOVA Systems GmbH for a maximum consideration of €27.83m (£23.8m), the Munich-based leading supplier of editorial newsroom solutions to the media & broadcast market; the acquisition completed on 31 December 2016. This acquisition meets our acquisition criteria in many respects. Key aspects include:

- Acquisition of a leading supplier of software-based news editorial solutions, principally to the Northern European media sector
- Highly complementary to SCISYS' Media & Broadcast division, with significant synergy benefits expected and considerable international growth opportunities for the enlarged business
- Strong customer base, including public and commercial broadcasters across Europe, including the BBC under a 12-year contract
- Significant own IP content based on proprietary "best in class" OpenMedia software
- Cash-generative business with a strong order book, growing pipeline of prospects and robust revenue visibility
- Highly competent and experienced workforce
- For the year ended 31 December 2015, ANNOVA generated German GAAP revenues of €7.5m, EBIT of €1.1m and operating cash flow of €1.4m

Business Model
ANNOVA has a healthy track record of delivering high-revenue growth at double-digit margins into its impressive base of premium long-term customers. Its proprietary OpenMedia newsroom software product is complementary to the dira! product suite of our Media & Broadcast division, which creates significant potential for synergies. With ANNOVA and Media & Broadcast in combination, SCISYS will have a substantially stronger position in the growing segment for automation and control in the Media & Broadcast technology market.

ANNOVA operates a similar business model to SCISYS M&B in focusing on its proprietary OpenMedia newsroom software product. This meets our strategic objective for increasing software licence-based revenues and improved margins.

SCISYS and ANNOVA have an excellent cultural fit, which we have always considered a critical factor because it helps mitigate integration risks; this is vital to progress our vision in line with our corporate values and culture.

The acquisition of ANNOVA serves as another excellent example of how our strategy of balanced evolution and sustainable growth works: while we have prudently assessed a significant number of opportunities for acquisitions over the recent past, we have nevertheless patiently taken the time it needed to find such an excellent fit.

into high-quality, robust software solutions. We integrate these solutions on a 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. We increasingly add 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 of 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 future revenue, profit and margin growth. Being a successful business that excels at generating value for our customers makes us attractive for 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 resources are a team of approximately 500 highly qualified staff, working in 6 offices across the UK and Germany. This committed team provide us with in-depth domain knowledge and superior technical expertise. We achieve this by working to keep and recruit 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
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 and to foster existing customer relationships and to expand into untapped regions. Permanent technical innovation, including the development of proprietary software and regular staff development, allows us to maintain our reputation as leading-edge technology experts. 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, sustainable 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. This is done in line with corporate values that are reflected in the SCISYS culture of being committed, honest, customer-

OUR STRATEGY IN ACTION.
HOW WE HAVE SUCCEEDED IN 2016

BBC Mira (Music Industry Receiving Architecture) project:
This project looks to provide all the dira! modules through a cloud-based interface, further developing media production as a service, using cloud services for the next generation of dira!

focused, respectful and supportive to all of our stakeholders. The divisions continuously broaden their pipelines of prospective clients, building on the positive reputation gained with existing clients and seek to extend their business development and sales activities to new territories. They also move 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 base, geographical reach or add unique expertise – and, most importantly, are a good cultural fit to ensure successful integration.

Progress in 2016

The key objective in 2016 for the Board was to achieve a sustained recovery in line with market expectations. We overachieved initial revenue guidance given in April 2016 by 23% for revenue and 29% for adjusted EBITA. We then exceeded updated market guidance given in November 2016 by 4% for both revenue and adjusted EBITA.

Over-achieving against these targets for revenue and profit growth further demonstrates the underlying strength and resilience of SCISYS following the difficulties we faced in 2015.

In addition to the year-on-year comparative, the performance delivered in 2016 shows compound growth rates of 4% for revenue and 5% for adjusted EBITA over a 4-year term starting in 2012. This underpins the success of our strategic approach of balanced evolution and sustainable growth in a demanding business environment.

As for our overall financial performance, we have been able to make very good progress against our strategic priorities for 2016 across all our divisions.

Our year-end order-book position was bolstered by ANNOVA's strong order book, and quantifies the progress we have made with respect to our medium-term aspirations.

We have taken action towards more harmonised project review procedures across all divisions. By implementing more advanced mechanisms in our project reporting system, we have strengthened our project-management capabilities. We have also integrated the system more closely with our risk-management processes and tools; a group-wide, top-level risk assessment can now be run directly from our project-reporting system (See pages 30 to 33).

Another priority was to improve utilisation of the Group's property. We took the initiative to market the Chippenham property assets of the Group more effectively. By enhancing the appeal of the property to potential tenants we▷

STRATEGIC PRIORITIES

OUR **STRATEGIC PRIORITIES 2016** *As per ARFS 2015	OUR **ACHIEVEMENTS DURING 2016**
Strengthening our position as experts within the specialised sectors addressed by our divisions so that existing **customer relationships are maintained** and **additional customers** are identified and **won**.	· All divisions have secured substantial recurring business, e.g. Galileo programme extensions, time & material based operations support for ESA under the new GOF9 framework (Space), recurring maintenance revenues, ongoing call-off projects under the exclusive AE&P framework contract with the BBC (M&B), long term support contracts, long-term time & material based on site activities in the security domain (ESD). · New customers were won in all divisions, e.g. UK Hydrographic Office for joint business from ESD and Xibis, South African Broadcasting Corporation, OneWeb.
Entering **adjacent sectors** to extend the market potential we can target, particularly based on established capabilities and technologies.	· With the OneWeb project based on PLENITER we have secured a first significant contract in the commercial space sub-sector. · A significant contract to deliver further research and software development services involving tactical combat systems for surface warships with the UK Ministry of Defence (MoD) helps to establish SCISYS in the maritime defence area. · Based on our in-depth knowledge of complex business systems aggregated in other sectors we are delivering a Customer Compliance Management Information System to the MoD.
Investing into business development to **expand our geographical reach** so that in the medium term we can better exploit international markets based on our current expertise.	·M&B has secured a major project with the South African Broadcasting Corporation, SABC. ·The OneWeb project extends the activities of our Space division to the US.
Investing into **product, framework and standardised service offerings** and related business models to sharpen our position and competitive edge and to generate **better margin** in the medium term.	· PLENITER product suite for satellite ground-segment solutions · MACSYS platform for maritime solutions similar to the solution continuously deployed to the RNLI · Extensions to the dira! product portfolio of the M&B division, including the cloud based MIRA solution and further progress with Virtual Local Radio (ViLoR)

Food Forensics:
Xibis built a system for a commercial food supply-chain testing laboratory undertaking the analysis of foods, feed and environmental swabs that takes complex data from all labs and displaying a dashboard of test results.

ViLoR project:
Virtual Local Radio (ViLoR) is a project changing how radio is operated today, whereby local studios are hosted virtually in a central datacentre and the remainder of services are accessed and run over a wide area network.

KEY PERFORMANCE INDICATORS

Measuring our progress against our strategic goals.

Revenue

The 2016 target was to achieve revenues of £38m, which was exceeded by £7.7m.

16	£45.7m
15	£36.1m
14	£40.4m
13	£42.6m
12	£39.5m

Adjusted Operating Profit Margin

The target was to achieve 8% adjusted operating profit by end of 2016 – the actual margin achieved was 7.1%.

Adjusted Profit Margin

16	7.1%
15	2.2%
14	8.3%
13	7.5%
12	6.8%

Operating Profit Margin

16	6.1%
15	2.2%
14	7.9%
13	4.7%
12	5.7%

Please refer to the CEO's Review on pages 7 to 13 and to the Finance Director's report on pages 14 to 15 for a detailed explanation of all of the above.

Dividend*

16	1.96p*
15	1.78p
14	1.61p
13	1.46p
12	1.32p

* subject to shareholder approval at the AGM

attracted an additional tenant, reducing our net costs by approximately £0.1m per annum.

OBJECTIVES GOING FORWARD

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 also our earnings per share. With ANNOVA being part of SCISYS from 2017 onwards, and the healthy growth we are seeing organically, we expect to benefit from the current momentum going forward. On that basis we feel sufficiently confident to update our quantified 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.

This reinstates the strategic objectives of £60m revenues and double-digit operating margin that we published a few years ago. We expect our operating profit to grow in line with these top-level financial objectives, and also anticipate a corresponding increase in SCISYS' EPS. Based on our track record of sustainable cash generation we plan to maintain our progressive dividend strategy.

We note that, due to the nature of our business model, we may experience half-year on half-year or year-on-year disruptions to a degree and therefore use compound annual growth rates as a measure of achievement. We also retain the concept of a set of baseline targets that is complemented by a set of more aspirational targets by which we may meet our objectives earlier than assumed for the baseline.

As stated in previous reports these targets can be impacted by exchange-rate movements that are beyond our control, as well as continued order intake deferrals. Also the transition to the new revenue recognition accounting standard IFRS 15 in 2018 will introduce a revised approach to revenue reporting. Accordingly their exact quantification and timing may be subject to externally induced changes.

Although the acquisition of ANNOVA will attract a significant amount of the Board's attention during the next year, growth through further acquisition remains a key element of our strategy. Again, the fundamental approach will not change: we will continue to look for opportunities that add value to the business by complementing our current activities.

STRATEGIC PRIORITIES 2017

For 2017 the Board will be focused on a set of key measures that will help to progress our medium-term strategy:

- The integration of ANNOVA Systems into the SCISYS group so that synergies with our Media & Broadcast division and other parts of our business are explored early on, and initial steps are being taken to bring these to fruition.
- 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.
- Further raising awareness for SCISYS' expertise in the defence, security and maritime sector, and extending the footprint of our ESD division.

Building on the initiatives started in 2015 as a response to the issues that we experienced we will continue to optimise our risk-management processes so that the inherent business risks are managed. This forms part of our continual improvement approach which also covers succession planning, corporate structure, regular process improvement with respect to cyber security and improved forecasting as focal areas.

OUR STRATEGY IN ACTION.
HOW WE HAVE SUCCEEDED IN 2016

Spirit Healthcare:
The team at Xibis created a healthcare web application for clinicians and an associated tablet app for patients that delivers data to an integrated data-analysis solution for patient monitoring and medical diagnostics.

Divisions
SPACE

OUR POSITION

SCISYS' Space division has established itself over the last 30 years as a reliable and trusted partner to large system integrators, satellite operators and European space institutions such as the European Space Agency (ESA), EUMETSAT, the UK Space Agency (UKSA) as well as the German Space Agency (DLR). We bid successfully for framework contracts with these customers for regular work and foster long-term relationships with them.

The division enjoys a solid reputation in the space sector for delivering projects on time and to budget, and it has the advantage of having operations in both the UK and Germany. Its unique selling proposition remains the high level of professionalism, the close and cooperative partnerships with customers, a successful track record and a variety of sector-relevant expertise. With over 150 highly qualified staff, it has grown into a substantial player in the space industry and become a long-term supplier to large space-industry prime contractors, as well as operating as a prime contractor itself. Its expertise spans a wealth of experience, encompassing high-integrity on-board flight software, data systems and ground-control solutions and engineering services. The division covers the broader space sectors, such as human space-flight, navigation, telecommunications, earth observation and exploration missions, including robotics as well as related ground-system infrastructures.

OUR LONG-STANDING CUSTOMERS

European Space Agency (ESA) (since early 1980s), Thales Alenia Space (1994), Airbus Defence and Space (1999), DLR (the German Space Agency) (2002), EUMETSAT (1986), Finnish Meteorological Institute (1993), IPMA/ Portuguese Weather Service (1990), KNMI/Dutch Weather Service (1992)

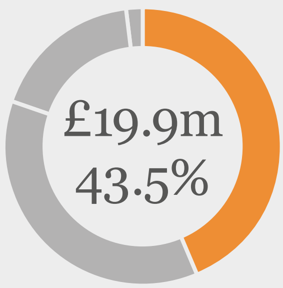
The team's experience and extensive business know-how, flexibility and innovation across the broader space sectors means that the division offers strong capabilities to both new and existing markets. SCISYS seamlessly combines work for space institutions in specialist research and development with marketing and delivering commercial off-the-shelf software (COTS), as well as bespoke software solutions to commercial space operations. With reusable solutions at its fingertips, it delivers competitive prices combined with robust software processes and solutions. Examples include its range of robotic software components, which provide a complete system for supporting platform operator and space-ground interoperability. Our software framework, egmc², delivers a strong solution for advanced operational ground systems and data services. ▷

OneWeb:
SCISYS' Space division won its first major commercial customer for its PLENITER software suite. WorldVu Satellites awarded a contract for the high-profile OneWeb programme - the world's largest satellite constellation.

Vodafone:
A contract with Vodafone for a three-digit non-emergency UK number service using call-routing, localisation, GIS and mapping technologies. This 105 phone number is for the Energy Networks Association (ENA).

A closer look at our Space division

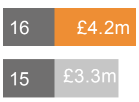
REVENUES: SPACE



of total revenue

Revenues (£m)

Contribution



THE YEAR IN REVIEW

The Space division won several key contracts in the institutional and commercial markets, including the Galileo programme. The company has been involved in the Galileo operations since the early 2000s, for Europe's on-going global satellite navigational system. It has continued to win further regular work for the existing Galileo operations and is expected to remain a key player in the Galileo satellite navigation programme for the next 10 years. In December 2016, the European Commission formally announced the start of Galileo Initial Services, the first step towards full operational capability. New wins include the MERLIN and OneWeb projects (see Our Strategy in Action examples on pages 16, 21, 24, 27 and 29).

Success with the PLENITER product

PLENITER is a unique and highly integrated software suite for the planning, implementation and operation of complete satellite missions. There are growing opportunities for SCISYS to demonstrate that PLENITER provides substantial benefits for commercial space missions and adds efficiencies through increased automation using our software. Satellite- and space-based systems provide the backbone of technologies for global communications, weather products, precision navigations and timing, next-generation intelligent transport systems, climate research and security. SCISYS is well positioned to exploit these so called down-stream Space service areas using PLENITER in conjunction with its in-depth expertise.

TRENDS AND OUTLOOK

The Space division's strategy for 2017 builds on the 2016 trajectories. It continues to foster long-term relationships with European institutional space customers while building new partnerships and capturing market share in the burgeoning commercial space arena, known as the "Open Space" (or "New Space") sector. Our strategy is for balanced growth, focusing on both our existing and new markets worldwide.

Industry trends include heavy private and public investment in the space industry. For the institutional public market, Germany and the UK have committed to making the largest contributions to the ESA space budget for the coming years. Both agencies have committed substantial funds (in the billions), including the high-profile ExoMars mission to Mars, which will combine moving a rover across the surface with an in-depth scientific study. This places German and UK companies in a strong position when bidding for institutional work. The UK government has been highly supportive of its UK space industry and Brexit is not expected to have a material impact in the short to medium term for the Space division. Previously the UKSA has not been as prominent as DLR in commissioning its own solutions, but there has been a shift over the last few years and the UKSA is becoming a more prominent force for UK investment.

The institutional market continues to demand bespoke software development for its missions with the assurance of robust, flight-proven systems. We see potential for considerable market growth in the commercial space sector as the national space agencies in UK and Germany are strongly encouraging the space industry to engage in the commercial space market. The UKSA expects the UK space sector to grow substantially over the next few years. This is where SCISYS Space is able to demonstrate its reliability and track record and offer COTS solutions and systems support for commercial missions by emerging players in the field of larger satellite constellations and projects within the satellite telecommunications industry. Alongside these areas of opportunity, SCISYS Space also sees growth areas in the capturing and use of Earth observation data, such as Sentinel data as part of the EU Copernicus programme.

OUR STRATEGY IN ACTION.
HOW WE HAVE SUCCEEDED IN 2016

UK Ministry of Defence (MoD):
Capitalising on new opportunities in the defence and security market, our design and delivery of the Customers Compliance Management Information System was completed ahead of schedule.

Divisions
ENTERPRISE SOLUTIONS & DEFENCE (ESD)

OUR POSITION

ESD is recognised as being experts, thought-leaders and creators of new yet robust software systems across its three business groups (Defence, Security & Maritime; Government and Emergency Services; and Commercial). Its software is often game-changing. It enjoys a strong reputation and is known in a number of microsegments of larger markets. While the division has the capability to integrate existing COTS solutions, its niche specialisms are in creating high-value, bespoke software solutions using the ability to draw on re-usable intellectual property.

The defence sector is key to ESD, where it is rightly regarded as a specialist in a number of sub-sectors. In particular, ESD has a strong presence as a software-solution provider to military vehicles and naval command rooms. Additionally, the division is a respected supplier to blue chip commercial customers, where it has continued to foster long-standing relationships. It is also a recognised supplier to local government customers.

THE YEAR IN REVIEW

The ESD division had an excellent year focusing on its strengths, continuing to expand its team and building on the strong order book it secured at the beginning of the year. All three ESD business groups performed well, led by a growing portfolio of defence orders, research contracts and a string of smaller wins. In this way, ESD achieved growth and saw significant recurring revenues from its established customers. Fee rates and revenues also saw growth across-the-board.

While the division continues to offer a mixture of time & materials and fixed-price contracts, the past year saw an increase in business where it acted in the capacity of prime contractor. This is in line with the goal of being recognised as a mid-sized systems integrator.

The roster of existing, long-term customers is key to the division's growing revenues and strong order book. Key customers include: Siemens, TfL, RNLI, Vodafone, UKPN, The Coal Authority, Forestry Commission, the MoD, Lockheed-Martin, BAE, Northrop Grumman and the Environment Agency. ▷

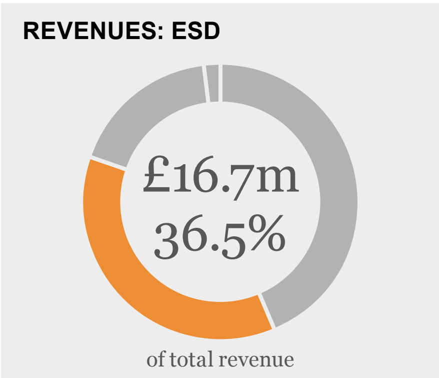
OUR LONG-STANDING CUSTOMERS

	Since
Transport for London (TfL)	1980s
Ministry of Defence (MoD)	1980s
Environment Agency	1999
Arqiva	2000
UK PowerNetworks	(Eastern 1994)-2003
Edmundson Electrical	2003
Siemens (formerly Westinghouse Signals)	2004
Lockheed Martin	2005
RNLI	2009

UK Hydrographic Office:
The ESD and Xibis teams jointly completed a proof of concept app using Augmented Reality (AR) technology for navigation and the location at sea of lighthouses and key waypoints that was integrated with navigational charts.

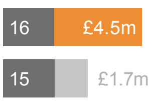
Imray charts:
Our ESD division, together with Xibis, was commissioned to rebuild the Imray Charts nautical app, creating a fully functioning chart navigation package, complete with high-quality images of Imray and Hydrographic Office navigational charts for Europe.

A closer look at our Enterprise Solutions & Defence division



Revenues (£m)

Contribution



Some of its more recent customers include: Diamond Light Source, Angel Trains, the UK Hydrographic Office and a number of central government departments.

