7 March 2017

Servelec Group Plc

("Servelec" or the "Group")

Preliminary results for the year ended 31 December 2016

Servelec Group plc ("Servelec" or the "Group") the UK-based technology group which provides software, hardware and services predominantly to the UK healthcare and social care, education, oil and gas, power and infrastructure, utilities, broadcast and rail sectors, today announces its results for the twelve months ended 31 December 2016.

Financial Highlights

	2016 (£'000s)	2015 (£'000s)	% change
Revenue	60,957	63,095	(3)%
Underlying operating profit*	14,596	16,151	(10)%
Operating profit from continuing operations	9,783	13,395	(27)%
Profit before tax from continuing operations	9,515	13,364	(29%)
Order entry**	65,706	66,383	(1)%
Order bank***	74,696	65,070	15%
Cash flow from operating activities	8,422	19,591	(57)%
Cash conversion****	58%	115%	
Net (debt) / cash	(9,558)	9,896	N/A
Fully diluted earnings per share	10.8p	16.7p	(35)%
Adjusted earnings per share*****	16.1p	18.1p	(11)%
Proposed final dividend per share	4.0p	3.5p	14%

* Underlying operating profit excludes share based payments, non-recurring items and amortisation from acquired intangibles.
** Order entry is the total contract value of revenue from an order received in the period.
*** Order bank is the total future revenue we expect from orders received.
**** Cash conversion equals cash flow from operating activities divided by underlying operating profit less non-recurring items plus amortisation of non-acquired intangible assets and depreciation of property, plant and equipment.
***** Adjusted earnings per share is underlying operating profit less finance costs and tax at 20% divided by fully diluted number of shares.

Operational Highlights

- Results in line with revised expectations
- Action taken to reallocate resources, strengthen sales and divisional management team
- Synergy and Abacus acquisitions strengthen Social Care and Education offering in local government market and have been merged into Servelec HSC
- Automation business recovering, especially in Q4 2016 on the back of significant project wins
- Improved and increasing order bank

Alan Stubbs, Chief Executive Officer commented:
"During 2016, Servelec made significant strides forward in terms of product development, acquisitions, market development and staff development. Whilst challenges persist I am confident in the future outlook for the Group, with a strong order book and improving market conditions."

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Notes to Editors:

Servelec Group plc is a UK-based technology group, with significant intellectual property, providing software, hardware and services predominantly to the UK healthcare, oil & gas, nuclear, power, water, utilities, broadcast and rail sectors.

Servelec has two operating divisions; **Servelec HSC** and **Servelec Automation**:

- Servelec HSC specialises in the design, development and implementation of Electronic Patient Record (EPR) and Patient Administration Systems (PAS), Social Care Case Management software and early Years education software within secondary care and social care and education in local government settings and is a market leader in the Mental Health, Community Health and Social Care sectors in England.

- Servelec Automation provides complex, mission-critical control systems to large blue-chip companies mainly in the UK, focusing on the oil & gas, nuclear, power, infrastructure, utilities, broadcast and rail industries. Servelec Automation also provides services from consultancy through to design, implementation, delivery, installation and on-going customer support and maintenance.

Chairman's Statement

Servelec Group achieved its revised expectations for the year ended 31 December 2016. The situation around procurement delays, noted in our trading update in June 2016, has improved and we are optimistic that Servelec will return to growth in 2017.

Overview

Revenue for the year ended 31 December 2016 was £61.0m (2015: £63.1m), and underlying operating profit was £14.6m (2015: £16.2m). Profit before taxation amounted to £9.5m (2015: £13.4m). Adjusted earnings per share was 16.1p (2015: 18.1p), fully diluted earnings per share 10.8p (2015: 16.7p). In 2016 the Group invested £5.2m in product development (2015: £5.5m) which, as in previous years, was expensed in the year.

Servelec HSC

Servelec Health & Social Care (now Servelec HSC) which incorporates the Synergy business acquired on 1 April 2016 and the Abacus business acquired on 4 May 2016, delivered revenues in line with our revised expectations of £33.1m (2015: £32.5m). The Servelec HSC business, despite a slower start to 2016, maintained a high win rate of available opportunities with community and mental health Trusts and social care providers. At 31 December 2016 Servelec HSC had an order bank amounting to £57.4m (2015: £51.9m) which bodes well for 2017. The social care systems market continues to be strong for us where we achieved success in over 50% of the opportunities that came to market for our Mosaic product in the year. The Synergy product set adds positively to our offering in this market place. Overall, Servelec HSC delivered underlying operating profit of £11.7m, (2015: £12.1m) Servelec is committed to continuing to invest in the development of its HSC product offerings, in 2016 development costs fully charged to the Income Statement amounted to £3.3m (2015: £3.1m).

Servelec Automation

The Automation division which operates through two segments, Servelec Controls and Servelec Technologies, has been challenged in 2016 by delays in orders in the early part of that year. The order flow improved in the final quarter of the year and we ended the year with a combined order bank of £17.3m (2015: £13.2m), an increase of 31%.

Servelec Controls delivered revenue of £10.8m (2015: £14.4m) and underlying operating profit of £1.5m (2015: £3.4m). Having received a long anticipated follow-on order for the remote operations solution with Centrica, we are seeing increasingly positive signs in our markets. The new management teams' efficiency improvements are bearing fruit and diversification into new complementary markets where we already have the requisite skill sets is anticipated to deliver further organic growth in the near term.