TRENDS AND OUTLOOK

In the government sector, we are seeing the trend of customers increasingly adopting open-source systems and related solutions as well as moving implementation work in-house to make efficiency gains in the wake of the ongoing funding squeeze. This means that the big system integrators are losing their grip on this market, which is opening up to developers of unique and bespoke developers, such as SCISYS.

The areas of defence and security, which includes our maritime activities, remain the bedrock of the division going forward. We enjoy a high profile in this sector and we work directly with the UK Ministry of Defence (MoD), as well as supplying services to several prime contractors. The defence market continues to have a large appetite for innovation, R&D and technology-led solutions. The outlook in this realm is positive as there is increased government spending in the sectors that we operate in.
The commercial/enterprise sector, by contrast, is not seeing the trend of adopting open-source technologies with the same enthusiasm as the public sector. Competition between large vendors is high but SCISYS' strong reputation and efforts with deepening customer relationships means that we continue to win repeat work while also looking for new markets and Software as a Service (SaaS) avenues The demands of this sector involve the continued adoption of agile methodologies and cloud services.

We see future growth potential in technologies such as geo-analytics, data-capture and machine learning, predictive analytics and wider adoption of open source standards and GIS technologies and anticipate further contract wins in these areas.

OUR STRATEGY IN ACTION.
HOW WE HAVE SUCCEEDED IN 2016

GALILEOnautic:
Within the framework GALILEOnautic project, SCISYS Space became a pioneer in autonomous navigation and optimised manoeuvring of co-operating ships in security-critical areas.

Divisions
MEDIA & BROADCAST (M&B)

OUR POSITION

SCISYS' Media & Broadcast division has been established in the sector for over 20 years primarily serving the institutional public broadcast market across Europe. It is a leading provider of premium radio broadcasting solutions known globally as the dira! software solutions suite. Dira! is a reliable and flexible suite of television, radio, newsroom and new-media production and playout applications, supporting the core workflows that any broadcaster needs covered by a proven digital system. SCISYS has supplied the BBC since 2001 and today provides radio audio editing and production systems for all of the broadcaster's radio channels, paving the way for leading-edge integrated radio audio production systems.

THE YEAR IN REVIEW

The Media & Broadcast division won several key contracts in the institutional and commercial markets. During 2016 SCISYS started a high-profile project with one of Africa's most prominent broadcasters, the South African Broadcasting Corporation (SABC).

This project encompasses a wide range of activities to deliver the dira! radio production and playout system. SABC provides 19 radio stations (AM/FM) as well as four television broadcasts to the general public in South Africa.

LONG-STANDING CUSTOMERS

	Since
Norddeutscher Rundfunk NDR (DE)	1993
Mitteldeutscher Rundfunk MDR (DE)	1995
DeutschlandRadio (DE)	1996
WDR (DE)	1998
BBC	2001
VRT (Belgium)	2006
Deutsche Welle (DE)	2007
RUV (IS)	2007

This landmark contract, worth more than £2m, involved replacing an existing provider's technology with our dira! suite. The proof-of-concept phase has been completed successfully and rollouts will now follow to SABC's 6 Johannesburg radio networks, and 10 larger and 15 smaller regional sites.

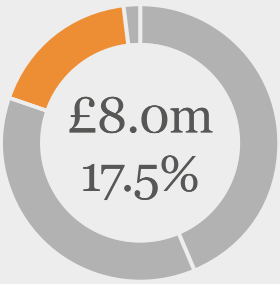
TRENDS AND OUTLOOK

The M&B division is constantly developing its flagship dira! software suite and the nucleus of the next-generation is already being loaded with innovative broadcast technologies. Broadcasters are demanding more and more cutting-edge solutions – such as speech-to-text options – and there are more than a couple of emergent sector trends. As a result, M&B's focus this year has been to transition all dira! modules into the cloud, turning media production into an "anywhere, anytime" service.

UK Ministry of Defence (MoD):
A significant contract was secured with the UK Ministry of Defence (MoD) to deliver further research and software development services involving tactical combat systems for surface warships.

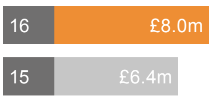
South African Broadcasting Corporation (SABC):
SCISYS M&B secured a high-profile project with SABC, to deliver the dira! radio production and playout system to its pan-South African broadcast operations and successfully completed phase 1.

REVENUES: MEDIA & BROADCAST

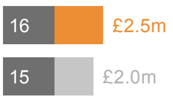


of total revenue

Revenues (£m)



Contribution



Media systems are rapidly expanding and moving into cloud-based solutions because of the advantages of these combined trends, bringing efficiency and streamlined processes. SCISYS has already delivered proven dira! cloud solutions through its award-winning ViLoR solution, and the broadcasting industry is taking note. ViLoR changes the way radio is operated today such that local radio is hosted in a central datacentre. This concept means that local studios will have the bare minimum of equipment to produce and broadcast installed locally with the rest of the services accessed over the wide area network.

On the consumer side, on-demand/streaming of media is now very much the norm and the use of linear television products and services is in rapid decline. Radio and TV look set to merge as a result of changes in consumer choices and consumption behaviours.

ANNOVA SYSTEMS ACQUISITION

The entire M&B division is delighted with the acquisition in 2016 of ANNOVA Systems, with its best-in-class OpenMedia newsroom solutions for journalistic workflows. We have collaborated with ANNOVA for close to a decade and our respective offerings already enjoy tight integration in proven solutions for major broadcasters.

Being part of the same SCISYS family means that our cooperation will grow as dira! and OpenMedia solutions evolve leading to greater marketing and engagement in this sector. The dira! platform will continue to concentrate on media production, content and playout, while OpenMedia will continue its focus on newsrooms. Together, tighter integration will bring its own strengths and further enhance know-how, expertise and reputation across the international media and broadcasting sector.

OUR STRATEGY IN ACTION.
HOW WE HAVE SUCCEEDED IN 2016

UK Power Networks (UKPN):
UKPN contracted SCISYS to provide open standard tools and Geographic Information Systems (GIS) technology to manage and integrate spatial data and location services into its business processes.

Divisions
XIBIS LTD

OUR POSITION

Xibis' position as a small software house specialising in web and mobile-app solutions has strengthened over the course of the year. It is known for its expertise and high-quality domain knowledge in combining web apps with bespoke mobile apps for retail, consumer and industrial purposes, especially when these are connected to remote-monitoring devices. Clients recognise the value that the business offers from the dedicated focus on quality and cyber security. Xibis maintains quality by conducting all work in-house using code generation techniques and includes the vital testing phases. Its ethos means that there is a high emphasis placed on understanding clients' goals and technical requirements fully before undertaking any work. The Xibis team believes in developing genuine client relationships and providing the tailored support that customers need.

REVIEW OF THE YEAR

Its focus during the year was to prime the sales engine. As a new business development team bedded in, Xibis saw a steady improvement throughout the year with project wins and extended support contracts. It continued to target retail and commercial markets, with an additional emphasis on Internet of Things (IoT) and remote monitoring solutions for science, industry and transport.

Xibis has maintained a roster of long-term clients, such as Interflora (a customer of 7-8 years) whose project spend increased by over 55% when compared with the previous year. Xibis delivered a number of projects for this client throughout the year while also providing essential hosting and support services to others. Notably it also delivered the loyalty and retail app for Pets at Home and released it to their 4.5 million VIP customers through the app stores.

The team at Xibis also developed several interesting and innovative projects in the year, including a medical-devices solution for Spirit Healthcare to monitor patients at home remotely, and extended intelligent remote-monitoring solutions for Angel Trains to analyse transportation and systems data proactively, to identify faults at an early stage.

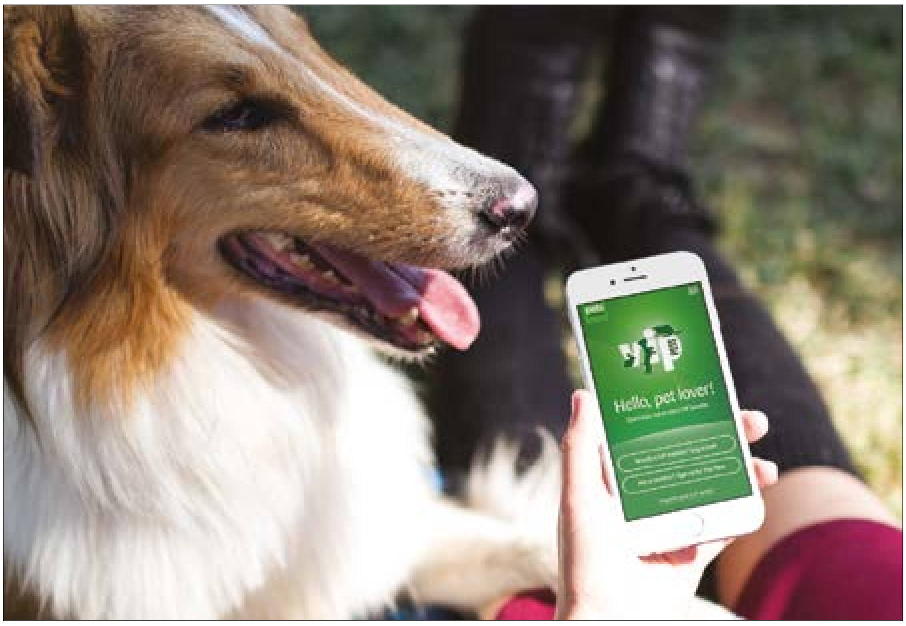
The solution for Spirit Healthcare involved on the one hand a web application for clinicians ▷

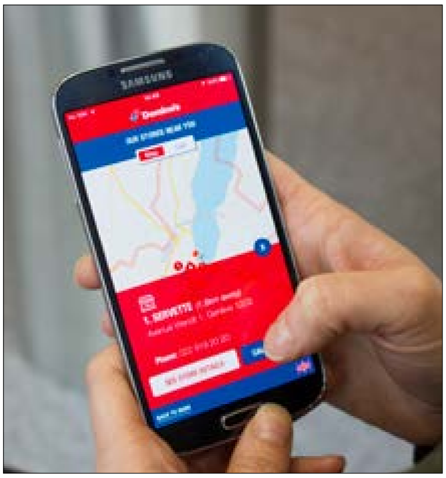
Our key customers

Pets at Home
Interflora
Spirit Healthcare
Domino's Pizza
Food Forensics
Working Transitions
Angel Trains
Dunelm Mills
IOSH
Imray

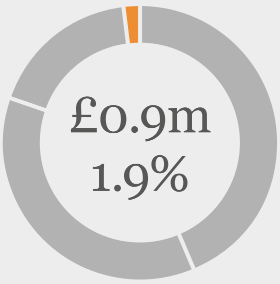
GO! Galileo Online:
The project for railway applications will allow GNSS-based shunting of freight wagons with the necessary reliability and accuracy that is yet not provided by existing hardware components and services.

Siemens:
Cementing our position with long-standing customers, a long-term consultancy service is in place with Siemens for rail infrastructure support.





REVENUES: XIBIS LTD



of total revenue

Revenues (£m)

16	£0.9m
15	£0.9m

Contribution

16	£0.10m
15	£0.03m

and an Android tablet app for patients that delivers vital data to an integrated data-analysis solution for better patient monitoring and medical diagnostics.

This year saw the introduction of a number of new and emerging technologies in several projects. The company's skilled developers created apps using Swift, which is Apple's powerful and intuitive programming language for macOS, iOS, watchOS and tvOS. Together with SCISYS ESD the team also completed a proof-of-concept app for the UK Hydrographic Office whereby Augmented Reality (AR) technology was used together with integrated charts for navigation, positioning and the location at sea of lighthouses and key waypoints.

Working under the SCISYS umbrella with a member of the Space division, members of the Xibis team won an industry accolade at the prestigious SpaceApp Camp competition in Italy this year. They developed a concept app for investors and consumers that uses freely available Sentinel satellite data to analyse and identify vineyards around the world to compare and contrast the data from previous vintages. This was the company's first time entering this innovative competition and the win was a great achievement.

TRENDS AND OUTLOOK

In terms of market trends, demand for IoT and similar solutions using separate devices remains buoyant in general. There is also a lot of interest in machine learning and Artificial Intelligence (AI) for the purposes of complex data analysis – which are beneficial for streamlined business processes to customer behaviours. Augmented Reality (AR) and Virtual Reality (VR) are still technologies that are firmly fixed in the games market but are likely to creep more into real-world web applications and devices in coming years.

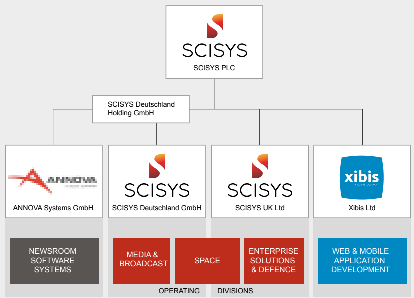
Xibis sees growth continuing to come from app development and support services. There has been greater emphasis this year and high demand coming for the development of dedicated native app solutions for both the iOS and Android platforms, and more so for use within an intra-business perspective, or Business-to-Employee (B2E).

OUR STRATEGY IN ACTION.
HOW WE HAVE SUCCEEDED IN 2016

Domino's Pizza Group (UK):
The UK pizza group operates more than 900 stores and franchises across the UK, Ireland, Germany and Switzerland. Xibis delivered an iOS and Android e-commerce app to their Swiss market.

SCISYS Group overview

OUR STRUCTURE*



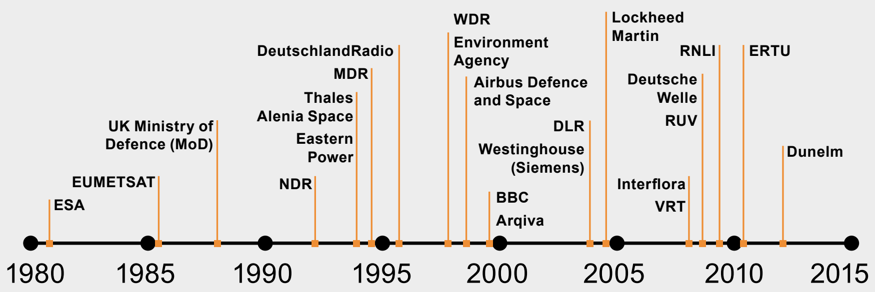
* As at 31 December 2016

OUR MARKETS

OUR VALUES

OPENNESS
TRUST
INTEGRITY
PRUDENCE

LONG-STANDING RELATIONSHIPS. CUSTOMERS SINCE ...



OUR CUSTOMERS INCLUDE:

Mission to the moon:
The PLENITER suite has been well received in the so-called “Open Space” commercial market. PTScientists chose us as a partner in their plan to put a lander and two rovers on the moon, with real-time command from Earth.

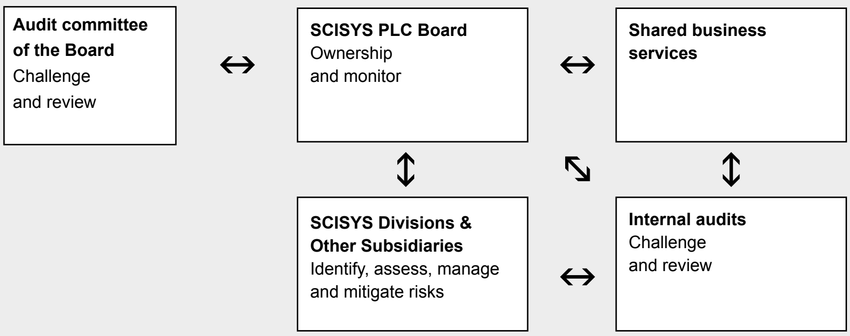
BBC Radio Digital Archive:
The BBC Radio Digital Archive involved automatic programme recording & archiving of broadcast assets for UK national radio stations BBC Radio 1 and 1xtra, BBC Radio 2 and 6music, BBC Radio 3, BBC Radio 4 and Asian Network, as well as, temporary built Pop Up Stations like JazzFM. The content of BBC Wales and BBC Cymru is also stored in the Radio Digital Archive.

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.



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 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 that 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.

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 32.

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 seeking 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 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 reputation. The respective Board will then decide whether 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 implied by foreign currency exchange rates could 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.

'BREXIT'

The impact of the UK leaving the European Union, 'Brexit', has now introduced a significant uncertainty that might affect inter-country trading. Both Media & Broadcast and ANNOVA have significant contracts in the UK, and Space in the UK has significant contracts with ESA and the EU. Clearly, any changes brought about by Brexit are likely to be implemented over the next 2 years now that Article 50 has been invoked, which might introduce changes to the UK-EU trading arrangements. This is mitigated by SCISYS having trading subsidiaries in both Germany and the UK that would allow local contracts to be entered into within each respective country. Clearly, 'Brexit' has had an impact on exchange rates, which are already a significant risk.

Brexit might have an impact on the free movement of staff between the UK and the EU. The Space Division currently freely interchanges staff and knowledge between the UK and Germany and has a number of non-UK EU nationals working in the UK as well as UK staff working in Germany. This working practice is unlikely to change as a result of Brexit although there might be more bureaucracy introduced if work permits and visas are needed for staff to operate in different countries.

While the UK Space business gains most of its revenues in euros, most of its business, either directly or indirectly via prime contractors, is with the European Space Agency (ESA). Regardless of the UK decision on 'Brexit' there is no indication that the UK would change its position with regard to ESA. As a result, the UK would continue to benefit from the geo-return that is proportionate to the UK's investment in ESA. Similarly, the UK government remains committed to the EU-funded Galileo Global Positioning System, in which SCISYS has a substantial involvement.

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 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 sale 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 extended its existing subcontractor assessment procedures to ensure that a risk-based approach is adopted with subcontractors that can adversely impact the Group being assessed in more detail than simple COTS suppliers.

Projects are managed to recognised project management standards. Monthly reports ▷

SCISYS GROUP – RESIDUAL RISK DISTRIBUTION CHART

LIKELIHOOD				
	HIGH LIKELIHOOD		'BREXIT'	SALES & COMPETITIVE RISKS COMMERCIAL & DELIVERY RISKS
	MEDIUM LIKELIHOOD	ECONOMIC RISKS	LIQUIDITY RISKS ORGANISATIONAL RISKS	FOREIGN-CURRENCY RISKS
	LOW LIKELIHOOD	CREDIT RISKS	HUMAN RESOURCES RISKS	INFORMATION SECURITY AND CYBER SECURITY RISKS EXPANSION VIA ACQUISITION RISKS
		LOW	MODERATE	MAJOR
		IMPACT		

LOW RISK
MEDIUM RISK
HIGH RISK

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 involve senior managers increasingly for more risky projects. The Divisional and Subsidiary Boards 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 European Union is low and so economic issues in 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 members of the European Union with stronger economies.

FINANCIAL RISKS

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

- **Credit risks** – Our customers do not pay us on time.
- **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.

Details of various risks and the strategies in place to mitigate them are described in note 22 to the financial statements on pages 75 to 81.

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. 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 the appropriate competencies.

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 likely have an adverse effect on the Group's ability to implement its business plans and impact on delivering the 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 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 regular reviews and discussions.

Free movement of staff between UK and EU might introduce additional bureaucracy since this is currently a common practice for SCISYS divisions.

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 distributed 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. SCISYS is a people business so it is highly dependent on talented and motivated individuals. As a consequence, succession plans are regularly discussed to ensure that the impact of the loss of a key staff member is reduced.

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. Many of the solutions 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 cyber attack 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.

The EU General Data Protection Regulation (GDPR) will come into force in 2018 and is likely to be retained by the UK government for the control of personal data. The GDPR introduces more stringent guidelines on the management and processing of personal data and infringement could result in substantial fines. SCISYS is well under way at implementing improvements to its current policies, processes and procedures across the Group to ensure compliance.

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 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 the Chief Mergers & Acquisitions Officer 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 Systems GmbH is 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.

CORPORATE SOCIAL RESPONSIBILITY
COMMITTED TO OUR PEOPLE AND COMMUNITY

Values, culture & principles

OUR VALUES

SCISYS believes in the values of openness, integrity, trust, honesty and being supportive. We are committed to the principles of inclusion, flexibility, enthusiasm and commitment and above all being genuine. These are the foundations of good conduct and ethical behaviours.

We recognise that company purpose and values are what shape our internal behaviours and culture across the Group. We also understand that values are set at the top – by the Board and senior management – and they can only be embedded in company culture when staff are led by example.

SCISYS expects that all of its business is conducted in compliance with high ethical standards of business practice. We apply these standards to all dealings with employees, customers, suppliers and other stakeholders. We ensure the Group's business is conducted in adherence with high ethical and legal principles, which is reflected in our governance policies and to set standards of professionalism and integrity for all employees and operations.

OUR CULTURE

Company culture plays an integral role in our business. The term culture is not a synonym for staff. Instead, culture is what drives performance. Strong growth and value creation can be achieved only when purpose and values are embedded and aligned with company culture. This must be done with the exhibited values of openness and accountability.

We strive to make SCISYS a desirable workplace. We feel that it is important that our employees value their work, trust their colleagues and are empowered to work together. They need reassurance that the company is investing in its and their long-term futures. Staff perform better when they are inspired, trusted, supported, informed and feel their voices are heard at the highest

VALUES AND CULTURE DRIVING PERFORMANCE

OUR
PURPOSE
VALUES
PRINCIPLES

OUR
CULTURE
ETHICS
MISSION

OUR
PERFORMANCE
VALUE CREATION
GROWTH

levels. In return they deliver strong returns and growth.

The key to growth and greater performance, therefore, lies in linking business values with company culture to support long-term aims. Appraisals, incentives and rewards must be aligned with values. Our HR teams recruit not just for talent but also cultural fit. This results also in a healthy company culture, which is evident in our commitment to diversity, inclusiveness, HR policies and opportunities for training and development.

QUALITY & SAFETY POLICIES

The objective of SCISYS' quality policy is to continuously improve the quality of its products and services to its customers. We are variously ISO certified across the Group: in the UK, Quality (ISO9001), Environment (ISO14001), IT Service Management (ISO20000-1) and Information Security (ISO27001); in Germany, Quality (ISO9001), Environment (ISO14001) and Occupational Health and Safety (OHSAS18001). The Technical Director is the director appointed by the Board to have responsibility for these governance aspects.

The Finance Director is the director appointed by the Board to have responsibility for the health & safety performance of 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.

The nature of SCISYS' business means it is not a high-risk working environment. Nevertheless, policies and procedures are in place to ensure risks are minimal. These steps have resulted in no major accidents occurring in the history of the Group, with only infrequent minor accidents causing injuries, such as sprains, cuts, abrasions, etc. We are committed to maintaining a safe working environment for all employees, customers and suppliers.

We promote a culture of health, well-being and fitness by providing our staff – where possible – access to subsidised facilities for cyclists, fitness rooms and on-site cafés providing healthy food choices. A good environment and well-being both contribute to our company performance and reputation. In addition, staff receive regular training on health and safety procedures, such as fire safety, throughout the year.

CHARITIES WE SUPPORTED IN 2016

ENVIRONMENT & COMMUNITY

No business exists in isolation from community and the environment. Good environmental practice and consideration of the impact that our operations have on the environment are of great importance to SCISYS.

The aim of our environmental policies is to comply with local, state and national environmental legislation in all jurisdictions in which we operate and to adopt responsible environmental practices. Our office sites operate in line with ISO14001 accredited environmental management systems. This requires organisations to implement policies designed to mitigate their environmental impact rather than policies just for carbon offsetting. More generally, subsidiaries monitor energy consumption closely and, where economically viable, have introduced energy-efficiency measures.

We recognise that our impact on the environment comes from: electricity for computing equipment, heating, cooling and powering offices and equipment; gas for heating; travel by air, road and rail to visit clients, suppliers and for internal meetings; water in offices used for a variety of purposes; consumable resources such as paper; waste including paper, plastic and IT consumables (e.g. toner).

In the UK we have a rolling programme to reduce CO_2 production. It has been successful and will continue to reduce CO_2 wherever possible.

Our German subsidiary has a similar programme of CO_2 reduction and its office in Bochum uses ground-source heating and cooling systems and solar panels that reduce the consumption of grid-electricity.
We produce few physical products and therefore have little end-of-life recycling and disposal obligations. Our businesses comply with the Waste Electrical and Electronic Equipment Regulations ("the WEEE Regulations") and we either return our redundant IT hardware to the original equipment manufacturer or distribute it for reuse by the local community wherever possible

COMMUNITY

SCISYS recognises the significance of local communities and we strive to be a responsible partner in the communities in which we operate. We encourage all our subsidiaries to support the particular needs of their communities by contributing to charities and community initiatives.

SUPPORTING LOCAL CHARITIES

SCISYS PLC, SCISYS UK Ltd and SCISYS Deutschland GmbH are proud to support several national and local charities in the UK and Germany. In the UK, SCISYS has made donations and raised funds for:

Alzheimer's Society - The Alzheimer's Society is the UK's leading dementia support and research charity for people living with dementia, their families and carers.

British Heart Foundation - The British Heart Foundation is the nation's leading heart charity and the largest independent funder of cardiovascular research.

Macmillan Cancer Support - Macmillan's ambition is to reach and improve the lives of everyone living with cancer and to inspire millions of others to do the same. They provide information and support that helps people take back control of their lives.

Children's Hospice South West - Children's Hospice South West provides hospice care for life-limited children and their families from across the South West of England.

SCISYS Deutschland GmbH has donated to **Friedensdorf International**, which helps victims in areas of war and crisis. They offer medical help and support international aid schemes on-site. Furthermore, Friedensdorf International provides an educational establishment available to all citizens to promote peace.

Our People & Workplace

WE VALUE OUR PEOPLE

Without people and talent there are no innovations or solutions. In order to attract the right people we strive to be an employer known for providing attractive work opportunities. Our HR teams not only look for skills and talent but also passion and motivation to develop and succeed. For those who are part of the SCISYS family, we seek to develop our staff in a way that helps them realise their full potential while also meeting the company's business needs.

Training needs are established at company, division, project, customer and individual levels. It is available in technical and management skills, as well as for personal and developmental skills. A range of training resources is accessible and includes self-paced training materials as well as a library of books and journals. Study support is also available via assistance with course fees or time off for study or exams.

SCISYS seeks to communicate with its staff in a way that helps them understand the company they work for and in which they are key stakeholders. We issue regular news bulletins on the Group's intranet sites and newsletters highlighting the valuable work being done across the Group.

The company respects staff members' individuality as part of our corporate culture: we present ourselves as we are. We have regular all-staff meetings and presentations to discuss the performance of the Group. The divisions also have regular meetings to discuss what is happening within that division.

A FAIR AND DESIRABLE WORKPLACE

In order to attract and retain the right people we aim to continue efforts to make SCISYS a great place to work. The Group is committed to providing meaningful and challenging roles for our employees. It is critical to our success to foster a working environment that encourages innovation and supports a culture of entrepreneurship and partnership.

It goes without saying that we respect equality of opportunity to all existing and prospective employees without unlawful or unfair discrimination, regardless of age, gender, background or ethnic origin.

Appropriate career paths and internal recognition programmes are developed for all staff. A variety of technical, support and managerial courses and training materials are available to employees. These employment development opportunities are structured to align with both the Group and divisions' goals and objectives.

Our leadership-development and succession-planning processes are equally important to the business. These are regularly discussed and updated as the competition for talented employees increases and as the leadership

OUR PRINCIPLES

COMMITMENT, ENTHUSIASM, BELIEF, FOCUS, FLEXIBILITY, INCLUSION, TRUST, HONEST, GENUINE, SUPPORTIVE, REAL

- We value what we do because it matters to our customers
- We enjoy our work, our own and our customers' achievements. We are keen to be good at what we do
- We seek to improve, so we look for and are receptive to new ideas, often beyond the obvious

- We are clear and focused about what we are doing and when it needs doing
- We accept responsibility for our work, adapting ourselves to new challenges
- Everyone is informed, listened to and involved; we take collective responsibility for achieving our vision

- We are open and honest about our activities
- We openly communicate and resolve concerns and difficulties through helping, not blaming, each other
- We respect staff members' individuality as part of our corporate identity: we present ourselves as we are

needs of our business grow. Formal performance reviews are conducted and are linked to the values of the organisation.

STEMNET AMBASSADORS

SCISYS employs many graduates in numerate disciplines and needs a steady source of software engineers for growth. Gender equality is encouraged at SCISYS but there is an under-representation of women in university computing and STEM courses. In the UK there is an overall skills shortage in the areas of science, engineering and computing.

Science, Technology, Engineering and Mathematics (STEM) subjects are critical to developing a deep knowledge of software development techniques, as well as hardware and network technologies. These are essential to a digitally connected world. SCISYS has a vested interest in encouraging school children to take up and excel in STEM subjects. In the UK, SCISYS does this by having a number of STEM Ambassadors, who are active in helping local schools and colleges by bringing STEM career opportunities to life.

OUR PEOPLE

254*
UNITED KINGDOM

219
GERMANY

*The UK figure includes staff from Xibis Ltd and SCISYS UK Ltd, for illustration purposes, each icon is equivalent to approx. 10 employees. These figures reflect the numbers dated 31 December 2016, with a further circa 70 staff in Germany on the acquisition of ANNOVA Systems GmbH not taken into account.

This is done through STEMNet, (www.stemnet.org.uk), a network aimed at creating opportunities for young people and teachers of STEM subjects in events organised by STEMNet, especially with support for software development. Our ambassadors are great role-models who motivate and inspire young people, advising them how they can build a career in the software industry by using examples of real case studies.

Corporate Governance Report

Corporate Governance Report

PLC

Natasha Laird,
Company Secretary

“We believe in high standards of corporate governance and accountability. We fully recognise the importance of strong governance frameworks embedded throughout the business. This balances and manages risk, while allowing the executive team to drive the business forward. We see governance as applying our values to what we do. Establishing trust and openness and taking measured and balanced judgments are our key corporate values. It has been my pleasure to work with such a talented and committed team on the Board.”

- Mike Love, Chairman

INTRODUCTION

The Board of SCISYS PLC (the “Company”) is committed to high standards of corporate governance and accountability. The Board endeavours to comply with the Financial Reporting Council’s UK Corporate Governance Code (the “Code”) to the extent proportionate and practicable for an AIM quoted company. In doing so, the Board balances the size and resources of the Company and its subsidiaries (the “Group”) against the requirements of the Code.

LEADERSHIP

The Board

The Board exercises full and effective control over the Group and maintains a formal schedule of matters reserved for its decision. There were no personnel changes during 2016.

Board operation

The Chairman oversees the effective operation of the Board, while the Chief Executive Officer is responsible for managing the Group’s business. The roles of Chairman and Chief Executive Officer are distinct, with a clear division of responsibilities between them.

The Board recognises the Code’s requirement for an appropriate combination of Executive and Non-Executive Directors. There are five Executive and two Non-Executive Directors (including the Non-Executive Chairman). Given the size and resources of the Company, coupled with its AIM quoted status, the Board considers the current split between Executive and Non-Executive Directors appropriate, providing the necessary skill sets and independence of thought. The Board reviews its composition at least annually, including a review of whether additional independent Non-Executive Directors are required. While the composition of the Board (B.1.2), its audit committee (C.3.1) and remuneration committee (D.2.1) does not meet the Code’s recommendations, the Board considers its composition appropriate for an AIM quoted company of its size. Under the current Articles every Director must offer himself for re-election every three years.

All Directors have full and timely access to all relevant management and accounting information. In addition to the advice and services of the Company Secretary, all Directors have the right to seek independent professional advice should they wish to do so, at the Company’s expense. If any Director has concerns regarding the Group, including any matters they consider unresolved, they are entitled to require the Company Secretary to minute such concern.

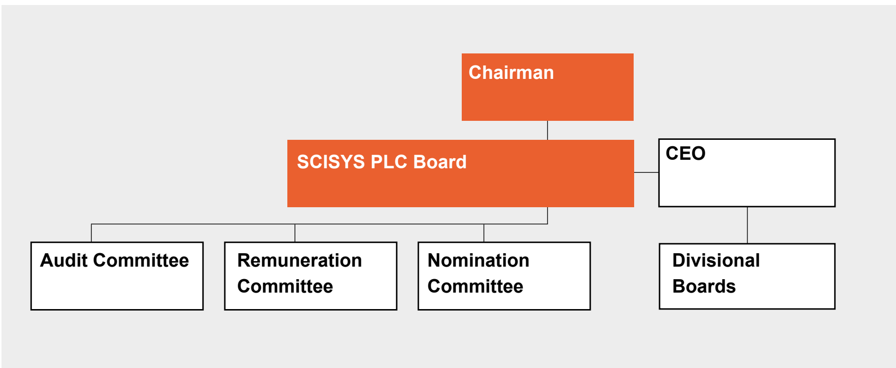
All Directors are informed of material changes to laws and regulations affecting the Group’s business by the Company Secretary, who advises the Board on governance matters and Board procedures generally, including developments in the Code. She is available to all Directors for advice as required.

Board accountability and effectiveness

The Board’s central responsibilities include setting and delivering the Group strategy, while enforcing suitable balanced risk management controls. Board members engage in open and constructive debate. They provide the right balance of skills, diversity of perspective and experience needed to operate and control the Group. The Board recognises the importance of aligning the Group’s corporate culture with its overall business strategy, and sets the tone for the Group as a whole.

The Board has adopted a formal schedule of matters specifically reserved to it, relating to strategy, finance, risk, operations and governance. When taking decisions and setting strategy, the Directors consider the interests of shareholders, customers, employees and other stakeholders, apply legislative and London Stock Exchange obligations and follow industry best practice.

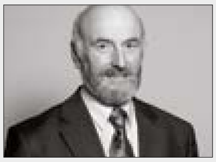
Governance structure



Strategic Report
Corporate Governance
Financial Statements

Board of Directors

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 of 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. 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.

EXECUTIVE DIRECTORS

Klaus Heidrich

CEO: Klaus studied electrical engineering with a focus on communications engineering at the University of Dortmund and gained a masters 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 PLC 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 the six years prior to joining SCISYS. He was appointed Finance Director on 1 January 2007.

Steve Brignall

Technical Director: Steve joined the 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 on 26 September 2006. Before joining SCISYS, he spent 5 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 now acts as Deputy Chairman while remaining as an Executive Director. He became Deputy Chairman on 1 January 2014.

Klaus Meng

Executive Director: Klaus studied electrical engineering at the University of Bochum and graduated as a PhD in optic communication engineering in 1987. He was appointed a Non-Executive Director of SCISYS PLC 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.

Board attendance

Number of meetings in the year	Number of meetings attended: Board (4)	Audit (2)	Remuneration (3)	Nomination (2)
Mike Love	**4**	**2**	**3**	**2**
David Jones	**4**	**-**	**3***	**2***
Chris Cheetham	**4**	**2***	**3***	**1***
Steve Brignall	**4**	**-**	**-**	**-**
David Coghlan	**4**	**2**	**3**	**2**
Klaus Meng	**4**	**1***	**-**	**-**
Klaus Heidrich	**4**	**2***	**3***	**1***

* Meetings attended by invitation

Corporate Governance Report

The Board considers itself diverse when considering the background, knowledge and experience each individual member brings to the Board. Where Board appointments are made, the terms of reference of the Nomination Committee stipulate all matters to be taken into account for each appointment. Due regard is given to diversity. 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. Currently no member of the Board is female. The Company favours appointments being made solely on merit and independent of gender.

The Nomination Committee will continue to recommend any appointments to the Board based on the existing balance of skills, knowledge and experience on the Board, the merit and capabilities of the nominee coupled with the time they will be able to devote to the role.

The Chairman

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

- Chairs and leads Board meetings, both setting the agenda and encouraging discussion of agenda items;
- Ensures accurate and comprehensive management information is distributed to the Board members in a timely manner;
- Is committed to high standards of corporate governance and ethical behaviour;
- As one of the original founders of the Company and as a significant shareholder, the Non- Executive Chairman contributes a wealth of experience;
- Holds regular discussions with the independent Non-Executive Director (without the Executive Directors) to review Board matters specifically from a shareholder's perspective;
- Maintains an effective working relationship with the Chief Executive Officer and the Finance Director by providing regular support and advice;
- Engages in and seeks constructive dialogue and individual opinions at Board meetings;
- Facilitates a two yearly internal Board evaluation for determining the performance and effectiveness of the Board and the other individual directors.

The Non-Executive Chairman is subject to re-election every three years, rather than annually as recommended by paragraph B.7.1 of the Code and was not independent on appointment.

The Independent Non-Executive Director

He is regarded as independent by the Code. Both he and the Chairman are considered to be of sufficient calibre, with relevant experience and capability to carry sufficient weight and provide constructive challenges as part of the Board's decision making process (see their biographical details on page 40).

BOARD EFFECTIVENESS

The approximate time spent by the Board discussing a variety of agenda items during the year to 31 December 2016 was:

- Strategy (including mergers and acquisitions) 35%
- Finance and risk 30%
- Operations 25%
- Governance 10 %

Committee oversight

Audit committee

Oversees the Group's financial reporting, internal financial controls, their effectiveness, and risk management processes. It also oversees the external audit process.

The committee met twice during the year – details are contained in the report on page 44. Membership is David Coghlan as Chairman with Mike Love.

Nomination committee

Deals with appointments to the Board, monitors potential conflicts of interest and reviews and considers the recommendations for independent Non-Executive Directors. It meets when required and addresses recommendations to the Board on policy and strategy with respect to succession planning.

The committee met twice during the year (2015: no meetings).

Membership is Mike Love as Chairman with David Coghlan.

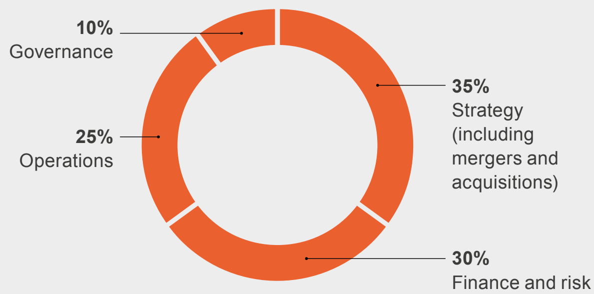
Remuneration committee

Sets the remuneration of the Directors, including basic salary, bonuses and other incentivisation payments and awards. It also ratifies policy proposals in respect of the remuneration of senior executives within the Group.