As a Board, we maintain close scrutiny of the ongoing situation with regard to the Combined Heat and Power plant in the Mardin area of Turkey which was delivered in December 2015 and profits booked in that year. As at 31 December 2016 Servelec is still owed £3.2m in respect of this project of which £2.6m was reported as revenue in the year to 31 December 2015 with the remaining amount held as deferred revenue as at 31 December 2016. The Group is liaising closely with the customer and its bankers to recover this amount in full. Full recovery of this debt may take some time but we are encouraged by the level of interaction we have with the client and its banker and by the need and desire to bring this power plant online to the Electricity grid in the region. We have taken steps to ensure that future contracts of this value and type are subject to greater governance (as noted in our Annual Report) and that our exposure is better controlled.

Servelec Technologies delivered a 6% increase in revenue to £17.1m (2015: £16.1m) and underlying operating profit for the business amounted to £4.1m (2015: £3.5m). Demand through the AMP6 procurement cycle in the UK Water Industry is continuing to take longer than the industry originally anticipated as water companies continue to focus their attentions on being prepared for 'Open Water'. This is also impacting our business optimisation operation and although we have delivered a number of successful pilot projects to the UK water industry achieving efficiencies in their delivery are not currently front of mind with water companies. Despite this, we continue to see growth in RTU sales through the various framework contracts to which we have been appointed in the UK along with international orders of RTUs through our global distribution channel; we believe this area continues to offer opportunities for growth.

Cash

As at 31 December 2016, Servelec had net debt of £9.6m (2015: cash positive £9.9m). Cash generated from operating activities amounted to £8.4m giving a cash conversion of 58% (2015: 115%). We expect cash flow conversion to improve during 2017 as there were a number of factors adversely affecting cash conversion in the period.

Corporate Development

In April 2016, Servelec acquired Synergy, a leading supplier of education support software to the local government market for a cash consideration of £19.4m. The comprehensive suite of software fits well with Servelec's Mosaic case management software and enables the Group to provide the 'single view of the child' to enable a more joined up approach to children's social care services. Servelec's social care product suite was also supplemented by the acquisition of Abacus, for a cash consideration of £1.6m, which adds payment provision and financial assessment functionality to the Mosaic product whilst also continuing to be sold as a standalone product.

Dividend

The Board is proposing a final dividend of 4.0p per ordinary share which, together with the interim dividend of 1.65p paid in October 2016, equates to a total dividend of 5.65p per ordinary share for the year ended 31 December 2016 an increase of 10% compared to 2015. The final dividend, which is subject to approval at the company's AGM, will be paid on 26 May 2017 to shareholders registered at the close of business on 5 May 2017.

Board and Employees

I would like to take this opportunity to thank all our employees for their hard work, dedication and support during 2016 which has at times been a challenging year.

It was announced earlier today that Bernie Waldron, Non-Executive Director of Servelec Group and Chairman of the Remuneration Committee will be standing down from the Board at the AGM in April 2017 to focus on other business opportunities particularly in the Private Equity sector. I would like to thank Bernie, on behalf of myself and the rest of the Board, for his excellent contribution to Servelec since his appointment in November 2013 and wish him every success for the future. The Board is currently going through a process to replace Mr. Waldron and will update the market accordingly.

Outlook

The Board looks forward to Servelec returning to growth in 2017.

Servelec HSC is expected to deliver growth in 2017 with the social care market in particular showing strong signs of ongoing system refresh which is driving good levels of procurement activity. Revenue growth in Healthcare is less certain until we have greater clarity of the Government's intentions for the acute market. Progress is, however, expected to be made in improving the efficiency of our existing business. With two acute customers scheduled to go live with our Oceano software solution in 2017 we are well positioned to benefit when spending in the acute market starts in earnest with strong referenceability on both projects anticipated. Additionally, growth is expected in the short term from sales of our mobile solutions and the digital transformation of the NHS in the community, mental health and child health sectors.

Servelec Automation is better placed for growth compared to previous years compared to previous years, with a focus on diversification as well as existing markets. Although spending in some of its markets remains fluid there are strong signs that demand for projects that lead to improved efficiency of operations are being considered and entered into by customers.

The Board believes Servelec is well placed to capitalise on the many opportunities available in its markets.

Richard Last
Chairman
7 March 2017

Chief Executive's Review

Group performance in 2016 was in line with the revised market expectations which were re-based in June 2016. Revenues in 2016 were 3% behind prior year at £61.0m (2015: £63.1m) and underlying operating profit was also behind at £14.6m (2015: £16.2m). Whilst our results are a backwards step on 2015, which was in itself an exceptional year with 32% growth over 2014, the Group has nonetheless maintained CAGR growth of 9% since IPO. The step backwards is largely due to delays in procurement in a number of our markets which, unusually, occurred at the same time.

During 2016 the business made significant strides forward in terms of product development, acquisitions, market development and staff development. I am pleased with the positive signs apparent across our businesses and whilst challenges persist in some of our markets the Board is confident in the future outlook for the Group.

The business is set to reap the rewards of the various investments we have made in the business during 2016 which position us well for the future; including refreshing the management team in our Controls (Oil & Gas) business, focussing sales efforts on our global distribution channel in Technologies, strengthening our sales team in Servelec HSC and bringing two enviable product suites into the business; Abacus and Synergy. The outlook is positive for the Group in 2017 with a stronger order book and improving visibility of market conditions.

Servelec HSC

The re-branding of Servelec Health & Social Care as Servelec HSC, as it has been known from mid-February 2017, is the logical next step and denotes the convergence of our various care related businesses which were previously individually branded as Servelec Healthcare, Servelec Corelogic, Servelec Synergy and Servelec Abacus. This division performed in line with revised market expectations, growing recurring revenues during 2016. Social Care performed well, bolstered by Synergy which we acquired in April 2016. Both of these provided an offset to the setback within our healthcare business.

We maintained a high win rate in the healthcare market for the smaller number of opportunities which were available in the market. With our RiO Electronic Patient Record software solution we won six contracts across the UK and Republic of Ireland. The government's decision to delay the date by which Trusts were being incentivised to upgrade their systems, effectively pushing the deadline out until at least 2020, impacted sales opportunities previously categorised as the North Refresh. Three of the contracts we won were at North New sites (Shropshire Community Healthcare Trust, Lancashire Care NHS Foundation Trust and Nottinghamshire Healthcare NHS Trust), with a further pure-greenfield site award (with North Devon NHS Trust) alongside two additional wins in Scotland and the Republic of Ireland. The latter two contracts demonstrate positive outcomes which are a result of our decision last year to broaden our sales focus into new geographical areas in UK and Ireland. Specifically, winning the contract to supply RiO across the whole of Scotland for the Scottish Child Health & Wellbeing demonstrates that RiO remains a leading product in its market and continues to provide opportunities for organic growth.

Implementation of Oceano with our development partner, University Hospitals Birmingham, is progressing well with the system due to go live in 2017. The contract to supply Oceano to Royal Cornwall Hospitals Trust was signed and the project is also on course for delivery in 2017. Sales of our Flow bed management product are positive and we have been awarded a number of contracts to deploy Flow following successful pilots. Product development has continued in healthcare with the re-launch of our RiO Mobile product, eObservations for improved patient management, order communications and of course enhanced interoperability.

We have continued our investment in the social care market and acquired Synergy and Abacus in the first half of 2016. Our core social care product, Mosaic, is market leading and currently only has one real competitor. This is in a market where potential customers are reviewing their supply chain options for the next few years as Local Authorities, through changing Government legislation, are being encouraged to upgrade their children and adults' case management systems. As this system refresh continues we have maintained a high win rate, having been awarded eight Mosaic contracts during the year. We are also investing in additional product development of our Corius business intelligence product as well as the online portal product; Finestra which was launched in the market in 2016. Both products form part of our Mosaic offering. Abacus adds finance functionality to the existing capabilities of Mosaic with a focus on online payment provision and financial assessments for social care needs.

Synergy is an exceptionally strong, modular product suite. The flagship module is Synergy's online Admissions software which has been used by over seven million families to date to apply online for primary school places. Following Servelec's acquisition of Synergy and the team behind the business; Synergy has contributed positively with a number of large contract wins for multiple modules with Kent County Council, Durham County Council, Medway Council, Stockport Metropolitan Borough Council and Warwickshire County Council. The team's knowledge of customers and contacts across the local government space also provides additional opportunities for cross-selling products from across the combined business.

Bringing our businesses together as Servelec HSC underpins our long held assertion that services across health, social care and education will increasingly have to work together more closely both to reduce costs and improve the outcomes of care. Having one consistent brand across the division provides our customers with greater clarity as to the full range of capability available from Servelec to the markets in which Servelec HSC operates.

Servelec Automation

Comprising Servelec Controls and Servelec Technologies, the Automation division has delivered in line with the revised expectations of the market.

Under the new management of Andrew Mills, Servelec Controls (Oil & Gas) has a focus on re-establishing and developing relationships across our enviable client base. In 2016 we were appointed to the National Grid framework for five years to design and supply system integration and maintenance support services. In December, the long-anticipated order with Centrica, which is the next step towards remote operations of offshore gas platforms in the North East Irish Sea was awarded. By investing in relationships with a broader base of customers with the objective of securing a greater number of smaller value contracts in addition to the larger contracts we have a strong pipeline of opportunities feeding into 2017. We have invested further in our sales team and appointed a new Account Director at the back-end of 2016.

We continue to maintain a watching brief on the situation in Turkey, where discussions are ongoing in relation to the completion of the Combined Heat and Power plant and the recovery of monies we are owed.

Servelec Controls (Power & Infrastructure) continued to perform well and surpassed full year 2015 order bank by the half year. The business won contracts with Sellafield, SSE Generation, Nuvia and Westinghouse. Looking ahead, the focus moves to other complementary vertical markets, which have a requirement for the same type of system refurbishment we currently deliver to the Power sector; such as defence and infrastructure where we see further opportunities for our skill-set. During 2016 we appointed a new Account Director for defence and infrastructure to focus on building our presence in this market.

Servelec Technologies continues to operate in a challenging UK market for both RTUs (Remote Telemetry Units) and our business optimisation products but opportunities for international sales across our product suite continue apace. There are increasingly positive signs that the pent-up demand for product sales to the UK water industry is slowly unlocking with a number of framework contracts having been awarded to Servelec. However, current orders are still modest but in-line with our expectations. In 2016 we were awarded framework contracts with five UK water companies to supply Remote Telemetry Units (RTUs); Anglian Water, Southern Water, Northumbrian Water, Wessex Water and Welsh Water. With our Telemetry and SCADA products, we were awarded a five-year contract with Affinity Water and, outside of the water industry, with Heathrow Airport. Sales of our business optimisation products are gaining ground with a number of successful pilot projects delivered to UK water companies. We have also had success in selling these products via our international distribution channel with sales to two Australian water authorities; PIONEER to Sydney Water and MISER to Water Corporation in Perth.