The committee met three times during the year. Details are contained in the Report on pages 45 to 50.

Membership is Mike Love as Chairman with David Coghlan.

Board agenda



Time spent discussing a variety of agenda items

The Board reviews trading and operational performance, ensures adequate financing, sets and monitors strategy, addresses executive and Board performances, considers succession planning, undertakes risk reviews, examines investment and acquisition opportunities and discusses reports to shareholders and regulatory announcements. Any variances from expected performance are followed up promptly and vigorously.

BOARD ATTENDANCE

The Board held four scheduled Board meetings during the year: three at its head office in Chippenham, and also one at Bochum, Germany. Details of the attendance by Directors at Board and committee meetings for the year ended 31 December 2016 are on page 40.

In 2015 the Board evaluated its own performance internally through questionnaires, assessing 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 internally evaluated its balance of skills, ▷

experience, independence and knowledge of the business, as well as its diversity.

Following this review, the need for a greater focus on succession planning was identified; as a result the Nomination Committee met on two occasions during 2016 and reviewed its succession planning strategy. The Board will assess its own performance again towards the end of 2017 and does not anticipate holding an external evaluation.

COMMITTEE OVERSIGHT

The Board has established three Committees to deal with matters in accordance with written terms of reference, namely an Audit Committee, a Nomination Committee and a Remuneration Committee. The Chairmen of the Board committees will be available to answer questions at the 2017 AGM. A description of their activities is available on the SCISYS website (www.scisys.co.uk/who-we-are/corporate-governance.html). The terms of reference for the Audit, Nomination and Remuneration Committees are available on request from the Company Secretary and will be available for inspection at the forthcoming AGM. It is the practice of each Committee to invite Directors to attend Committee meetings, where appropriate.

The Committees review their terms of reference and their effectiveness annually and, if necessary, make recommendations for change to the Board. The minutes of the Committee meetings are available to all Directors and verbal updates are given at Board meetings.

The Divisional Boards

Monthly Divisional Board Meetings oversee the operational and financial performance of each individual division. They are a forum for debating, reviewing and making management decisions in respect of commercial issues, business planning, sales opportunities and risk management. Divisional Board meetings provide a key insight and focus for the Directors and senior managers to determine how the division is performing against forecasts and to expedite any remedial steps that may be needed. They therefore perform a key risk management function. The performance of each division is reviewed separately: each division operates as a separate profit and loss centre on the basis of 4-year business plans, which includes agreed short and medium term targets consistent with PLC strategy. The Chief Executive Officer, Finance Director and Technical Director attend all Divisional Board Meetings which are chaired by the divisional directors as set out in clearly defined Rules of Procedure and Terms of Reference. Additionally divisional directors attend Bid Review Meetings, Project Review Meetings and business planning workshops, as well as making divisional monthly reports. Members of the Divisional Board also interact frequently in the normal course of their roles.

SCISYS Deutschland GmbH Board meetings

During the course of 2016 SCISYS Deutschland GmbH held regular board meetings, to deal with regulatory matters and strategic decisions affecting SCISYS Deutschland GmbH, pursuant to terms of reference and a schedule of responsibility. Directors of SCISYS Deutschland GmbH are Klaus Meng (chair), Sandra Krewerth, Karl-W Pieper and Horst Wulf.

SCISYS UK Ltd Board meetings

During the course of 2017 SCISYS UK Limited will hold more regular Board meetings, to deal with regulatory matters and strategic decisions affecting SCISYS UK Limited, pursuant to terms of reference and a schedule of responsibility. As at March 2017 the Directors are Chris Cheetham, Steve Brignall and David Gawthorpe. Mike Love and David Jones resigned as Directors.

During 2016, the Divisional Boards comprised:

Space Division	Klaus Heidrich (CEO) Chris Cheetham (Finance Director) Steve Brignall (Technical Director)	Horst Wulf (Chair & divisional director)
Enterprise Solutions & Defence Division	Klaus Heidrich (CEO) Chris Cheetham (Finance Director) Steve Brignall (Technical Director)	Dave Gawthorpe (Chair & divisional director) Andy Whitehead (divisional director)
Media & Broadcast Division	Klaus Heidrich (CEO) Chris Cheetham (Finance Director) Steve Brignall (Technical Director)	Karl-W Pieper (Chair & divisional director)

Xibis Board meetings

Xibis Ltd has monthly Board meetings, attended by the Chief Executive Officer and the Technical Director. They provide a key risk management function for reviewing the financial performance of Xibis Ltd and identifying any business issues, while at the same time providing a forum for strategic sales and business development decisions. As at March 2017, Andy Whitehead will join these Board meetings as a Director, in place of Klaus Heidrich. The other Directors are Steve Brignall, Neil Morjaria and Fiona Taylor-Gorringe.

ANNOVA Systems GmbH Board meetings (2017)

Monthly Board meetings will be held for ANNOVA Systems GmbH, pursuant to agreed rules of procedure, to discuss operational and strategic management. Klaus Heidrich, Chris Cheetham, Silvio Klötzig and Michael Schüller attend these meetings as Directors.

SCISYS Deutschland Holding GmbH

SCISYS Deutschland Holding GmbH was an acquisition vehicle for the purchase of ANNOVA Systems GmbH and is the holding company of ANNOVA Systems GmbH and the majority shareholder of SCISYS Deutschland GmbH. Its Directors are Klaus Heidrich, Chris Cheetham and Klaus Meng.

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.

They are in place to safeguard the shareholders' investments and the Group's assets, maintain proper accounting records and to ensure financial information made available internally and published externally is timely and reliable. The system of internal controls is designed to manage rather than eliminate all risk. In addition internal controls can only provide reasonable and not absolute assurance against material misstatement or loss. The subject of Accountability and Internal Controls Governance is now dealt with in the Director's Strategic Report (pages 30 to 33).

Other Management Committees

Internal Governance

This committee is chaired by the Technical Director and comprises senior managers across the Group who consider and make decisions on aspects of the Group's activities that impact on governance at operational levels. Its remit covers health and safety, environmental, quality, information security and cyber security matters.

It is responsible for establishing policies and procedures across the Group, and ensuring compliance with them. It ensures that SCISYS remains compliant with current and future legislation relevant to health and safety, environmental and information security. It reviews security risks including particularly those identified for ISO27001 compliance, and the response of the business to managing those risks.
It meets quarterly.

Management Meetings

The UK MM meets on a monthly basis in order to address day to day operational and management issues as well as specific legal and regulatory developments relating to UK employees and the UK establishment and infrastructure. They are chaired by the Finance Director in his function as a Director of SCISYS UK Ltd, and the Chief Executive Officer and senior managers from SCISYS UK Limited also attend.

Similarly there is an equivalent management team meeting (MTM) in SCISYS Deutschland GmbH in order to address day to day operational, management and legal issues; these meetings are chaired by a Director of SCISYS Deutschland GmbH.

Market Abuse Regulation 2016 and forthcoming Prompt Payment and Gender Pay Reporting

The Group has taken all steps required to comply with the Market Abuse Regulation 2016, including updating its staff share dealing policy and share option scheme rules. The Board and relevant managers are aware of the upcoming prompt payment and gender pay reporting obligations. While it is anticipated that the threshold for gender pay reporting obligations will not be reached in April 2017, appropriate preparatory steps are being taken in respect of both developments.

Risk of bribery and modern slavery

The Group has an anti-bribery policy and each of its subsidiaries has implemented that policy and appropriate procedures as described by the Bribery Act 2010 to prevent bribery. The Chief Executive Officer is responsible for the Group's compliance. The Group is fully committed to eradicating human trafficking and modern slavery, and has published its modern slavery statement pursuant to the Modern Slavery Act 2015, which can be found here: www.scisys.co.uk/who-we-are/corporate-governance/scisys-plc-anti-slavery-statement.

AIM Rule Compliance Report

The Company is quoted on AIM and is subject to the AIM Rules. It complies with AIM Rule 31 which requires the Company:

- to have in place sufficient procedures, resources and controls to enable its compliance with the AIM Rules;
- to seek advice from its Nominated Adviser ("NomAd") regarding its compliance with the AIM Rules whenever appropriate and to take that advice into account;
- to provide the Company's NomAd with any information it reasonably requests in order for the NomAd to carry out its responsibilities under the AIM Rules for Nominated Advisers;
- to ensure that each of the Company's PLC Directors accepts full responsibility, collectively and individually, for compliance with the AIM Rules; and
- to ensure that each PLC Director discloses without delay all information which the Company needs in order to comply with AIM Rule 17 (Disclosure of Miscellaneous Information) and AIM 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.

Relations with shareholders

The Board regards its primary role as representing and promoting the interests of the Group's shareholders and accounting for the long-term performance and success of the business.

The Company is committed to open communication with all its shareholders and recognises the importance of maintaining a regular dialogue with shareholders to ensure that the Group's strategy and performance are understood. As an AIM quoted company, the Non-Executive Chairman, Finance Director and Chief Executive Officer hold regular meetings with institutional shareholders and private client brokers to discuss and review the Group's activities, strategies and performance.

Communication with private shareholders is principally through the Annual General Meeting, where the Board is available to answer questions and shareholder participation is welcome. The Company also send out its INSCIGHT newsletter twice a year, which updates shareholders and other stakeholders on activities and progress.

The SCISYS website investors' section www.scisys.co.uk/who-we-are/investors.html contains all publicly available financial information and news concerning the Company. It provides information on how shareholders can contact the Company and meet the Chief Executive Officer and Finance Director if they wish to discuss any particular issues. The Chairman and the Independent Non-Executive Director also make themselves available to discuss any issues or concerns shareholders may have as and when required.

In conjunction with the Company's NomAd and other financial advisers, all relevant news is distributed in a timely fashion through appropriate channels to ensure all shareholders are able to access material information about the Company's progress.

Other key stakeholders

Our approach to corporate social responsibility as described on page 34 recognises the importance of our staff to the success of the Company. We encourage our staff to voice their opinions, offer feedback and share their knowledge. Being a relatively small Group we are able to adopt flat management structures which means communication channels for our staff to discuss issues with senior management are short and senior staff are readily accessible.
As for our lenders, we develop long standing relationships with our bankers and keep them regularly informed on how the business is performing.

Our customers are also central to our success. We take great care to foster long-term relationships with our customers and operate a system of key account managers whose role is to communicate with our customers to ensure close liaison.

Audit Committee Report

PLC

David Coghlan

Annual statement made by the Audit Committee Chairman

The Audit Committee's role is to assist the Board in the discharge of its responsibilities in relation to internal and external audits and financial controls. I chaired the Audit Committee which met twice during 2016. 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, Chief Executive Officer and other senior management attend meetings by invitation only. The Audit Committee also meets the external auditors without 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, discharged its responsibilities, including reviewing and monitoring:

- the financial reporting process in the Company's interim and annual reports, including reviewing the appropriateness of accounting policies, 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;
- its own effectiveness and terms of reference;
- 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 in confidence raise concerns about possible improprieties;
- the audit fees charged by the external auditors;
- the performance and formal engagement terms entered into with the external auditors and their appointment, re-appointment or removal; and concluding that there should be a competitive audit tender process during 2017 for the appointment of the external auditor;
- whether there is a need for an internal audit function; and concluding that, due to the current size and complexity of the Group, a formal internal audit function was not required and making a recommendation to the Board to that effect.

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, the management's judgements on the application of SCISYS' revenue recognition policies in relation to material projects.

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 auditor, without management being present, on the adequacy of controls and on any judgemental areas. The scope of the forthcoming year's audit is discussed in advance by the Audit Committee. Audit fees are approved by the Audit Committee.

The Board is putting the re-appointment of the auditors out to competitive tender in 2017. The auditors provide a letter to the Committee annually confirming their independence and stating the methods they employ to safeguard their independence.

David Coghlan
Chairman of the Audit Committee
7 April 2017

Remuneration Report

PLC

Mike Love

Annual statement made by the Remuneration Committee Chairman
I am pleased to introduce the Director's Remuneration Report for the year ended 31 December 2016. This report has been prepared by the Remuneration Committee and approved by the Board.

Notwithstanding that the Company is listed on AIM and is not subject to schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the Remuneration Committee is supportive of the spirit of the UK Department for Business, Innovation and Skills' drive to improve the transparency and clarity in the reporting of Directors' remuneration as stated in the guidance issued by the GC100 and Investor Group. We continue to make disclosures as transparent as possible. Our aim is to satisfy our shareholders' desire for openness in our disclosures.

The Remuneration Committee has taken the commitment and calibre of employees into account generally when setting remuneration awards for 2017. The responsibility for deciding an individual Director's remuneration rests with the Remuneration Committee alone and no Director is involved in deciding his or her remuneration. There is an upper cap on all elements of remuneration.

Our remuneration policy remains to attract, retain and motivate high quality individuals in order to implement our business strategy. The Remuneration Committee considers that remuneration increases for 2017 are commensurate with the strong performance of the Group and the future increased executive commitments required as a result of the ANNOVA acquisition. Full retrospective disclosure has been provided for the 2016 executive targets and performance. We recognise that remuneration policies need to be designed with the long-term success of the Group in mind and we note that larger listed companies are required to implement withholding and claw back provisions for variable pay. Against this backdrop we believe that our remuneration policy promotes the long-term success of the Group, although we do not implement any claw back provisions. We recognise that performance related elements should be transparent and stretching. The remuneration of each Director is linked to the performance of the individual and the Group performance through base salary and performance related pay, together with other benefits. The Remuneration Committee and the Board are mindful of the need to temper reward with restraint.

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

Mike Love
Remuneration Committee Chairman
7 April 2017

Role of the Remuneration Committee

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

- making recommendations to the Board on the Company's existing remuneration policy for Directors' and senior staff, and to oversee long-term incentive plans (including share option schemes);
- ensuring remuneration is both appropriate to the level of responsibility and adequate to attract and/or retain Directors and staff of the calibre required by the Company; and
- ensuring that remuneration is in line with current industry practice and is capped.

The Remuneration Committee has sole responsibility for deciding the Executive Directors' remuneration and is sensitive to possible conflicts of interests when receiving views from Executive Directors about its proposals. No Director is involved in deciding his own remuneration.

Remuneration policy

The table below summarises the remuneration policy and how it is linked to overall Group strategy. References have been made to show where information has been audited.

EXECUTIVE DIRECTORS

Element	Objective and link to strategy	Operation	Maximum potential value	Performance conditions
Base salary	Reflects level of responsibility and achievement of the individual. Maintains an appropriate balance between fixed 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 similar sized AIM-quoted companies.	When considering any increases to base salaries in the normal course of events (as opposed to a change in role or responsibility), the Committee will take into account 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 and revenue growth of the Company, agreed key personal objectives and drives short-term to medium term performance.	Cash payments. Executive Directors participate in an annual and medium term performance related payment scheme. For the annual scheme 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 late 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 claw back if the quarterly payments on account already made exceed the total due for the year. For the medium term scheme payments are made after the audited accounts of SCISYS PLC for the last year of the respective medium-term period have been published.	During 2016 the split of total variable pay between payment related to Company profitability and revenue (Performance Related Pay "PRP") and personal Key Performance Indicators (KPI) was 70:30. 35% of the PRP element is related to adjusted EBITA performance and 15% to revenue performance. The same proportions (35% and 15% are tied to medium term targets (i.e. 3-year average group adjusted EBITA and revenue growth). 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 Executive's peers.	Profitability linked to an adjusted EBITA target. For 2016 the annual adjusted EBITA targets was set at £2.6m. Revenue performance related to a total revenue target. For 2016 the annual revenue target was set at £38m. KPI tied to individual objectives set for each Executive Director to achieve during the year.
Long-term incentive	Long-term incentives are awarded to drive performance and align the interests of the Executive Directors with shareholders and drive long-term performance.	Executive Directors receive an annual allocation of share options. These are subject to performance conditions to be met over a period of three years. The performance conditions have been chosen to align the long-term incentive to the performance of the business.	Options awarded during 2016 were set at an option price of 71p. The maximum potential benefit is linked to the upward movement in the share price at the time the Executive Directors elect to exercise the option should the performance conditions be achieved at the end of the three year holding period. The Option may be exercised between three and ten years from the date it was granted, subject to performance conditions being met.	The performance condition is tied to the long-term financial performance of the group based on growth in EPS and average earnings over a three 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 of the Company's permanent employees. Pensionable pay is set at basic salary plus 10%. During 2016 Klaus Heidrich, as a German-domiciled Executive Director received a pension contribution.	Not applicable	Not applicable
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.	Not applicable	Not applicable

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 2016 were as follows:

Executive Directors	Annual Salary £	Performance related pay £	Benefits in kind £	Total 2016 £	Total 2015 £	Pension contribution 2016 £	Pension contribution 2015 £
David Jones	45,573	23,434	1,305	70,312	88,761	-	-
Chris Cheetham	114,800	25,647	2,948	143,395	136,440	8,866	8,312
Steve Brignall	110,800	25,015	2,853	138,668	136,069	7,975	7,776
Klaus Heidrich	133,091	58,535	5,070	196,696	159,778	19,154	14,155
Klaus Meng#	50,936	17,464	-	68,400	63,309	-	-
Total	455,200	150,095	12,176	617,471	584,357	35,995	30,243

Klaus Meng also received €90,441.75 remuneration for his duties as a director of subsidiary SCISYS Deutschland GmbH during 2016

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-listed companies. The Chairman's salary is determined by the Remuneration Committee in consultation with the Executive Directors.	When considering any increases to base salary in the normal course (as opposed to a change in 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 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.	During 2016 the split of total variable pay between payment related to profitability and payment related to key performance objectives was 70:30%. During 2016 70% of the profitability element related to adjusted EBITA performance and 30% to revenue performance. Performance against the personal objectives of the Chairman were reviewed by the CEO in May and December.	Profitability linked to a target adjusted EBITA. Revenue performance linked to a total revenue target. For 2016 the targets set were the same as for the executive team. Individual objectives 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

Non-Executive Director

Element	Objective and link to strategy	Operation	Maximum potential value	Performance conditions
Base salary	To attract a 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 similar sized AIM-listed companies. The Non-Executive's salary is determined by the full Board. He was first appointed in January 2013 and reappointed as at 1 January 2016 for a further three-year term.	When considering any increases to base salaries in the normal course (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 £	2016 Total £	2015 Total £
Mike Love	33,000	-	8,652	41,652	41,888
David Coghlan	26,000	-	-	26,000	24,000
Total	59,000	-	8,652	67,652	65,888

The aggregate emoluments of the highest paid Director were £196,696 (2015: £159,778).

SERVICE CONTRACTS

The Company's policy on Directors' service contracts is that they should be on a rolling basis without a specific end date.

Klaus Heidrich's and Klaus Meng's service contracts are under German law and consequently while they provide for termination on 12 months' notice they would be compensated based on 24 months' salary unless the termination was due to the individual's default.

The service contracts for the UK resident Directors provide that in the event of a change of control causing the termination of their contract they would receive effectively 24 months' salary save where such termination was for their default or where the change of control was caused by 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

The Board's policy is that service contracts of Executive Directors should provide for termination by SCISYS on no more than one year's notice. The service contracts of David Jones, Steve Brignall and Chris Cheetham provide for such a period of 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 2016:

Ordinary shares under option by Directors as at the end of December 2016 were as follows - all Options have performance conditions applied:

	Interest in ordinary shares		Total interest in HMRC approved Company Share Option Plan (CSOP)		Total interest in options granted under the Enterprise Management Incentive (EMI) scheme		Total interest in Unapproved Share Option Plan		Total interest in shares	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Mike Love	**4,308,105**	4,263,974	**75,000**	75,000	**27,300**	27,300	**-**	-	**4,410,405**	4,366,274
Steve Brignall	**127,241**	121,531	**135,000**	135,000	**40,258**	40,258	**-**	-	**302,499**	296,789
Chris Cheetham	**74,720**	72,000	**135,000**	135,000	**40,258**	40,258	**-**	-	**249,978**	247,258
David Jones	**160,368**	152,000	**125,000**	125,000	**27,300**	27,300	**-**	-	**312,668**	304,300
Klaus Meng	**2,832,826**	2,822,366	**-**	-	**-**	-	**-**	-	**2,832,826**	2,822,366
Klaus Heidrich	**60,460**	50,000	**-**	-	**-**	-	**138,300**	128,300	**198,760**	178,300
David Coghlan	**6,276**	-	**-**	-	**-**	-	**-**	-	**6,276**	-
Totals	**7,569,996**	7,481,871	**470,000**	470,000	**135,116**	135,116	**138,300**	128,300	**8,313,412**	8,215,287

	As at 1 January 2016	Granted	Exercised	Lapsed/ forfeited	As at 31 December 2016	Date of grant	Date from which options can be exercised
Mike Love							
EMI Scheme option price 46.25p	27,300	-	-	--	27,300	Jan-08	2011
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	102,300	-	-	-	102,300		

	As at 1 January 2016	Granted	Exercised	Lapsed/ forfeited	As at 31 December 2016	Date of grant	Date from which options can be exercised
Steve Brignall							
EMI Scheme option price 46.25p	40,258	-	-	--	40,258	Jan-08	2011
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
CSOP option price of 51p	20,000	-	-	-	20,000	Apr-12	2015
CSOP option price 92.5p	20,000	-	-	(20,000)	-	Apr-14	2017
CSOP option price 82.5p	20,000	-	-	-	20,000	Apr-15	2018
CSOP option price 71p	-	20,000	-	-	20,000	Apr-16	2019
Total	175,258	20,000	-	(20,000)	175,258		

	As at 1 January 2016	Granted	Exercised	Lapsed/ forfeited	As at 31 December 2016	Date of grant	Date from which options can be exercised
Chris Cheetham							
EMI Scheme option price 46.25p	40,258	-	-	-	40,258	Jan-08	2011
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
CSOP option price of 51p	20,000	-	-	-	20,000	Apr-12	2015
CSOP option price 92.5p	20,000	-	-	(20,000)	-	Apr-14	2017
CSOP option price 82.5p	20,000	-	-	-	20,000	Apr-15	2018
CSOP option price 71p	-	20,000	-	-	20,000	Apr-16	2019
Total	175,258	20,000	-	(20,000)	175,258		

	As at 1 January 2016	Granted	Exercised	Lapsed/ forfeited	As at 31 December 2016	Date of grant	Date from which options can be exercised
David Jones							
EMI Scheme option price 46.25p	27,300	-	-	-	27,300	Jan-08	2011
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
CSOP option price of 51p	50,000	-	-	-	50,000	Apr-12	2015
Total	152,300	-	-	-	152,300		

	As at 1 January 2016	Granted	Exercised	Lapsed/ forfeited	As at 31 December 2016	Date of grant	Date from which options can be exercised
Klaus Heidrich							
unapproved option price of 46.25p	27,300	-	-	-	27,300	Jan-08	2011
unapproved option price of 25p	15,000	-	-	-	15,000	Jan-09	2012
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 92.5p	20,000	-	-	(20,000)	-	Apr-14	2017
unapproved option price of 82.5p	20,000	-	-	-	20,000	Apr-15	2018
unapproved option price of 71p	-	30,000	-	-	30,000	Apr-16	2019
Total	128,300	30,000	-	(20,000)	138,300		

David Coghlan holds 6,276 ordinary shares in SCISYS PLC but does not hold any options over SCISYS PLC shares. Klaus Meng does not hold any options in SCISYS 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 2017 AGM.

SHARE SCHEMES

Share Incentive Plan

The Group operates an all staff HMRC approved Share Incentive Plan ('SIP') which was set up during 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 2016 the trust set up to administer the Free and Partnership shares held 894,087 ordinary shares (2015: 933,423 ordinary shares) in SCISYS 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.

Enterprise Management Incentive (EMI) Scheme

On the recommendation of the Remuneration Committee, the Group introduced an EMI scheme in January 2007 to replace the existing approved share option scheme. An award was made in January 2008 at an issue price of 46.25p per share on the same basis. Options may be exercised between 3 and 10 years following grant, provided that the performance conditions have been met. The performance conditions for the January 2008 award have been partially met and so a percentage of the options may be exercised by the grant holder (the remaining options then lapsing). The total number of EMI options that remain capable of being exercised at the year-end was 205,113. The number of EMI options granted to Directors is reported on pages 48 to 49.

Company Share Option Plan (CSOP)

Following changes made to EMI schemes by UK Government during 2008, SCISYS PLC was no longer eligible to make awards under its approved EMI scheme. Consequently for options subsequently awarded SCISYS has 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. The performance conditions for all the awards have been fully met.

During 2016 SCISYS awarded 205,000 options under CSOP, granted to Directors, senior managers and staff at an issue price of 71p per share. The total number of CSOP options that remain capable of being exercised at the year-end was 987,500. The number of CSOP options granted to Directors is reported on pages 48 to 49.

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. The performance conditions for the January 2008 award have been partially met and so a percentage of the options may be exercised by the grant holder (the remaining options then lapsing).

During 2016 SCISYS awarded 132,500 options under the Unapproved scheme, granted to Directors, senior managers and staff at an issue price of 71 per share. The total number of these options that remain capable of being exercised at the year-end was 693,000. 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 48 to 49.

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 earnings growth are the two key performance measures currently applied. Both EPS growth and average earnings growth remain substantially within the control of Directors and management and therefore the Remuneration Committee continues to consider them to be appropriate measures of the underlying financial performance of the Group.

Options exercised during the year

No Director exercised any share options under any scheme during 2016. The total number of options held by Directors is reported on pages 48 to 49.

Dilution

Awards granted under CSOP, EMI and the 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 ten-year period. The current potential dilution is below this level. The total of share options awarded and remaining exercisable at year-end was 1,885,613. The Company's current commitment as at 31 December 2016 in respect of its option grants could be to issue this number of new shares (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).

Share Price

The closing mid-market price of the Company's shares on 31 December 2016 was 110p per share. The high and low share mid-market prices during 2016 were 111p and 66p 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

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

For the year ended 31 December 2016

The Directors present their annual report and the audited financial statements for the year ended 31 December 2016.

Principal activities

The principal activities of SCISYS PLC (the 'Company') and its subsidiary companies (the 'Group') are set out within the Strategic Report which comprises the Chairman's Statement and the Strategic Report on pages 5 to 37.

Review of business and future developments

The Consolidated Income Statement for the year ended 31 December 2016 is set out on page 56. A review of the Group's business activities during the year and its prospects for the future can be found in the Strategic Report on pages 5 to 37. These reports together with the Corporate Governance Statement, the Remuneration Committee Report and the Audit Committee Report, are incorporated into this report by reference and should be read as part of this report.

Key performance indicators

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

Principal risks and uncertainties

Details of the principal risks and uncertainties considered by the Board to affect the Group, and the related risk mitigation actions, are given on pages 30 to 33.

Group results and dividends

The Group's consolidated accounts show an adjusted operating profit before tax for the year of £3.2m (2015: £0.8m) on revenue of £45.7 (2015: £36.1m). The Company paid an interim dividend of 0.53p per share on 10 November 2016 and the Directors are recommending the payment of a final dividend of 1.43p per share.

Financial instruments

Details of financial instruments to which the Group is a party are shown on page 75 in note 22 of the financial statements.

Capital structure

The share capital of SCISYS PLC, issued and unissued, is comprised entirely of one class of ordinary share of 25 pence each. Each 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.

Treasury shares

As at 31 March 2017 the Company held 60,431 shares in Treasury to support the trustee of the SCISYS Share Incentive Plan (SIP) in the event that 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 Rules.

Directors

The names of the current Directors and their biographical details are set out on page 40. Details of the interests of the Directors in the Company's shares at year end are set out in the Remuneration Report on pages 45 to 50. No Director is required to stand for re-election at the Annual General Meeting in 2017. The names of the current divisional directors are set out on page 42. 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.

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 qualifying third party indemnity as defined by section 234 of the Companies Act 2006. The indemnity was in force throughout the financial year, and is currently in force. No indemnity is provided for the 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 PLC, they should notify the Board 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. Directors have a continuing duty to update any changes to these conflicts.

Significant shareholdings

As at 21 March 2017, the Company has been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the voting rights held as a shareholder of the Company as shown in the table below:

Investor	Number of Shares held	% interest in the total voting rights of SCISYS PLC
Dr. M.D. Love	4,308,523	14.84
Dr. Meng GmbH & Co KG	2,832,826	9.76
Downing LLP	2,563,237	8.83
Herald Investment Management Ltd	2,443,691	8.42
Hargreaves Lansdown PLC	1,846,858	6.36
Charles Stanley Group	1,328,752	4.57
Alto Invest AS	1,331,700	4.59
Rowan Dartington & Co	1,277,296	4.39
Mr P.K. Taylor	1,100,000	3.78
Ruffer Investment Company	1,050,000	3.61
Trustees of the SCISYS PLC Share Incentive Plan	876,049	3.01

Directors' interests in shares can be found on page 48.

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 and equal opportunities. The Group consults employees on developments and changes to take account of their views when making decisions that may impact their interests. The Group makes effort to recruit and continue the employment, training and promotion of those persons who are or become disabled.

Employee engagement

The Group engages with its employees regularly through various media: email alerts, bulletins, newsletters, team briefings and bi-annual 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 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.

Political donations

No political donations were made (2015: £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, and financial forecasts. As a result of this review the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

Post balance sheet events.

There are no post balance sheet events to report.

Annual General Meeting

The Company's Annual General Meeting will be held at its offices located at Methuen Park, Chippenham, Wiltshire, SN14 0GB on **Thursday 8 June 2017 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 is also available on the web site at www.scisys.co.uk/who-we-are/investors.html.

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:

- So far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- Each of the Directors has taken all the steps that he ought to have taken as a director, to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

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

Natasha Laird
Company Secretary
7 April 2017

SCISYS PLC
Registered number: 3426416
Registered office: Methuen Park, Chippenham, Wiltshire, SN14 0GB

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.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 2006. 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.

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

Signed on behalf of the Board

Klaus Heidrich
Chief Executive Officer

Chris Cheetham
Finance Director

7 April 2017

Financial Statements

Independent Auditor's Report to the members of SCISYS PLC

KPMG

We have audited the financial statements of SCISYS PLC for the year ended 31 December 2016 set out on pages 56 to 97. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 53, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Robert Fitzpatrick (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
66 Queen Square, Bristol, BS1 4BE

7 April 2017

Consolidated Income Statement
& Consolidated Statement of Comprehensive Income

Consolidated Income Statement for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Revenue	2	**45,744**	36,106
Operating costs		**(42,974)**	(35,299)
Share of results of associates		**17**	3
Operating profit	5	**2,787**	810
"Adjusted operating profit" being operating profit before share based payments, exceptional items and amortisation arising on business combinations		**3,231**	821
Share based payments	29	**14**	(11)
Exceptional items	8	**(458)**	-
Operating profit	5	**2,787**	810
Finance costs	7	**(186)**	(198)
Finance income	6	**1**	2
Profit before tax		**2,602**	614
Tax charge	9	**(380)**	(241)
Profit for the period attributable to equity holders of the parent		**2,222**	373

Earnings per share	11		
Basic		**7.6p**	1.3p
Diluted		**7.5p**	1.3p

Consolidated Statement of Comprehensive Income for the year ended 31 December 2016

	2016 £'000	2015 £'000
Profit for the period	**2,222**	373
Other comprehensive expense not recycling through the Income Statement		
Currency translation differences on foreign currency investments	**1,105**	(431)
Total comprehensive income for the period attributable to equity holders of the parent	**3,327**	(58)

Consolidated Statement of Financial Position as at 31 December 2016

	Note	2016 £'000	2015 £'000
Non-current assets			
Goodwill	13	**15,593**	7,763
Other intangible assets	14	**6,848**	68
Property, plant and equipment	15	**9,057**	8,635
Interests in associates	16	**90**	62
Other receivables		**85**	-
Deferred tax assets	23	**282**	25
		31,955	16,553
Current assets			
Inventories	17	**261**	211
Trade and other receivables	19	**19,621**	12,299
Corporation tax receivable		**1,098**	977
Cash and cash equivalents	20	**6,915**	4,352
		27,895	17,839
Total assets		**59,850**	34,392
Equity			
Issued share capital	26	**7,272**	7,272
Share premium account		**143**	143
Merger reserve		**943**	943
Retained earnings		**12,751**	11,199
Translation reserve		**1,521**	416
Other reserves		**83**	83
Equity attributable to equity holders of the parent		**22,713**	20,056
Current liabilities			
Trade and other payables	24	**14,310**	7,848
Bank overdrafts and loans	21	**3,804**	3,304
Corporation tax payable		**190**	738
Deferred income	25	**459**	113
		18,763	12,003
Non-current liabilities			
Bank loans	21	**13,355**	2,007
Other payables	27	**3,408**	-
Deferred tax	23	**1,611**	326
		18,374	2,333
Total liabilities		**37,137**	14,336
Total equity and liabilities		**59,850**	34,392

The financial statements were approved by the Board of Directors on 7 April 2017 and signed on its behalf by:

K M Heidrich
Director

C A Cheetham
Director

Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity for the year ended 31 December 2016

2016	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 2016	7,272	143	943	83	416	11,199	20,056
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	2,222	2,222
Other comprehensive income							
Foreign currency translation	-	-	-	-	1,105	-	1,105
Total comprehensive income for the period	-	-	-	-	1,105	2,222	3,327
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends paid	-	-	-	-	-	(671)	(671)
Share based payments	-	-	-	-	-	(14)	(14)
Exercise of share options	-	-	-	-	-	15	15
Total contributions by and distributions to owners	-	-	-	-	-	(670)	(670)
Balance as at 31 December 2016	**7,272**	**143**	**943**	**83**	**1,521**	**12,751**	**22,713**

2015	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 2015	7,272	143	943	83	847	11,169	20,457
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	373	373
Other comprehensive income							
Foreign currency translation	-	-	-	-	(431)	-	(431)
Total comprehensive income for the period	-	-	-	-	(431)	373	(58)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends paid	-	-	-	-	-	(340)	(340)
Share based payments	-	-	-	-	-	11	11
Treasury shares	-	-	-	-	-	(25)	(25)
Exercise of share options	-	-	-	-	-	11	11
Total contributions by and distributions to owners	-	-	-	-	-	(343)	(343)
Balance as at 31 December 2015	7,272	143	943	83	416	11,199	20,056

Consolidated Statement of Cash Flows for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Cash flow from operating activities			
Profit before tax		**2,602**	614
Net finance costs		**185**	196
Operating profit		**2,787**	810
(Increase)/decrease in trade receivables		**(3,992)**	149
Decrease/(increase) in trade payables		**579**	(127)
Deferred consideration	27	**3,318**	-
Depreciation and amortisation		**781**	730
Share of profit of associate		**(17)**	(3)
Share based payments		**(14)**	11
Tax payments		**(1,250)**	(583)
Net cash flow from operating activities		**2,192**	987
Cash flow from investing activities			
Acquisition of subsidiary		**(9,723)**	(830)
Cash acquired with subsidiary		**2,202**	-
Acquisition of investment in an associate		**-**	(59)
Proceeds from disposal of property, plant and equipment		**-**	48
Purchase of plant, property and equipment		**(663)**	(667)
Exercise of share options		**15**	11
Interest received		**1**	2
Net cash flow from investing activities		**(8,168)**	(1,495)
Cash flows from financing activities			
Dividends paid	10	**(671)**	(340)
Interest paid		**(186)**	(198)
Investment in own shares		**-**	(25)
Loans received		**9,906**	-
Debt repayments		**(939)**	(779)
Net cash flow from financing activities		**8,110**	(1,342)
Net increase/(decrease) in cash and cash equivalents		**2,134**	(1,850)
Cash and cash equivalents at the start of the period		**3,625**	5,798
Exchange and other movements		**907**	(323)
Cash and cash equivalents at the end of the period		**6,666**	3,625
Cash and cash equivalent deposits held in non-UK based banks		**6,709**	4,136
Net overdraft with UK based banks		**(43)**	(511)
		6,666	3,625

Principal accounting policies

Statement of compliance
SCISYS PLC (the "Company") is a public company incorporated, domiciled and registered in England in the UK. The registered number is 3426416 and the registered address is 2 Methuen Park, Chippenham, Wiltshire SN14 0GB UK.

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in associates. The parent 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 87 to 97.

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 have been adopted for the first time in 2016. None have a significant effect on the consolidated results or financial position of the Group:

- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Annual Improvements to IFRSs – 2012-2014 Cycle
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment entities: Applying the Consolidation Exception
- Amendments to IAS 1: Disclosure Initiative

There are no new standards or interpretations endorsed by the EU during the year that impact on the financial results or presentation in 2016. Of the standards and interpretations in issue but not yet effective, only IFRS 15, "Revenue from contracts with customers" and IFRS 16, "Leases", are anticipated to have any potentially material impact on the results and financial position of the Group. IFRS 15 is effective from 1 January 2018 and may affect the revenue recognition on some of the Group's software development contracts. In particular, for contracts where the Group acts in the capacity of an agent for the pass-through of third-party products or services, only the margin on such activities will be recognised as revenue. This will reduce reported revenues and operating costs but have no impact on operating profits. IFRS 16 is expected to be effective from 1 January 2019 and may require all leases to be reflected on-balance sheet. The potential impact of IFRS 16 on the Group is being assessed.

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 that provide adequate headroom over forecast working capital requirements for 2017.

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 and associates 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.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. 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. 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.

Principal accounting policies (continued)

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.

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 the Income Statement.

Revenue

Revenue from consultancy and other professional services rendered on a fixed-price project 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.

Revenue from projects billed on a time & materials basis is recognised in line with performance of the services.

Revenue for software licences is recognised when the product to which the revenue relates is used by the client to process live data in any location, typically at the end of an implementation project. Revenues are not recognised unless their receipt can be predicted with a high level of certainty.

Revenue from the sale of third-party products is recognised on transfer to the customer of the significant risks and rewards of ownership and when:

- it is probable that the economic benefits associated with the transaction will flow;
- the amount of revenue can be measured reliably; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

In practice, this is typically on delivery of the third-party product to the customer.