Our focus on selling these internationally-competitive products through our global distribution channel strengthened in 2016 and we appointed a Channel Sales Director in June 2016 to focus us further in this area. This is starting to bear fruit as a number of significant contracts for overseas RTU sales have been received during the period.

Strategy and Outlook

Our overall strategy for the business remains unchanged and we have delivered considerable progress on all of the four distinct elements.

- We have achieved organic growth both in existing markets and into new verticals in our Social Care and Power & Infrastructure segments
- Product development to enhance existing offerings has continued, specifically with the TBoxnano RTU from Servelec Technologies and the Finestra, RiO Mobile, eObservations and Corius Business Intelligence Analytics in Servelec HSC
- We have continued to invest in our people to develop our distribution channels and routes to market; and
- The integration of recently acquired businesses, Synergy and Abacus, continues to add value for customers and shareholders and we foresee bolt-on acquisitions continuing where they fit with our strategy and meet our strict financial criteria.

Whilst this year has been disappointing financially, it has been one of reflection and investment to position ourselves for growth again in the coming years. The diversified business model continues to be an asset to the Group as we are not solely exposed to fluctuations in any one market place. We finish the 2016 financial year with a strengthening order book, strong visibility of contracts coming to market and growing pipelines of opportunities for 2017 which underpin our budget for the year. Along with my colleagues on the Board I am positive about the outlook for 2017. Servelec Automation looks set for a long-anticipated year of growth as delayed projects get off the ground and Servelec HSC will continue to deliver solid recurring revenues along with opportunities for growth, specifically in the social care market.

Alan Stubbs
Chief Executive Officer
7 March 2017

Chief Financial Officers Review

Servelec delivered in line with revised expectations at the year end. Whilst performance was a step back on prior year, the Group has delivered CAGR growth on Underlying Operating Profit of 9% since IPO.

Overview

Revenue for the year ending 31 December 2016 was £61.0m (2015: £63.1m), a decrease of 3%. Underlying operating profit decreased by 10% to £14.6m (2015: £16.2m) and after allowing for the increased amortisation charge relating to acquisitions, profit before taxation also decreased by 29% to £9.5m (2015: £13.4m). Non-recurring items totalled £1.2m at the full year.

Servelec HSC delivered performance in line with revised expectations with revenue up 2% to £33.1m (2015: £32.5m). Following the high implementation revenue in 2015 from customers exiting the Southern region of the NPfIT, organic revenue fell by 16%. Underlying operating profit was slightly down on 2015 by 3% to £11.7m (2015: £12.1m), however due to the highlighted delays in the Northern NPfIT refresh the reduced implementation revenue resulted in an organic operating profit reduction of 22% to £9.5m.

We acquired Synergy in April 2016 and so the year to 31 December 2016 saw nine months contribution to revenue of £5.1m and underlying operating profit of £2.1m. Synergy has 95 local authority customers and the business has delivered significant wins in the nine months it has been part of the Group. Abacus was acquired in May 2016 and has made a small contribution to HSC revenue of £0.7m and underlying operating profit of £0.1m. Abacus has 38 local authority customers and further enhances the financial capability of our Mosaic product and also provides access to new customers.

2016 revenues for Servelec Controls fell by 25% to £10.8m in the year (2015: £14.4m) with a corresponding reduction in underlying operating profit of 54% to £1.5m (2015: £3.4m). At the half year, the Controls segment recruited a new Managing Director for the Oil & Gas market. Andrew Mills brings a renewed energy to the business and a focus on levelling out pipeline opportunities to deliver an underlying baseline of smaller contracts with the additional larger contracts adding to, rather than replacing, these. Servelec Controls is showing signs of improvement with recent contract wins and framework appointments.

Servelec Technologies had an improved year as revenue increased by 6% in 2016 to £17.1m (2015: £16.1m) with underlying operating profit increasing by 18% to £4.1m (2015: £3.5m). This was largely due to product sales through our global distribution channel.

Procurement delays persist in the UK water industry, which affected sales of both Remote Telemetry Units (RTUs) and our business optimisation products. With our appointment with water companies on five out of seven frameworks so far this AMP cycle and subsequent small orders received there are signs of improvement in this market, but we are seeking increased international sales with both product ranges. We anticipate that demand will unlock further post April when the distraction of water companies readying themselves for the market opening up to retail competition; 'Open Water' will have subsided.

Non Recurring Items

During the year £1.2m of costs were classified as non-recurring items, which included acquisition costs, restructuring costs and prior year research & development expenditure credits (see taxation below). Restructuring costs were predominantly the reduction of delivery staff in Servelec HSC following the announcement in June that the tranche of opportunities we have previously referred to as North Refresh was to be delayed.

Cash

Cash flow from operating activities was £8.4m (2015: £19.6m). The reduction was due to a number of factors; the working capital cycle of the acquisitions made during the year; a large RTU order delivered in December (cash received in January 2017) and the timing of receipts within social care.

As noted in our trading update in January 2017, the £2.6m receivable relating to revenue taken in 2015 on the Combined Heat and Power plant in the Mardin region of Turkey is still outstanding.

Net debt at 31 December 2016 is £9.6m (2015: a cash balance of £9.9m). In April 2016 the Group set up a revolving credit facility (RCF) with Lloyds Bank and drew down £15.1m in order to acquire Synergy. The overall facility is for three years and consists of a £20m RCF with a £10m accordion.

Capital expenditure

During the year we invested £1.2m (2015: £1.4m) in IT and office equipment including further hosting environments for Healthcare customers. We anticipate further expenditure in this area as hosting services become more important to our customers across Servelec HSC.