From 1 January 2018 there are changes as per IFRS 15 Revenue from contracts with customers. IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The Group will take into account principal versus agent considerations. Where considered an agent, only the mark-up element will be disclosed as revenue, currently the full contract value is considered and when recognised disclosed in other revenue. This may result in additional segmenting of contracts based on individual performance obligations to ensure the various revenue streams are recognised in line with the new standard. IFRS 15 processes are being implemented now in preparation for 2018.

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

Maintenance revenue is recognised evenly over the term of a contract. 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.

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 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 weighted average exchange rate 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.

Principal accounting policies (continued)

Pensions
The Group operates a defined-contribution group personal pension plan, 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.

The Group chooses to make a Research and Development expenditure credit claim yearly. The Directors have chosen to claim a cash repayment for qualifying R&D expenditure directly from HMRC. This is reflected below the line as a cash credit due to SCISYS UK being a loss-making company for tax purposes.

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 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
The amortisation periods for the intangible fixed assets above are based on their estimated useful lives as follows:

Software licences	3 to 5 years
Annova order book (not straight-line basis)	11 years
Annova acquired software solution	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 (CGU) 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.

Principal accounting policies (continued)

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 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.

IFRS 15
SCISYS is currently planning the implementation of changes to comply with IFRS 15, the new Revenue Recognition standards. The risk that IFRS 15 would change revenue recognition substantially for SCISYS is reducing and, following substantial analysis, SCISYS believes that most contracts SCISYS undertakes will fit with its current practices. In some cases, however, SCISYS acts as an Agent in IFRS 15 terms, which will result in revenues associated with these "pass-through" services being reduced to just the margins on them. This will result in a reduction in revenues but with the maintenance of the profit, which will increase profitability in these cases, The introduction of IFRS 15 will result in some internal process changes across the Group.

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 on a percentage of completion basis 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. These are used in determining the percentage of completion and the value of amounts recoverable on 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 are based on 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 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 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 all deal with governments or pseudo-government bodies and the Board considers 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 can be treated with the same cost of capital, which reflects the Group's aggregated portfolio risks.

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 tangible 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 PLC Board) is the basis used to define operating segments.

2 Operating segments (continued)

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

Space
Enterprise Solutions & Defence (ESD)
Media & Broadcast (M&B)
Xibis Ltd

A fifth division will be active with effect from 1 January 2017 following the acquisition of ANNOVA Systems GmbH on 31 December 2016. Assets and liabilities relating to this division on the acquisition date are incorporated in the segmental analysis in this note.

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, amounts recoverable on contracts, inventories, payments received on account and variable pay accruals.

Information about reportable segments

External revenues	Space £'000	ESD £'000	M&B £'000	Xibis £'000	Total £'000
Year ended 31 December 2016					
Professional fees revenue	**16,293**	**13,284**	**7,541**	**460**	**37,578**
Other revenue	**3,581**	**3,368**	**485**	**412**	**7,846**
External revenue for reportable segments	**19,874**	**16,652**	**8,026**	**872**	**45,424**
Other external revenue					**320**
Consolidated revenue					**45,744**
Year ended 31 December 2015					
Professional fees revenue	12,898	9,920	6,179	805	29,802
Other revenue	3,534	2,282	176	96	6,088
External revenue for reportable segments	16,432	12,202	6,355	901	35,890
Other external revenue					216
Consolidated revenue					36,106

Profit before tax	Space £'000	ESD £'000	M&B £'000	Xibis £'000	Total £'000
Year ended 31 December 2016					
Reportable segment contribution	**4,229**	**4,512**	**2,512**	**104**	**11,357**
Other contribution	**(72)**	**(50)**	**-**	**-**	**(122)**
Contribution	**4,157**	**4,462**	**2,512**	**104**	**11,235**
Central overheads					**(8,448)**
Operating profit					**2,787**
Finance costs					**(186)**
Finance income					**1**
Profit before tax					**2,602**
Year ended 31 December 2015					
Reportable segment contribution	3,366	1,745	2,004	27	7,142
Other contribution	(83)	-	7	-	(76)
Contribution	3,283	1,745	2,011	27	7,066
Central overheads					(6,256)
Operating profit					810
Finance costs					(198)
Finance income					2
Profit before tax					614

2 Operating segments (continued)

Information about reportable segments (continued)

Group assets	Space £'000	ESD £'000	M&B £'000	Xibis £'000	Annova £'000	Total £'000
As at 31 December 2016						
Reportable segment – non-current assets	**3,466**	**-**	**3,380**	**1,090**	**7,657**	**15,593**
Reportable segment – current assets	**6,657**	**6,836**	**1,534**	**288**	**3,209**	**18,524**
	10,123	**6,836**	**4,914**	**1,378**	**10,866**	**34,117**
Other – non-current assets						**16,362**
Other – current assets						**9,371**
Total assets						**59,850**
As at 31 December 2015						
Reportable segment – non-current assets	3,293	-	3,380	1,090	-	7,763
Reportable segment – current assets	6,013	4,658	800	204	-	11,675
	9,306	4,658	4,180	1,294	-	19,438
Other – non-current assets						8,790
Other – current assets						6,164
Total assets						34,392

Group liabilities	Space £'000	ESD £'000	M&B £'000	Xibis £'000	Annova £'000	Total £'000
As at 31 December 2016						
Reportable segment – current liabilities	**1,050**	**1,360**	**265**	**-**	**1,788**	**4,463**
Other – non-current liabilities						**18,374**
Other – current liabilities						**14,300**
Total liabilities						**37,137**
As at 31 December 2015						
Reportable segment – current liabilities	278	1,315	29	22	-	1,644
Other – non-current liabilities						2,333
Other – current liabilities						10,359
Total liabilities						14,336

Geographical split	UK £'000	Rest of Europe £'000	Other £'000	Total £'000
Year ended 31 December 2016				
Revenue from external customers by location of customers	**22,052**	**22,605**	**1,087**	**45,744**
As at 31 December 2016				
Non-current assets:				
Intangible assets	**-**	**22,441**	**-**	**22,441**
Tangible assets	**5,904**	**3,153**	**-**	**9,057**
Interests in associates	**-**	**90**	**-**	**90**
Other long term assets	**-**	**367**	**-**	**367**
Year ended 31 December 2015				
Revenue from external customers by location of customers	17,878	17,671	557	36,106
As at 31 December 2015				
Non-current assets:				
Intangible assets	1,090	6,741	-	7,831
Tangible assets	6,004	2,631	-	8,635
Interests in associates	-	62	-	62
Deferred tax assets	-	25	-	25

3 Staff numbers and costs

	2016 No.	2015 No.
The average number of persons employed by the Group during the year was as follows:		
Management	**23**	25
Professional	**356**	333
Administration	**59**	58
	438	416

	£'000	£'000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	**23,167**	20,159
Social security costs	**3,094**	2,551
Pension costs	**847**	848
IFRS2 share based payments (credit)/charge	**(14)**	11
	27,094	23,569

The remuneration of the highest paid Director was £197,000 (2015: £160,000), and Company pension contributions of £19,000 (2015: £14,000) were made to a money purchase scheme on their behalf. Retirement benefits are accruing to 3 Directors (2015: 3) under money purchase schemes. Directors' remuneration is borne by the parent company and recharged to the operating subsidiaries. In addition to the above sums, one Director received £78,000 (2015: £63,000) for his duties as a director of SCISYS Deutschland GmbH.

4 Remuneration of Directors

Details of Directors' emoluments, share options and pension entitlements are given in the Remuneration Report on pages 45 to 50. The information contained in the Directors' Remuneration Report which is subject to audit, are the disclosures of Directors' benefits: total amount of Directors' remuneration and pensions. Audited Executive and Non-Executive Directors' remuneration disclosures can be found on page 47.

5 Operating profit

	2016 £'000	2015 £'000
This is stated after charging/(crediting):		
Net foreign exchange gains on operating activities	**1,167**	(110)
Hire of other assets – operating leases	**86**	79
Research and development costs	**1,996**	2,432
Depreciation of property, plant and equipment	**738**	661
Amortisation of intangible assets included in operating costs	**43**	69
Fees paid to the Company's auditors for the audit of the company's audited accounts	**42**	30
The audit of the Company's subsidiaries pursuant to legislation	**71**	60
Total audit fees	**113**	90
Fees paid to the Company's auditors and their associates for other services to the Group		
Taxation services and compliance work	**17**	2
Other services (pension advice, grant audit)	**6**	17
Total non-audit fees	**23**	19

6 Finance income

	2016 £'000	2015 £'000
Bank deposit interest	**1**	2

7 Finance costs

	2016 £'000	2015 £'000
Interest on bank loans and overdrafts	**186**	198

8 Exceptional items

	2016 £'000	2015 £'000
Acquisition costs	**458**	-

Acquisition costs represent fees paid to professional advisers and statutory charges relating to the acquisition of Annova Systems GmbH that do not qualify for capitalisation as costs for issuing debt or equity instruments.

9 Tax

	2016 £'000	2015 £'000
Current tax:		
UK corporation tax based on the results for the year	**(443)**	(550)
Adjustment relating to earlier years R&D tax credit	**(105)**	(92)
Overseas corporation tax	**944**	971
Adjustment relating to earlier years	**(3)**	(8)
Total current tax	**393**	321
Deferred tax:		
Overseas deferred taxation (note 23)	**(13)**	(80)
Total tax charge	**380**	241

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 20.00% (2015: 20.25%). The actual effective tax rate for the current year is lower (2015: higher) than this standard rate.

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were 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 2016 have been calculated based on these rates.

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

	2016 £'000	2015 £'000
Profit from operations before taxation:	**2,602**	614
Tax charge at standard rate of 20.00% (2015: 20.25%)	**520**	124
Expenses not deductible for tax purposes	**174**	227
Other items including permanent differences		
Research & Development tax credits	**(661)**	(436)
Other		
Adjustment in respect of foreign tax and exchange rates	**354**	496
Short term timing differences	**(3)**	-
Movement in deferred tax asset not recognised	**9**	(69)
Movement in respect of change in tax rate	**(2)**	-
Tax relief in respect of share option schemes	**-**	(1)
Movement in deferred tax rates	**97**	-
Adjustment relating to earlier years	**(108)**	(100)
Total tax charge	**380**	241

10 Dividends

	2016 £'000	2015 £'000
Final dividend for 2014 paid in the year: 1.17p per share	-	340
Final dividend for 2015 paid in the year: 1.78p per share	517	-
Interim dividend for 2016 paid in the year: 0.53p per share	154	-
	671	340

The Board proposes payment of a final dividend for 2016 of 1.43p per share in July 2017.

11 Basic & diluted earnings per share

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

	2016			2015		
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	29,086	(39)	29,047	29,086	(54)	29,032
Diluted earnings per share	29,616	(39)	29,577	29,613	(54)	29,559

Earnings	2016 £'000	2015 £'000
Profit on ordinary activities after taxation	2,222	373
Basic earnings per share	7.6p	1.3p
Diluted earnings per share	7.5p	1.3p

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 EMI, 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:

	2016			2015		
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	29,086	(39)	29,047	29,086	(54)	29,032
Diluted earnings per share	29,616	(39)	29,577	29,613	(54)	29,559

Earnings	2016 £'000	2015 £'000
Profit on ordinary activities after taxation	2,222	373
Adjusted for:		
Share based payments	(14)	11
Exceptional items	458	-
Adjusted profit after taxation	2,666	384
Basic adjusted earnings per share	9.2p	1.3p
Diluted adjusted earnings per share	9.0p	1.3p

12 Adjusted earnings per share (continued)

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 EMI, 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 Deutschland GmbH £'000	MakaluMedia Internet & Engineering Services GmbH £'000	Xibis Limited £'000	Annova Systems GmbH £'000	Total £'000
Cost and carrying amount:					
At 1 January 2015	5,603	1,135	1,403	-	8,141
Fair value adjustment	-	-	3	-	3
Measurement period fair value adjustment	-	-	(316)	-	(316)
Exchange adjustments	-	(65)	-	-	(65)
At 1 January 2016	**5,603**	**1,070**	**1,090**	**-**	**7,763**
Recognised on acquisition of a subsidiary (note 27)	-	-	-	7,657	7,657
Exchange adjustments	-	173	-	-	173
At 31 December 2016	**5,603**	**1,243**	**1,090**	**7,657**	**15,593**

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

	2016 £'000	2015 £'000
Space	**3,466**	3,293
Media & Broadcast	**3,380**	3,380
Xibis	**1,090**	1,090
Annova	**7,657**	-
	15,593	7,763

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 industry growth 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 two years are based on current market and business forecasts. Cash flows are then assumed to continue to perpetuity with a constant growth rate in contribution or overheads. Annual contribution is assumed to grow at up to 4.0% (2015: 4.0%) and central overheads at up to 2.0% (2015: 2.0%). Cash flows are discounted at 10.5% (2015: 10.6%), 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 15.3% (2015: 15.3%). 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.

The basis for the Directors' estimates of the input parameters for calculating the discount rate is outlined in note 1. The conclusion from impairment testing is relatively insensitive to the assumptions used to derive the WACC. To reduce the headroom in the impairment calculation to nil a post-tax WACC of 13.9% (2015: 14.2%) would be required for the Space and Media & Broadcast CGUs and 12.0% (2015: 13.1%) for the Xibis CGU. The Annova CGU will be reviewed for impairment initially in 2017. On the basis of this analysis, the Directors consider that no impairment provision is warranted.

14 Other intangible assets

	Acquired software solution £'000	Order book £'000	Software licences £'000	Total £'000
Cost:				
At 1 January 2015	-	-	505	505
Additions	-	-	52	52
Exchange adjustments	-	-	(48)	(48)
At 1 January 2016	-	-	509	509
Acquired on acquisition of a subsidiary	2,209	4,433	108	6,750
Additions	-	-	64	64
Disposals	-	-	(3)	(3)
Exchange adjustments	-	-	134	134
At 31 December 2016	2,209	4,433	812	7,454
Amortisation:				
At 1 January 2015	-	-	413	413
Charge for the year	-	-	69	69
Exchange adjustments	-	-	(41)	(41)
At 1 January 2016	-	-	441	441
Charge for the year	-	-	43	43
Disposals	-	-	(3)	(3)
Exchange adjustments	-	-	125	125
At 31 December 2016	-	-	606	606
Carrying amount:				
At 31 December 2016	**2,209**	**4,433**	**206**	**6,848**
At 31 December 2015	-	-	68	68
At 1 January 2015	-	-	92	92

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 2015	8,359	4,768	2,929	1,507	17,563
Additions	15	328	86	186	615
Disposals	-	(29)	(32)	(44)	(105)
Exchange adjustments	(135)	(103)	(60)	(59)	(357)
At 1 January 2016	8,239	4,964	2,923	1,590	17,716
Acquired on acquisition of subsidiary	-	72	34	45	151
Additions	21	451	112	17	601
Disposals	-	(68)	(20)	-	(88)
Exchange adjustments	358	296	161	162	977
At 31 December 2016	8,618	5,715	3,210	1,814	19,357
Depreciation and impairment:					
At 1 January 2015	1,014	4,228	2,675	747	8,664
Charge for the year	197	300	66	99	662
Disposals	-	(29)	(28)	-	(57)
Exchange adjustments	(27)	(88)	(46)	(27)	(188)
At 1 January 2016	1,184	4,411	2,667	819	9,081
Charge for the year	201	345	80	112	738
Disposals	-	(67)	(18)	-	(85)
Exchange adjustments	89	263	128	86	566
At 31 December 2016	1,474	4,952	2,857	1,017	10,300
Carrying amount:					
At 31 December 2016	**7,144**	**763**	**353**	**797**	**9,057**
At 31 December 2015	7,055	553	256	771	8,635
At 1 January 2015	7,345	540	254	760	8,899

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 £7,144,000 (2015: £7,055,000) to secure bank loans and overdrafts granted to the Group.

At 31 December 2016, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £20,000 (2015: £7,000).

16 Interests in associates

On 11 September 2015 the Group's German subsidiary, SCISYS Deutschland GmbH, acquired 33.3% of ToMM Apps GmbH ("ToMM Apps"), a supplier of software development services to SCISYS' Media & Broadcast division. ToMM Apps was formed in 2014 as a university spin-off business in Duisburg, Germany. Trading between group companies and ToMM Apps is outlined in note 32.

The investment agreement grants SCISYS a call option to acquire the remaining 66.7% of ToMM Apps' shares from 1 January 2018 at a price governed by a pre-determined formula based on ToMM Apps' earnings over the two years ending 31 December 2017. If the call option is not exercised by SCISYS by 31 December 2018 the majority shareholders can exercise an option to buy SCISYS' 33.3% holding at the original investment price. The price of the call option is considered to be the fair value and at present that fair value is determined to be £nil.

The following table summarises the financial information of ToMM Apps as included in its own financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies:

16 Interests in associates (continued)

Percentage ownership interest	2016 33.3% £'000	2015 33.3% £'000
Non-current assets	**165**	89
Current assets	**13**	16
Current liabilities	**(28)**	(16)
Net assets (100%)	**150**	89
Group share of net assets	**50**	30
Goodwill	**23**	29
Post-acquisition share of post-tax profits	**17**	3
Carrying amount of interest in associate	**90**	62

Revenue	**271**	175
Profit after tax (100%)	**47**	33
Pre-acquisition post-tax profits	**-**	(23)
Post-acquisition post-tax profits	**47**	10
Group share of post-tax profits	**17**	3

17 Inventories

	2016 £'000	2015 £'000
Raw materials	**113**	106
Work-in-progress	**136**	99
Finished goods	**12**	6
	261	211

18 Long-term software development contracts

	2016 £'000	2015 £'000
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in trade and other receivables (note 19)	**7,555**	4,811
Amounts due to contract customers included in trade and other payables (note 24)	**(4,463)**	(1,644)
	3,092	3,167

All amounts included in trade and other receivables and arising from long-term software development contracts are due for settlement within 12 months for both years.

19 Trade and other receivables

	2016 £'000	2015 £'000
Amounts receivable from the sale of goods and services	**10,641**	6,547
Amounts receivable from long term contracts (note 18)	**7,555**	4,811
Other receivables	**465**	106
Prepayments and accrued income	**960**	835
	19,621	12,299

The average credit period taken on settlement of sales invoices is 36 days (2015: 36 days).

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.

20 Cash and cash equivalents/bank overdrafts

	2016 £'000	2015 £'000
Cash and cash equivalents per balance sheet	**6,915**	4,352
Bank overdrafts	**(249)**	(727)
Cash and cash equivalents per cash flow statement	**6,666**	3,625

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.

21 Bank overdrafts and loans

	2016 £'000	2015 £'000
Bank overdrafts	**249**	727
Loans – due within one year	**3,555**	2,577
Total due within one year	**3,804**	3,304
Loans – due in year 2	**2,172**	1,126
Loans – due in years 3-5	**10,771**	449
Loans – due after year 5	**412**	432
Loans - due after one year	**13,355**	2,007
	17,159	5,311

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

1) a euro-denominated loan of £616,000, 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 2018 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 2.02% p.a. until 30 June 2018;
2) a term loan of £1,692,000, being the balance remaining on a 5-year term loan of £2,450,000 taken out in May 2011 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. The loan was renewed for a further 5 years in May 2016 with no variation in terms. Interest is payable monthly at 3.0% p.a. above LIBOR;
3) a euro-denominated loan of £223,000, 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 June 2027. Interest is payable monthly at a fixed rate of 2.5% p.a. until June 2017 at which time the terms and conditions for repayment and interest for the balance of the loan are renegotiable;
4) a euro-denominated loan of £44,000, being the balance on a loan of £75,000 taken out in November 2013 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 November 2020. Interest is payable monthly at a fixed rate of 2.39% p.a. until November 2018;
5) an unsecured euro denominated loan of £171,000, being the balance remaining on a £818,000 loan taken out in November 2012 to replenish cash reserves utilised to fund the acquisition of MakaluMedia Internet & Engineering Services GmbH. The loan is repayable in equal quarterly instalments until December 2017 and bears interest at a fixed rate of 2.12% p.a.;
6) 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;
7) a term loan of £600,000, being the balance remaining on a £1,200,000 drawn down in December 2014 to support the acquisition of Xibis Limited. The loan is repayable in equal monthly instalments until March 2018 and is secured by debentures granted by all three UK Group companies and a first legal charge over the Group's long leasehold property in Bristol. Interest is payable quarterly at 2.5% p.a. above LIBOR; and
8) loan notes of £1,514,000, being the first tranche of notes issued under a £5 million loan note programme in December 2016 to part fund the acquisition of ANNOVA Systems GmbH. 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.;

21 Bank overdrafts and loans (continued)

9) an unsecured euro-denominated loan of £8,567,000 drawn down in December 2016 to part fund the acquisition of ANNOVA Systems GmbH. 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 has been offset by £178k of capitalised deal fees.;
10) an unsecured euro-denominated loan of £2,142,000, being the balance remaining on a loan acquired with the ANNOVA Systems business on 31 December 2016. The loan bears interest at a fixed rate of 5.0% p.a. and is repayable in June 2019; and
11) a revolving credit facility with a balance of £1,019,000, acquired with the ANNOVA Systems business on 31 December 2016. Interest is payable at 4.5% p.a. above LIBOR and the facility falls due for renewal in June 2017

Loan 2 and the loan notes 8 are subject to annual interest cover 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 PLC and SCISYS UK 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 £2,142,000 overdraft (2015: £1,843,000), a £1,028,000 revolving credit facility (2015: £nil) and £5,140,000 of bank guarantee lines (2015: £4,423,000). At the year end, there were no overdraft borrowings (2015: £nil) and £1,019,000 (2015: £nil) of the RCF was utilised. Utilisation of the bank guarantee facilities was £134,000 (2015: £321,000).

22 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 amounts recoverable on contracts.

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 (and quasi-government) agencies and major prime contractors and 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.

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:

	2016 £'000	2015 £'000
Trade receivables	**10,641**	6,547
Amounts recoverable on contracts	**7,555**	4,811
Corporation tax receivable	**1,098**	977
Other receivables	**465**	106
Cash and cash equivalents	**6,915**	4,352
	26,674	16,793

22 Financial instruments (continued)

	Trade receivables		Cash and cash equivalents	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Sterling	**4,412**	2,927	**1,498**	2,681
Euro	**6,223**	3,620	**5,417**	1,669
US Dollars	**6**	-	**-**	2
	10,641	6,547	**6,915**	4,352

The aged analysis of trade receivables is:

	2016	2015
	£'000	£'000
0 to 30 days	**5,786**	4,343
31 to 60 days	**4,095**	1,032
61 to 90 days	**350**	785
>90 days	**410**	387
	10,641	6,547

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 £92,000 (2015: £nil).

(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 2016	**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	**17,159**	**18,069**	**4,035**	**2,374**	**11,226**	**434**
Trade and other payables	**14,310**	**14,310**	**14,310**	**-**	**-**	**-**
Corporation tax payable	**190**	**190**	**190**	**-**	**-**	**-**
Deferred consideration	**(3,318)**	**(3,318)**	**-**	**(375)**	**(2,943)**	**-**
Foreign currency derivatives - liabilities	**(333)**	**(333)**	**(333)**	**-**	**-**	**-**
	28,008	**28,918**	**18,202**	**1,999**	**8,283**	**434**

31 December 2015	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	5,311	5,530	3,412	1,174	486	458
Trade and other payables	7,848	7,848	7,848	-	-	-
Corporation tax payable	738	738	738	-	-	-
	13,897	14,116	11,998	1,174	486	458

At 31 December 2016, the Group had available £4,402,000 (2015: £3,616,000) 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.

22 Financial instruments (continued)

A proportion of the Group's Media & Broadcast division's contracts 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.

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 £73,000 impact on the Group's operating profit for the year ended 31 December 2016. 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 dollar against sterling would have a £1,000 impact on the Group's operating profit for the year ended 31 December 2016. The method of estimation, consistently applied, involves assessing the transaction impact of dollar cash flows and the translation impact of dollar profits.

Currency hedging contracts are taken out to coincide with quarter end dates. Depending on the exchange rate of the euro at the time cash is received from a customer compared to the forward rates, the Group may enter into currency swaps to transfer any currency receipts into sterling, thereby saving sterling overdraft interest, until such time as the currency is needed to fulfil a particular forward contract at the end of the quarter. 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.

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

	2016	2015
Year end rate	**1.167**	1.357
Average rate for the year	**1.219**	1.385

The following forward contracts and cylinder option contracts for sales of euros were entered into between 2014 and 2016 for sales of euros to mitigate currency risk in 2015 and beyond:

Contract date	Expiry date	Euro amount	Protected rate Euro/£	Participation limit Euro/£
October 2014	27-Mar-2015	€1.25 million	1.270	1.242
October 2014	26-Jun-2015	€1.25 million	1.270	1.242
October 2014	28-Sep-2015	€1.25 million	1.270	1.242
October 2014	29-Dec-2015	€1.25 million	1.270	1.242
August 2015	31-Mar-2016	€1.25 million	1.388	n/a
August 2015	30-Jun-2016	€1.25 million	1.388	n/a
August 2015	30-Sep-2016	€1.25 million	1.388	n/a
August 2015	30-Dec-2016	€1.25 million	1.388	n/a
June 2016	31-Mar-2017	€1.00 million	1.297	n/a
June 2016	30-Jun-2017	€1.00 million	1.297	n/a
June 2016	30-Sep-2017	€1.00 million	1.274	n/a
June 2016	31-Dec-2017	€1.00 million	1.274	n/a

The maximum rate at which the Group is committed to sell euros under the cylinder option contracts is defined by the protected rate. If the spot rate on the expiry date is between the protected rate and the participation limit, the Group can sell the euros at the favourable spot rate. If sterling weakens against the euro so that the spot rate falls below the participation limit, the Group is obligated to sell at the participation limit.

The fair value of the forward exchange contracts for euro denominated receivables which were outstanding at 31 December 2016 was a liability of £325,000, reflected as a £333,000 liability in trade and other payables and an £8,000 asset reflected in trade and other receivables (2015: £91,000 liability reflected in trade and other payables).

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.

22 Financial instruments (continued)

The analysis of borrowings by currency is:

	Sterling £'000	Euro £'000	Total £'000
31 December 2016			
Bank overdrafts	**-**	**249**	**249**
Bank loans	**3,792**	**13,118**	**16,910**
	3,792	**13,367**	**17,159**
31 December 2015			
Bank overdrafts	-	727	727
Bank loans	3,346	1,238	4,584
	3,346	1,965	5,311

(c) (ii) Interest rate risk

The Group does not undertake any hedging activity in this area.

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:

	2016	2015
Bank overdrafts	**3.4%**	3.5%
Bank loans	**3.3%**	3.2%

Sensitivity analysis

An average rise in interest rates during the year of 1% would have increased interest charges by £57,000 (2015: £79,000).

The borrowings are repayable as follows:

	2016 £'000	2015 £'000
On demand or within one year	**3,804**	3,304
In the second year	**2,172**	1,126
In the third to fifth years inclusive	**10,771**	449
After five years	**412**	432
	17,159	5,311
Less: amount due for settlement within 12 months (shown as current liabilities)	**(3,804)**	(3,304)
Amount due for settlement after 12 months	**13,355**	2,007

(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.

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

	2016 £'000	2015 £'000
Bank overdrafts	**(249)**	(727)
Loans	**(16,910)**	(4,584)
Total borrowings	**(17,159)**	(5,311)
Cash and cash equivalents (note 20)	**6,915**	4,352
Group net debt	**(10,244)**	(959)

(e) Fair values

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

22 Financial instruments (continued)

	Carrying amount 2016 £'000	Fair value 2016 £'000	Carrying amount 2015 £'000	Fair value 2015 £'000
Trade receivables	**10,633**	**10,633**	6,547	6,547
Amounts recoverable on contracts	**7,555**	**7,555**	4,811	4,811
Corporation tax receivable	**1,098**	**1,098**	977	977
Other receivables	**465**	**465**	106	106
Foreign currency derivatives - assets	**8**	**8**	-	-
Cash and cash equivalents	**6,915**	**6,915**	4,352	4,352
Bank overdrafts	**(249)**	**(249)**	(727)	(727)
Loans	**(16,910)**	**(16,915)**	(4,584)	(4,587)
Corporation tax payable	**-**	**-**	(738)	(738)
Trade and other payables	**(13,977)**	**(13,977)**	(7,757)	(7,757)
Foreign currency derivatives - liabilities	**(333)**	**(333)**	(91)	(91)
Deferred consideration	**(3,318)**	**(3,318)**	-	-
	(8,113)	**(8,118)**	2,896	2,893

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 weighted average cost of capital 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

Set out on page 63 is 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).

The following tables illustrate the Group's net financial assets and liabilities measured at fair value at 31 December 2016 and 31 December 2015:

	Level 1		Level 2		Level 3	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Financial assets	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Foreign currency derivatives - assets	**-**	-	**8**	-	**-**	-

	Level 1		Level 2		Level 3	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Financial liabilities	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Foreign currency derivatives - liabilities	**-**	-	**(333)**	(91)	**-**	-
Deferred consideration	**-**	-	**-**	**-**	**(3,318)**	**-**
	-	-	**(333)**	**(91)**	**(3,318)**	**-**

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

22 Financial instruments (continued)

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.

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 contingent 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 (2015: no transfers in either direction).

Reconciliation of Level 3 fair value:

31 December 2016	Contingent consideration £'000	Total £'000
Opening balance	-	-
On acquisition	(3,318)	(3,318)
Closing balance	(3,318)	(3,318)

It is the Group's policy to recognise all the transfers into the levels at the end of the reporting period.

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.

Element	Valuation technique	Significant unobservable inputs (Level 3 only)
Financial instruments measured at fair value		
Contingent 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 Exchange rate estimate of the input parameter of 1.2 euros:Sterling The deferred consideration is dependent on the EBITDA generated by ANNOVA over the period 2016 to 2018. The Directors have based their assessment of forecast EBITDA on projections provided by ANNOVA management, adjusted to reflect levels of risk contingency consistent with those used for other Group companies.
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 Financial instruments (continued)

Sensitivity analysis

Level 3 contingent consideration

It is estimated that, with all other variables held equal, a change of 5% in the value of the discount rate would have an 8% impact on the contingent consideration from the acquisition (note 27).

It is estimated that, with all other variables held equal, a change of 10% in EBITDA would have a 67% impact on the deferred consideration from the acquisition.

23 Deferred tax

The following are the major deferred tax liabilities recognised by the Group and movements thereon during the current and prior reporting period:

	Temporary timing differences £'000
At 1 January 2015	405
Credit to income	(80)
Exchange differences	(24)
At 1 January 2016	301
On acquisition	994
Credit to income	(13)
Exchange differences	47
At 31 December 2016	**1,329**

The deferred tax is disclosed as follows:

	2016 £'000	2015 £'000
Deferred tax liabilities	**1,611**	326
Deferred tax assets	**(282)**	(25)
Net liability	**1,329**	301

Unused tax losses for which no deferred tax asset has been recognised are £4,417,000 (2015: £4,417,000), giving rise to a potential deferred tax asset of £751,000 (2015: £795,000). Furthermore, there is an unrecognised deferred tax asset in respect of excess management expenses, deductible temporary differences and capital allowances of £675,000 (2015: £640,000). The total deferred tax asset not recognised, computed at the applicable rate of 17% is £1,468,000 (2015: £1,435,000).

24 Trade and other payables

	2016 £'000	2015 £'000
Trade payables	**2,976**	2,099
Payments on account (note 18)	**4,463**	1,644
Taxation and social security	**350**	322
Other payables	**3,895**	2,075
Accruals	**2,626**	1,708
	14,310	7,848

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 40 days (2015: 43 days). Whilst 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 between 60 and 180 days.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

Contingent consideration arising on acquisition has been accounted for within other payables in long term liabilities.

25 Deferred income

	2016 £'000	2015 £'000
Fixed price support and maintenance contracts	**53**	43
Rent receivable	**406**	70
	459	113

26 Share capital and reserves

Share capital

Allotted, called up and fully paid share capital	No of shares	£'000
At the beginning and end of the year	29,086,075	7,272

The Company has only one class of ordinary shares that carry no right to fixed income.

The analysis of own shares, which are AIM listed investments, held by the Group is:

	No of own shares	% of issued share capital	Nominal value £'000	Market value £'000
December 31, 2016				
SCISYS SIP	**206,700**	**0.7%**	**52**	**227**
Treasury	**12,731**	**0.0%**	**3**	**14**
	219,431	**0.8%**	**55**	**241**
December 31, 2015				
SCISYS SIP	232,086	0.8%	58	167
Treasury	42,887	0.1%	11	31
	274,973	0.9%	69	198

The Group holds a stock of Treasury shares to satisfy maturing employee share options and to provide the trustees of the SCISYS SIP with a contingent source of supply of SCISYS PLC shares in illiquid market conditions. If the trustees are unable to acquire sufficient shares in the market with funds from employees' monthly payroll deductions, the trustees purchase the shortfall from treasury at the prevailing market price. The own shares held are deducted from retained earnings.

Other reserves

The Share Premium Account was created when the Group issued free shares to employees in 2009. It was added to in 2013 when new shares were issued to satisfy maturing employee share options.

The Merger Reserve reflects the difference between the nominal value and agreed consideration value of shares issued as part consideration for the acquisition of SCISYS DE in 2007.

The Capital Redemption Reserve arises when the Company redeems shares wholly out of distributable profits.

The Translation Reserve comprises all foreign exchange differences arising from the translation of the financial statements of non-UK subsidiaries.

27 Acquisition of subsidiary

On 31 December 2016, the Group acquired 100% of the issued share capital of ANNOVA Systems GmbH ("ANNOVA") for a consideration of £12,700,000. ANNOVA is a leading supplier of editorial solutions for the media sector. It has a well-established customer base and a robust business model based on its mature OpenMedia software solution, which provides newsroom system functionality across all media segments, including television, radio and online solutions. This transaction has been accounted for by the purchase method of accounting.

27 Acquisition of subsidiary (continued)

	Recognised values on acquisition £'000
Net assets acquired	
Intangible assets	6,749
Property, plant and equipment	151
Trade and other receivables	1,943
Other assets	6
Cash and cash equivalents	2,202
Trade and other payables	(1,851)
Loans	(3,164)
Deferred tax	(993)
	5,043
Goodwill (note 13)	7,657
Total consideration	12,700
Total consideration satisfied by:	
Cash consideration paid at completion	9,723
Deferred payments:	
Cash rebate	(341)
Deferred Payments:	
Contingent on trading results from 2016 - 2018: payable in cash and SCISYS PLC shares	3,318
	12,700
Net cash outflow arising on acquisition:	
Cash consideration	9,723
Cash and cash equivalents acquired	(2,202)
	7,521

Fair value adjustments have been made to the acquisition balance sheet of ANNOVA to reflect the recognition of intangible assets on acquisition and re-measurement of amounts recoverable on contracts in accordance with the Group's accounting policies. Intangible assets reflect the fair values of the ANNOVA order book at 31 December 2016 and of ANNOVA's proprietary software solution, OpenMedia. The fair value of the acquired order book represents the net present value of the projected net after-tax cash flows arising from unfulfilled orders. Cash flows were discounted at 10.5%, which was the prevailing discount rate at the acquisition date. The fair value of the software solution represents the depreciated replacement cost of an asset if someone were to create it from scratch. Further information on these assets is provided in note 14.

The goodwill arising on the acquisition of ANNOVA is attributable to the synergies achievable from the integration of the acquired business with the rest of the SCISYS Group operations. These include the benefits of increased resilience from diversification into the wider media & broadcast sector, extension of delivery capability into new technologies and cross selling opportunities for related services and products into the broadened, overlapping customer base. In addition, SCISYS' mature infrastructure will provide a more stable platform to support ANNOVA's geographical expansion plans.

The cash rebate relates to a contractual clause in the acquisition share purchase agreement and is receivable shortly after the ANNOVA IFRS accounts for 2016 are approved.

The deferred payments comprise incremental earn-out payments capped at €16,480,000 (£14,117,000) in total, calculated by reference to multiples of between 8.5 and 10.5 times ANNOVA's average EBITDA performance for the financial years to 31 December 2016, 2017 and 2018 less, in each case, an amount equal to €12,500,000 (£10,708,000) plus aggregate earn-out payments already paid at the relevant point in time. All of the earn-out payments are conditional on the achievement of certain key commercial milestones in respect of the BBC Contract and are payable in cash or newly issued SCISYS PLC ordinary shares. The extent to which the total consideration may be satisfied in new shares is subject to a maximum upper limit of 24 per cent.

Deferred consideration is included within other long term payables on the face of the balance sheet.

The fair value of contingent consideration reflects management forecasts for EBITDA achievement over the earn-out period, capitalised by the relevant multiples, with the cash flows being risk-adjusted and discounted at the Group's prevailing discount rate of 10.5%. This takes into account the associated risks on average to all the Groups' security holders to finance its assets. Sensitivity analysis is found in Note 22(e).

27 Acquisition of subsidiary (continued)

ANNOVA did not contribute to the revenues or profits after tax of the Group in 2016.

28 Operating lease arrangements

	2016 £'000	2015 £'000
Minimum lease payments under operating leases recognised as an expense in the year	**260**	284
Minimum sub-lease payments received during the year recognised as income in the year	**293**	176

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:

	2016 £'000	2015 £'000
Within one year	**1,160**	289
In second to fifth years inclusive	**2,501**	449
Over five years	**2,942**	1,242
	6,603	1,980

At the balance sheet date, the Group expected to receive future minimum lease payments under non-cancellable sub-leases as follows:

	2016 £'000	2015 £'000
Total minimum sub-lease payments receivable	**162**	217

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.

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 (2015: £nil).