Taxation

The underlying rate of taxation is 19% (2015: 11%). 2015 saw the Group benefit from a time based tax credit but also from R&D tax credits which were accounted through a reduction in the tax charge. In 2016 the Group has adopted the Research & Development Expenditure Credits (RDEC) regime which allows for the benefit to be taken within operating profit. During the year the Group reviewed the research & development claims and identified further amounts relating to years 2014 and 2015. The credits for these prior years have been included in the non-recurring items in 2016.

Earnings per share

Diluted earnings per share decreased to 10.8p for the year ended 31 December 2016 (2015: 16.7p), reflecting the reduction in profit in the year.

Outlook

Having continued our investment in product development and strengthening of the sales team, Servelec is well positioned to take advantage of the opportunities for organic growth across all divisions, as well as continuing to consider earnings enhancing acquisitions.

Within Servelec HSC we are expecting organic growth to be driven by the ongoing system refresh in the social care market both in England and Scotland. The strength of our product suites and track record of delivery continues to provide our customers with the confidence to select Servelec as their partner, demonstrated by the recent RiO win with Scottish Child Health and Wellbeing. There has also been highly publicised public debate about the benefits of and progress towards more closely aligning health and social care such that we strongly believe the Integrated Care agenda will drive further organic growth opportunities in these markets.

Our Automation division shows positive signs of progress in both Controls and Technologies. The Centrica order provides additional reassurance that we can further grow the business in this area and provide similar remote operations solutions to other customers as well as delivering a quality service to Centrica. Selling the same skills set into new markets also offers enhanced opportunities to the Power & Infrastructure part of the business as they look to explore new verticals such as defence.

We have long anticipated the scalability inherent to Servelec Technologies. Our competitive products and global distribution channels mean we are well placed for additional organic growth in our chosen markets. In the UK water industry, whilst delays have persisted far longer than was anticipated, we are in a better position than during the prior AMP cycle as we have a greater market share of framework contracts. This indicates that our enhanced product suite is bearing fruit. With signs that orders are now starting to come through via these frameworks, our expectation is that sales will increase in size and value over the remainder of the AMP period, to 2020.

Cash will continue to be a focus in 2017 and we are targeting a positive cash position by the end of the year, as well as a resolution to the outstanding debt balances on the Combined Heat and Power contract. Going forward our tax charge will be in line with standard rates as the credits under the RDEC scheme are taken in operating profit.

2016 has been a disappointing year financially, but with an improved order bank and our continued investment in our products, people and customer relationships the Group is well placed to return to growth in 2017.

Mike Cane
Chief Financial Officer
7 March 2017

Servelec HSC

	2016 (£'000s)	2015 (£'000s)	**% change**
Segment Revenue	33,081	32,532	2%
Gross Profit	16,538	16,185	2%
Underlying Operating Profit	11,706	12,080	(3)%
Net Margin	35%	37%	
Order Entry	33,742	34,622	(3)%
Order Bank	57,412	51,874	11%

As local demand for more integrated provision of care across health, social care and education increases faster than the anticipated Government-led funding, we are delivering the benefits of an integrated product suite to support this drive in various geographical locations. We see these markets coming together and having acquired Corelogic, Aura, Synergy and Abacus in the past few years, we see 2017 as the right time to bring all our products together into one market-leading, integrated suite. As such in mid-February 2017 we relaunched the combined business in the marketplace as Servelec HSC, under which the combined product suite comprising RiO, Oceano, Flow, Mosaic, Corius, Synergy and Abacus will all continue to be sold on both a standalone and integrated basis.

We continue to extend the best practice delivered in our Healthcare business across our Social Care offering by replicating the track record of excellent service delivery, deep domain knowledge and excellent customer references.

Our Proprietary Products

In the healthcare market, Servelec HSC specialises in the design, development and support of Electronic Patient Record (EPR) and Patient Administration Software (PAS) within secondary care settings and is a market leader with its RiO product in the mental and community health sectors in England.

In the Acute setting, Servelec also supplies Patient Administration Systems, Electronic Patient Records software with its Oceano product offering which integrates with patient flow and bed management software, Flow.

Servelec is also a UK market leading provider of next generation adult social care and children's services case management software, integrated with financial management and reporting modules. Its flagship product, Mosaic is unique in the market as the only product to offer all three areas of modern social care (adult, children's and finance) within a fully integrated system. This offering has been further enhanced by the acquisition of Abacus which includes a number of self-service portals to enable people to manage care provision payments online. Further enhancements to the portal technology in our product portfolio more closely aligns with the emergence of the personalisation agenda within social care and the need to drive down costs through the provision of self-service facilities.

Through the acquisition of the Synergy product suite, Servelec also now provides a comprehensive suite of products designed to give local authorities a practical, clear and reliable way of managing critical information around the education, safeguarding and care of children and young people.

The Synergy suite records and manages all aspects of Children's Services. Information sharing is simple with Synergy products - across systems, multi-agencies, departments or even other authorities. Full visibility of each and every individual gives users the insight they need to make key decisions, resulting in powerful positive outcomes for children and young people.

2016 Performance

Servelec HSC has performed in line with revised market expectations during 2016 with revenue at £33.1m, a 2% increase over prior year and underlying operating profit of £11.7m (2015: £12.1m). This result includes nine months of Synergy (which was acquired in April 2016) and a small contribution from eight months of Abacus (acquired in May 2016). Revenue from acquisitions was £5.1m and £0.7m respectively.