	Number of share options	Weighted average exercise price	Exercise price range
Outstanding at 1 January 2015	210,985	£0.463	£0.463
Lapsed during the period	(2,516)	£0.463	£0.463
Outstanding at 1 January 2016	208,469	£0.463	£0.463
Exercised during the period	(3,356)	£0.463	£0.463
Outstanding at 31 December 2016	205,113	£0.463	£0.463

Unapproved Share Options

Those Group employees subject to German payroll tax are unable to benefit from the favourable tax treatment available to UK employees through the EMI and CSOP schemes. 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 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

29 Share-based payment charges (continued)

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 credit recognised in the year was £6,000 (2015: £6,000 charge).

	Number of share options	Weighted average exercise price	Exercise price range
Outstanding at 1 January 2015	639,300	£0.541	£0.250 to £0.925
Granted during the period	117,500	£0.825	£0.825
Lapsed during the period	(81,000)	£0.634	£0.505 to £0.925
Outstanding at 1 January 2016	675,800	£0.579	£0.250 to £0.925
Granted during the period	132,500	£0.710	£0.710
Exercised during the period	(7,800)	£0.463	£0.463
Lapsed during the period	(107,500)	£0.925	£0.925
Outstanding at 31 December 2016	693,000	£0.552	£0.250 to £0.825

The information below was used to calculate the IFRS 2 charge for the year.

	15 Mar 2012	04 Apr 2013	09 Apr 2014	29 Apr 2015	21 Apr 2016
Share price at grant	£0.510	£0.630	£0.925	£0.825	£0.710
Exercise price	£0.510	£0.630	£0.925	£0.825	£0.710
Expected life (years)	6.5	6.5	6.5	6.5	6.5
Expected volatility	40%	40%	40%	40%	40%
Risk free rate	4.5%	4.5%	4.5%	2.7%	2.3%
Expected dividends	1%	1%	1%	1%	1%
Fair value charge per share	£0.129	£0.160	£0.235	£0.131	£0.098

Expected volatility was determined by information that was then currently available to the Group.

Company Share Option Plan (CSOP)

The Group introduced an HMRC approved CSOP scheme in January 2009 to incentivise and aid retention of key employees following changes in tax legislation which discontinued the favourable tax treatment for employees in the EMI scheme. CSOP 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 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 credit recognised in the year was £8,000 (2015: £5,000 charge).

	Number of share options	Weighted average exercise price	Exercise price range
Outstanding at 1 January 2015	932,500	£0.551	£0.250 to £0.925
Granted during the period	212,500	£0.825	£0.825
Lapsed during the period	(169,500)	£0.659	£0.630 to £0.825
Exercised during the period	(16,000)	£0.509	£0.505 to £0.510
Outstanding at 1 January 2016	959,500	£0.594	£0.250 to £0.925
Granted during the period	205,000	£0.710	£0.710
Lapsed during the period	(158,000)	£0.918	£0.510 to £0.925
Exercised during the period	(19,000)	£0.506	£0.505 to £0.510
Outstanding at 31 December 2016	987,500	£0.568	£0.250 to £0.825

The information below was used to calculate the IFRS 2 charge for the year:

	15 Mar 2012	04 Apr 2013	09 Apr 2014	29 Apr 2015	21 Apr 2016
Share price at grant	£0.510	£0.630	£0.925	£0.825	£0.710
Exercise price	£0.510	£0.630	£0.925	£0.825	£0.710
Expected life (years)	6.5	6.5	6.5	6.5	6.5
Expected volatility	40%	40%	40%	40%	40%
Risk free rate	4.5%	4.5%	4.5%	2.7%	2.3%
Expected dividends	1%	1%	1%	1%	1%
Fair value charge per share	£0.129	£0.160	£0.235	£0.131	£0.098

Expected volatility was determined by information that was then currently available 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 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. 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 £847,000 (2015: £848,000). The balance of outstanding payments at 31 December 2016 was £139,000 (2015: £133,000).

32 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries and associate were based on arm's length commercial terms.

Related party transactions arising from post-investment trading with the Group's associate company, ToMM Apps, are summarised as follows:

	2016 £'000	2015 £'000
Operating costs incurred from purchases	**78**	17

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

In April 2016 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 71.0p. The Directors' interests in the CSOP options are disclosed in the Remuneration report on page 48. Of the 205,000 CSOP and 132,500 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

In May 2011, the SCISYS 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 21. Dr M D Love also subscribed for £500,000 of the first tranche of loan notes detailed in note 21 on the same commercial terms as other unrelated party investors.

Company balance sheet as at 31 December 2016

	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Fixed assets					
Tangible assets	4		**4,804**		4,934
Investments	5		**17,030**		17,019
			21,834		21,953
Current assets					
Debtors	6	**3,291**		2,690	
Current liabilities					
Creditors: amounts falling due within one year	7	**(2,838)**		(4,529)	
Net current assets			**453**		(1,839)
Creditors: amounts falling due after more than one year	8		**(3,778)**		(1,100)
Net assets			**18,509**		19,014
Capital and reserves					
Called-up share capital	9		**7,272**		7,272
Share premium account			**143**		143
Merger reserve			**943**		943
Capital redemption reserve			**83**		83
Profit and loss account			**10,068**		10,573
Shareholders' funds			**18,509**		19,014

The accounts were approved by the Board of Directors on 7 April 2017 and were signed on its behalf by:

K M Heidrich,
Director

C A Cheetham,
Director

Company registered number: 3426416

Company statement of Changes in Equity

2016	Share capital £'000	Share premium £'000	Merger reserve £'000	Capital redemption reserve £'000	Profit & loss account £'000	Total equity £'000
Balance as at 1 January 2016	7,272	143	943	83	10,573	19,014
Total comprehensive income for the period						
Profit for the period	-	-	-	-	166	166
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends paid	-	-	-	-	(671)	(671)
Share based payment - Company	-	-	-	-	(3)	(3)
Share based payment - subsidiaries	-	-	-	-	(12)	(12)
Exercise of share options	-	-	-	-	15	15
Total contributions by and distributions to owners	-	-	-	-	(671)	(671)
Balance as at 31 December 2016	**7,272**	**143**	**943**	**83**	**10,068**	**18,509**

2015	Share capital £'000	Share premium £'000	Merger reserve £'000	Capital redemption reserve £'000	Profit & loss account £'000	Total equity £'000
Balance as at 1 January 2015	7,272	143	943	83	10,950	19,391
Total comprehensive income for the period						
Profit for the period	-	-	-	-	(34)	(34)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends paid	-	-	-	-	(340)	(340)
Share based payment - Company	-	-	-	-	3	3
Share based payment - subsidiaries	-	-	-	-	8	8
Exercise of share options	-	-	-	-	(14)	(14)
Total contributions by and distributions to owners	-	-	-	-	(343)	(343)
Balance as at 31 December 2015	7,272	143	943	83	10,573	19,014

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 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Under section s408 of the Companies Act 2006 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
Fixed asset investments in subsidiaries are shown at cost less provision for impairment.

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	50 years
Computer equipment	2 to 7 years

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

1 Significant accounting policies (continued)

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. A further explanation is provided in note 12.

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 Profit for the year

As permitted by Section 408(3) of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the year. SCISYS PLC reported a profit for the financial year ended 31 December 2016 of £166,000 (2015: £34,000 loss). This is stated after charging:

	2016	2015
	£'000	£'000
Fees paid to the company's auditors for the audit of the Company's audited accounts	**42**	30

3 Staff numbers and costs for the year

Directors' remuneration (as set out in the Remuneration Report on pages 45 to 50) is borne by the Company and recharged to subsidiary undertakings.

	2016	2015
	No.	No.
The average number of persons employed by the Company during the year was as follows:		
Management	**6**	8
Professional	**-**	-
Administration	**2**	2
	8	10

	£'000	£'000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	**878**	668
Social security costs	**77**	62
Pension costs	**46**	37
IFRS 2 share based payments (credit)/charge	**(3)**	3
	998	770

4 Tangible fixed assets

	Freehold land & buildings £'000	Computer equipment £'000	Total £'000
Cost (not valuation):			
At 1 January 2016	5,282	167	5,449
Additions	-	-	-
At 31 December 2016	5,282	167	5,449
Depreciation:			
At 1 January 2016	485	30	515
Charge for year	106	24	130
At 31 December 2016	591	54	645
Net book value at 31 December 2016	**4,691**	**113**	**4,804**
Net book value at 31 December 2015	4,797	137	4,934

5 Investments

	Investment in subsidiaries £'000
Cost and net book value	
At 1 January 2016	17,019
Investment in year	23
Share based payments for awards to employees of subsidiaries	(12)
At 31 December 2016	**17,030**

In November 2016, in order to secure financing for the acquisition of Annova Systems GmbH, the Company invested in a newly created intermediate holding company, SCISYS Deutschland Holding GmbH, to act as the acquisition vehicle. Subsequently, the Company transferred 89% of its holding in SCISYS Deutschland GmbH to SCISYS Deutschland Holding GmbH.

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 Limited	UK	Computer software and consultancy	100%	£1 ords
SCISYS Deutschland GmbH	Germany	Computer software and consultancy	11%	No-par-value shares representing €673,400
Xibis Limited	UK	Computer software	100%	£1 ords
SCISYS Deutschland Holding GmbH	Germany	Holding company	100%	No-par-value shares representing €25,000
Annova Systems GmbH	Germany	Computer software	100%	No-par-value shares representing €325,000
ToMM Apps	Germany	Computer software	33.3%	No-par-value shares representing €10,000

The investments in SCISYS UK Limited, Xibis Limited, SCISYS Deutschland Holding GmbH and 11% of SCISYS Deutschland GmbH are held directly by the Company. 100% of Annova Systems GmbH and 89% of SCISYS Deutschland GmbH are held by SCISYS Deutschland Holding GmbH and the investment in ToMM Apps GmbH is held by SCISYS Deutschland 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 Limited Xibis Limited	2 Methuen Park, Chippenham, Wiltshire SN14 0GB UK
SCISYS Deutschland GmbH SCISYS Deutschland Holding GmbH	Borgmann Str 2 44894 Bochum DE
Annova Systems GmbH	Lyonel-Feiniger-Str 26, 80807 Munich DE
ToMM Apps	Bürgerstr. 15, 47057 Duisburg DE

6 Debtors

	2016 £'000	2015 £'000
Amounts owed by Group undertakings	**3,265**	2,651
Other debtors	**3**	-
Prepayments and accrued income	**23**	39
	3,291	2,690

7 Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Bank loans and overdrafts (note 8)	**1,911**	3,314
Trade creditors	**169**	33
Amounts owed to Group undertakings	**-**	796
Accruals	**758**	386
	2,838	4,529

	2016 £'000	2015 £'000
Loans	**3,746**	1,100
Other payables	**32**	-
	3,778	1,100

The Company's loans at the year end consist of:

1) a term loan of £1,692,000, being the balance remaining on a 5-year term loan of £2,450,000 taken out in May 2011 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. The loan was renewed for a further 5 years in May 2016 with no variation in terms. Interest is payable monthly at 3.0% p.a. above LIBOR;
2) 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;
3) a term loan of £600,000, being the balance remaining on a £1,200,000 drawn down in December 2014 to support the acquisition of Xibis Limited. The loan is repayable in equal monthly instalments until March 2018 and is secured by debentures granted by all three UK Group companies and a first legal charge over the Group's long leasehold property in Bristol. Interest is payable quarterly at 2.5% p.a. above LIBOR; and
4) loan notes of £1,514,000, being the first tranche of notes issued under a £5 million loan note programme in December 2016 to part fund the acquisition of Annova Systems GmbH. 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.

Financial covenants attaching to loan 1 and loan notes 4 above are outlined in note 21 of the Group financial statements.

Borrowings are repayable as follows:

	2016 £'000	2015 £'000
Bank overdrafts	**1,352**	1,068
Loans – due within one year	**559**	2,246
Total due within one year (note 7)	**1,911**	3,314
Loans – due after more than one year	**3,746**	1,100
	5,657	4,414

9 Called-up share capital

Allotted, called up and fully paid	No of shares	£'000
At the beginning and end of the year	29,086,075	7,272

The Company has only one class of ordinary shares which carry no right to fixed income.

9 Called-up share capital (continued)

The new shares issued during 2009 were awarded free of charge to Group employees and are held in trust for the employees in the SCISYS Share Incentive Plan (SIP). The SIP purchased the shares with funds gifted to it by the Company's subsidiary, SCISYS UK Limited. SCISYS PLC is regarded as the grantor of an equity settled share based payment arrangement to the subsidiary's employee beneficiaries. The provision of funds by SCISYS UK Limited is treated as a clearly linked recharge and is deducted from the cost of investment in the subsidiary.

The analysis of own shares, which are AIM listed investments, held by the Company is:

	No of own shares	% of issued share capital	Nominal value £'000	Market value £'000
Saturday, December 31, 2016				
SCISYS SIP	**206,700**	**0.7%**	**52**	**227**
Treasury	**12,731**	**0.0%**	**3**	**14**
	219,431	**0.8%**	**55**	**241**
Thursday, December 31, 2015				
SCISYS SIP	232,086	0.8%	58	167
Treasury	42,887	0.1%	11	31
	274,973	0.9%	69	198

The Group holds a stock of treasury shares to satisfy maturing employee share options and to provide the trustees of the SCISYS SIP with a contingent source of supply of SCISYS PLC shares in illiquid market conditions. If the trustees are unable to acquire sufficient shares in the market with the funds from employees' monthly payroll deductions, the trustees purchase the shortfall from treasury at the prevailing market price. The own shares held are deducted from retained earnings.

Other reserves
The Share Premium Account was created when the Company issued free shares to employees in 2009. It was added to in 2013 when new shares were issued to satisfy maturing employee share options.

The Merger Reserve reflects the difference between the nominal value and agreed consideration value of shares issued as part consideration for the acquisition of SCISYS DE in 2007.

The Capital Redemption Reserve arises when the Company redeems shares wholly out of distributable profits

10 Contingent liabilities

The Company has given an unlimited bank guarantee in respect of its UK subsidiary company, SCISYS UK Limited. At 31 December 2016 the gross borrowings of this company were £nil (2015: £nil).

During 2015, SCISYS UK Limited experienced problems with a major fixed-price development project in which the costs to complete the project had been underestimated. In anticipation of any further unrecoverable cost overruns, the Company put in place an indemnification mechanism whereby it undertook to indemnify SCISYS UK Limited for any additional contract losses for which no provision had been made at 31 December 2014. This action was taken in the best interests of the SCISYS Group. The indemnification resulted in a non-recurring charge of £802,000 in the Company's accounts for 2015.

11 Share-based payment charges

The Company operates a number of share options plans and a free share scheme 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.

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 (2015: £nil). The number of EMI options relating to SCISYS PLC employees at the year end was as follows:

11 Share-based payment charges (continued)

	Number of share options	Weighted average exercise price	Exercise price range
Outstanding at 1 January 2015, 1 January 2016 and 31 December 2016	16,889	£0.463	£0.463

Company Share Option Plan (CSOP)

The Group introduced an HMRC approved CSOP scheme in January 2009 to incentivise and aid retention of key employees following changes in tax legislation which discontinued the favourable tax treatment for employees in the EMI scheme. CSOP 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 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 credit recognised in the year was £2,000 (2015: £nil). The number of CSOP options relating to SCISYS PLC employees at the year end was as follows:

	Number of share options	Weighted average exercise price	Exercise price range
Outstanding at 1 January 2015	73,750	£0.633	£0.250 to £0.925
Granted during the period	26,250	£0.825	£0.825
Lapsed during the period	(5,000)	£0.630	£0.630
Outstanding at 1 January 2016	95,000	£0.664	£0.250 to £0.925
Granted during the period	25,750	£0.710	£0.710
Lapsed during the period	(25,000)	£0.925	£0.925
Outstanding at 31 December 2016	95,750	£0.604	£0.250 to £0.825

The information provided below was used to calculate the IFRS 2 charge for the year.

	15 Mar 2012	04 Apr 2013	09 Apr 2014	29 Apr 2015	21 Apr 2016
Share price at grant	£0.510	£0.630	£0.925	£0.825	£0.710
Exercise price	£0.510	£0.630	£0.925	£0.825	£0.710
Expected life (years)	6.5	6.5	6.5	6.5	6.5
Expected volatility	40%	40%	40%	40%	40%
Risk free rate	4.5%	4.5%	4.5%	2.7%	2.3%
Expected dividends	1%	1%	1%	1%	1%
Fair value charge per share	£0.129	£0.160	£0.235	£0.131	£0.098

Expected volatility was determined by information that was then currently available to the Company.

Unapproved Share Options

Those Company employees subject to German payroll tax are unable to benefit from the favourable tax treatment available to UK employees through the EMI and CSOP schemes. 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 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 credit recognised in the year was £1,000 (2015: £3,000 charge). The number of unapproved share options relating to SCISYS PLC employees at the year end was as follows:

	Number of share options	Weighted average exercise price	Exercise price range
Outstanding at 1 January 2015	70,000	£0.663	£0.510 to £0.925
Granted during the period	20,000	£0.825	£0.825
Lapsed during the period	(20,000)	£0.630	£0.630
Outstanding at 1 January 2016	70,000	£0.719	£0.510 to £0.925
Granted during the period	30,000	£0.710	£0.710
Lapsed during the period	(20,000)	£0.925	£0.925
Outstanding at 31 December 2016	80,000	£0.664	£0.510 to £0.825

11 Share-based payment charges (continued)

Expected volatility was determined by information that was then currently available to the Company.

	15 Mar 2012	04 Apr 2013	09 Apr 2014	29 Apr 2015	21 Apr 2016
Share price at grant	£0.510	£0.630	£0.925	£0.825	£0.710
Exercise price	£0.510	£0.630	£0.925	£0.825	£0.710
Expected life (years)	6.5	6.5	6.5	6.5	6.5
Expected volatility	40%	40%	40%	40%	40%
Risk free rate	4.5%	4.5%	4.5%	2.7%	2.3%
Expected dividends	1%	1%	1%	1%	1%
Fair value charge per share	£0.129	£0.160	£0.235	£0.131	£0.098

Expected volatility was determined by information that was then currently available to the Company.

12 Employee Share Trusts

The Company results include those of the SCISYS Share Incentive Plan.

SCISYS Share Incentive Plan (SIP)
The SCISYS 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 Company in October 2009. 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.

Administrative costs, such as stamp duty, dealing commission and legal fees, are borne by the Company. All costs are accounted for as they accrue.

Shareholder information & financial calendar

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 e-mail to investors@scisys.co.uk.

Share Register

Computershare Investor Services PLC maintain 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 PLC, The Pavilions, Bridgwater Road, Bristol, BS13 8AE.
Telephone: +44 (0)870 707 1320
Fax: +44 (0)870 703 6101
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

Financial Calendar

Annual General Meeting 8 June 2017
Final dividend payable 14 July 2017

Expected announcement of results for the year ending 31 December 2017:

- Half-year announcement September 2017
- Full-year preliminary announcement March 2018

Company Registered number 3426416.
SCISYS PLC is a company registered in England and Wales

Dividend tax allowance

The Company will continue to provide registered shareholders with a confirmation of the dividends paid by SCISYS 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

Methuen Park
Chippenham
Wiltshire
SN14 0GB

Registered in England and Wales number 3426416

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.

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One Glass Wharf
Bristol
BS2 0ZX

Auditor
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Our Group registered trademarks include:

dira!
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NOTES

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