The main impact on performance in the healthcare market was the UK Government's decision in early 2016 to delay the North Refresh and extend the deadline by which NHS Trusts are expected to upgrade their Electronic Patient Records (EPR) and Patient Administration Systems (PAS) from July 2016 to 2020 in line with the required achievement of Digital Maturity.

With our market-leading RiO software, the business maintained a high win rate on available opportunities in England, winning three 'North New' contracts awarded in 2016 as well as a greenfield site in the Southwest of England. Our focus now extends across other local geographies and we won one mental health system in the Republic of Ireland and a contract with NHS Scotland to supply RiO to manage child health across all Health Boards in Scotland. Overall, however, much of the anticipated momentum in secondary healthcare was moderated by the delays with the North Refresh.

In the acute market, Servelec began the implementation of Oceano into three hospitals and 13 minor injury units across Royal Cornwall Hospitals NHS Trust, providing a valuable reference site for this product once funding becomes available for Trusts to upgrade their systems. The Flow product, acquired in 2015, is sold as a standalone product to integrate with existing Patient Administration Systems or sold as a complete Oceano solution. Part of the rationale behind the acquisition was the potential for Flow sales to enable us to enter new geographies and plans are in place to capitalise on these opportunities in 2017/18. The Flow solution has recently been chosen by two Health Boards in Wales to manage their inpatient beds and patient flow across the hospitals.

Maintaining a high win rate with our Mosaic product, where the company has won eight opportunities that came to market during 2016; the Social Care business has also been further strengthened by the acquisitions of the Synergy and Abacus product suites.

Synergy was acquired to support the aim of delivering the "Big Picture" across health, education and social care, fully integrating with the education services delivered by local authorities with the aim of supporting early intervention with children and families. The Abacus product suite strengthens the in-built finance functionality within Mosaic and also provides additional functionality aimed at enabling providers to self-serve invoices with a view to helping local authorities realise significant cost saving in payment administration.

Both acquisitions provide opportunities for cross-selling to existing local authority customers. Given the combined footprint of the product suites, there is plenty of opportunity to cross-sell and up-sell our products to these customers and a consistent account management plan is already underway to achieve this.

Synergy has delivered a strong performance in line with expectations with a number of positive wins in the months since acquisition. Unseating a powerful competitor to win the contract to supply the market leading Synergy Admissions module at Durham County Council and Medway Council is evidence of the product suite's strength and extremely positive reputation in the market place. Synergy also delivered a strong performance in the second half with significant contract wins with Kent County Council and Warwickshire County Council.

Across the markets Servelec HSC serves, we continue to support our customers as they mobilise their workforce, creating greater opportunities for our customers to improve the provision of care. We have seen RiO Mobile mature further in 2016 following additional product development and increased customer demand for mobile working. We also continue to work closely with all our customers to develop integration and information sharing solutions that meet the needs of the integrated care agenda and the Five Year Forward View.

Research & Development

We expect the demand for portal technology to increase significantly during 2017 based on the additional development carried out in 2016. A key aspect of our portal technology is its complete integration with the Mosaic case management system which is a significant unique selling point. Throughout 2016, we invested £3.3m (2015: £3.1m) across Servelec HSC to ensure that our portfolio of products will continue to meet the challenges and future needs of our market; and that our products support interoperability and paperless and mobile working.

Strategy

The combined strategy of Servelec HSC is to maximise growth across our markets by the pursuit of joint and separate opportunities across health and social care. Our primary objectives are two-fold; first, to have a better understanding and more strategic relationship with our existing customers and, second, to offer the market the most innovative, flexible and cost-effective products thereby securing new business and further extending our customer base.

We will do this by:

- Maximising opportunities arising out of the Digital Maturity by 2020 programme focusing on mental health, community health, child health and acute;
- Capitalising on sales opportunities arising from the systems refresh linked to the government's assertion for all local authorities to have a modern care management system by 2020;
- Delivering product enhancements aimed at further developments towards enabling mobile working in healthcare along with personalisation and enhanced usage in social care bringing integration to all markets;
- Continuing to unseat the competition selling into the local government market by demonstrating the business case for various modules of our products;
- Actively participating in the integration and interoperability agenda with Government partners including NHS Digital, NHS England and NHS Scotland;
- Taking a leadership role in helping to shape how technology will deliver integrated care in partnership with Government and our healthcare and social care customer community; and
- Implementing plans to strengthen our strategic partnerships with existing customers.

The Market in 2017

Healthcare

The UK healthcare sector, which is primarily the NHS, deals with around one million patients every day. Regulatory changes and tightening budgets are focusing this market on integration and interoperability. Servelec HSC is responding to this by collaboratively working with our customers to enable data-sharing underpinned by our technologies, which in turn provides our customers with high-value outcomes to support multi-agency working. healthcare and social care providers are also under increased pressure to make efficiency savings whilst still delivering high standards of care.

Social Care

The world of social care has changed dramatically over recent years against a background of demographic change and reduced services. Government policy is increasingly focused on giving clients greater choice and control over services in order to promote independence. This necessitates a re-think of business processes.

The biggest changes to adult social care from a national policy perspective arise from the Care Act 2014. This builds on the personalisation of adult social care and restates the importance of personal budgets, patients' control over their care, and market diversification to provide more choice for people with social care funded packages as well as people funding their own care and support.

Education

Whilst influenced, more than driven, by legislative change the local government market within which Servelec sells the Synergy product suite is increasingly focussed on the need for local authorities to reduce their costs whilst still delivering the range of services to its citizens.

Outlook for 2017

Healthcare

Growth opportunities for Servelec HSC include the Digital Maturity agenda which requires all Trusts to have modern systems (PAS / EPR) in place that comply with the drive towards a paperless NHS by 2020. Whilst the funding was delayed during 2016, there is strong indication from NHS Digital that further funding will be announced in 2017 to support the Trusts in complying with this demand, however, the 2020 deadline may be deemed to be unrealistic and be pushed out further. There are also increasing opportunities in the Acute hospital market with both the Oceano and Flow products to those Trusts in the North of England who did not procure a new system under the National Programme for IT (NPfIT); North New. Further growth will also be underpinned by strong recurring revenues of over 64% from existing customers with support maintenance agreements.

The business is capitalising on markets in other parts of the British Isles to help mitigate the challenges brought about by the North Refresh being subsumed within the "Digital Maturity by 2020" target. This is bearing fruit with the contract wins recently awarded in Scotland, Wales and the Republic of Ireland. Specifically, the contract win with NHS Scotland for the provision of a RiO system covering Child Health across the country provides a springboard to future growth in Scotland when referenceable.

To take full advantage of these future market opportunities, we are making additional investments in our sales team including at a more strategic level to build our links with government agencies, further enhancing our products for the Acute hospital market and continuing to deliver the excellent customer service through delivery and ongoing support for which we are well-respected.

Social Care

Social Care continues to be a highly active market for Servelec with ongoing system refresh driven by the Care Act 2014 and the customers' desire for modern functionality and interoperability. As such, further portal developments are a key focus as they continue to facilitate the Personalisation Agenda and the drive for self-service (with a view to local authorities saving money).

Within the market, there is limited competition as Servelec is one of only a small number of providers which can offer a modern, compliant system to local authorities. As the market continues to refresh systems, we have strong visibility of around 20 opportunities coming to market during 2017 and similar numbers annually up to 2019. We believe we are well positioned to take a significant proportion of these opportunities and continue to invest in our sales team to capitalise on them.

Education

The education market within local government remains buoyant and is not solely driven by legislative change as with our other markets across Servelec HSC. The Synergy product suite is sold by presenting local authorities with a value-adding business case as a cost/benefit proposition which sees us gain significant market share from key competitors. We will be targeting 25 new customers in this space over the next five years and see this as achievable within the anticipated market conditions.

Delivering the Big Picture

In line with ongoing market developments across health, social care and education, the positive progress made to date in more closely aligning our people and product sets to bring together our best of breed products for the benefit of our customers is gaining ground. This alignment of our business will see clinicians and practitioners across healthcare and these markets being able to access information across the full spectrum of care settings enabling the improvement of outcomes for individuals and families.

With our market-leading position in healthcare and the acquisitions of Corelogic, Synergy and Abacus enabling us to develop a similar leading position across adult, children's and finance in the social care and education markets, we have the opportunity to be the first to market with the 'Big Picture' view of providing information aimed at delivering better health and social care.

Continued product development is absolutely vital to maintaining our status as a leading provider of modern, desirable systems across our markets. We have a range of market leading products across health, social care and education and we know our markets are moving together. We believe now is the right time to more closely align our teams and products to allow us to share best practice, capitalise on market opportunities and compete strongly with other players in our markets. We will still maintain a key focus on the individual products and make these the best they can possibly be for our customers. Where our customers want it, we will also provide enhanced functionality for our current products through greater integration and product enhancement.

Our key market drivers are delivering mobile working and self-service and we want to remain ahead of the competition in terms of delivering the best products in our chosen care settings. We need to continuously improve the user experience and modernise the back-end of some of our products to continue to deliver enhancements for new and existing customers. We need to make it easier to deploy these improvements to make sure that we continue to be the trusted provider of critical systems across health and social care.

Servelec Controls

	2016 (£'000s)	2015 (£'000s)	**% change**
Segment Revenue	10,776	14,421	(25)%
Gross Profit	3,554	5,727	(38)%
Underlying Operating Profit	1,534	3,356	(54)%
Net Margin	14%	23%	
Order Entry	11,461	13,818	(17)%
Order Bank	4,678	3,993	17%

The UK energy market continues to adapt to the changing needs of a growing population. Our experience and skills place us in an ideal position to play a key role, providing mission critical control systems for national infrastructure.

Introduction

Servelec Controls – Oil & Gas works alongside many of the world's leading owners, operators and Engineering Procurement and Construction contractors (EPCs) providing systems and services that improve safety and efficiency and extend the working life of oil and gas infrastructure.

Servelec Controls – Power & Infrastructure has 40 years experience of executing projects within the nuclear environment during which time the business has built an excellent reputation for technical excellence in the supply of innovative systems for real-time control and information management within the power industry. Underpinning our strategy of diversification into complementary verticals, we have internally renamed what was previously Servelec Controls (Power & Nuclear) to become Servelec Controls (Power & Infrastructure).

2016 Performance

Servelec Controls revenue was down on prior year by 25% to £10.8m (2015: £14.4m) as anticipated orders in the Oil & Gas market materialised later than initially anticipated. Underlying operating profit was reduced significantly by 54% to £1.5m (2015: £3.4m). Order entry also reduced by 17%, but order bank increased by 17% driven by Power & Infrastructure which achieved record order entry in the first half of the year, surpassing the 2015 full year order entry figure at the Half Year.

In Oil & Gas, Servelec continues to work with Centrica to provide enabling works for a broader project involving remote operations via onshore automation; the order for which was received in December 2016 and will underpin 2017 revenues. The project involves removing redundant plant and replacing obsolescent equipment with new Servelec-designed systems. As a result, Centrica will maximise the value of their asset through a more cost-effective and efficient maintenance programme, and experience reduced downtime through the requirement for less human intervention. In addition to the clear commercial incentive, the project will decrease risk to personnel and improve safety by slashing intervention time.

2016 was a challenging year for all those involved in the oil and gas Industry. We have focused on selling service offerings that the market needs and on proving their viability for our customers' businesses. This renewed focus on sales including a strengthened sales team under the leadership of new Managing Director, Andrew Mills, is already showing positive signs of order entry and increased customer engagement. The business is also seeing signs of the market expanding as the larger customers are looking directly to Tier 2 suppliers, such as Servelec Controls, enabling us to take previously unavailable market share from Tier 1 providers in the medium term. The business continues to focus on Opex reduction for its existing customer base with secured spend positioning Servelec strongly in the 'lower for longer' oil price market conditions.

Whist continuing to diversify into mid and downstream oil and gas we broadened our role within National Grid across the Automation division. Servelec Controls was appointed on a five year framework for gas transmission and distribution which positions the company well for future contract tenders in 2017 and beyond. Through this framework Servelec will supply critical systems on a project-by-project basis for at least the next five years and the contract further compliments the substantial work completed by Servelec for major upstream clients such as Centrica, Premier Oil, Perenco, Apache and BP over the last four decades.

2015 results benefitted from a significant project designing and implementing the control systems for a Combined Heat and Power plant in the Mardin region of Turkey. During 2016 the project stalled, as the end customer required some additional financing to complete the work. In early 2017 some minor work has been performed by Servelec to prove that the plant can generate electricity to the grid in order to assist our end customer in discussions with their bankers to release funding. We are encouraged by the positive dialogue with the parties involved, and have concluded that we will collect at least the £3.2m held in receivables at 31 December 2016. However it is not clear as to the timing of the receipt of the funds.

In Power & Infrastructure, the increased focus on individual addressable markets strengthened by additional sales resource is delivering positive results. The business has won a number of significant contracts that help us to build credibility in our chosen markets including a data and alarm management contract with Sellafield and a major systems upgrade with SSE Generation Limited at Storrs Loch Power Station on the Isle of Skye. Order entry by the half year was higher than at full year 2015 and the pipeline of opportunities continues to expand giving a solid platform for continued growth in the future. The business has also been awarded a contract to upgrade a Westinghouse control system for Sizewell B, the second of two contracts competed and awarded by Sellafield as well as significant ongoing support contracts with EDF and National Grid.

Strategy

Across both parts of Servelec Controls, we are focused on fully maximising the potential inherent within the UK oil & gas, energy, infrastructure and defence markets.
We will deliver this by:

- Continuing to focus on existing and new customers in the upstream Oil & Gas market;
- Diversifying into midstream/ downstream and infrastructure markets;
- Moving ourselves up the value chain from a niche supplier towards a complete solution provider;

- Focusing on productising the proven Remote Operation and Monitoring solution and demonstrating this as a viable option for other large operators;
- Exploiting opportunities with our enviable, growing client base gaining repeat business through excellent project delivery;
- Applying our skills and solutions across all our vertical markets; nuclear decommissioning, nuclear new build, power, defence and national infrastructure; and
- Applying a sales-led, market supported, growth strategy providing strong foundations for now and the future.

The Market in 2017

Oil & Gas

The UK Continental Shelf (UKCS) is a mature and challenging basin. The region has suffered from the fall in oil price which has put pressure on all operators to reduce costs, slim down the work force and investigate more technological efficient methods of continuing production. Historically the North Sea has seen some of the most advanced technology used to find and extract hydrocarbons. Health and safety also drives a significant proportion of activity as official bodies have the authority to close down platforms which do not reach minimum health and safety requirements. As the 'lower for longer' oil price continues to focus our customers on Opex reduction, in which we have over 40 years experience, we see this as an ongoing opportunity for our business, as initiatives to continuously reduce the price of production remain a priority.

Due to the current price environment and inhospitable weather conditions, the UKCS has recognised the benefit of de-manning platforms, as technology and computer facilities operate at much lower costs and improved overall platform efficiency. We expect to continue discussions with new and additional customers around the remote operation of offshore platforms in response to increased health and safety legislation and the requirement to extend the life of existing platforms in the face of operational cost constraints and potential decommissioning. Oil & Gas currently provides the majority of the UK total primary energy supply and demand is not expected to change by 2030. In order for this rate to be sustained, further investment is required in the short and medium term, with current levels of investment leading to significant shortfalls in energy supply as soon as 2020.

Power & Infrastructure

The UK power market is a diverse and vibrant industry where innovation and efficiency are key drivers in delivering success. Safety and regulatory compliance is at the forefront of every decision and initiative. The market cornerstones are power generation, decommissioning of inactive sites, defence and reprocessing activities. During 2017 key areas of focus are:

Existing nuclear power stations: increased focus on the life extension of existing nuclear generating sites to maximise plant performance.
Nuclear decommissioning: the cycle of major decommissioning projects is now moving from design to implementation phases where Servelec can add value and provide services to major EPC Contractors.
Defence: the market is growing for technology-based solutions within the existing and new fleet of submarines as well as the various sites around the UK which provide support systems and services.
National infrastructure: the expansion of our existing offering to the national power infrastructure network. Looking ahead there will be a greater demand for controls system cyber security, a key area of growth and focus for us.

2017 Outlook

Our renewed focus on the diversity of our established customer base will begin to deliver results during 2017 and beyond. By investing further in our sales team and pursuing a sales led growth strategy, we are taking a fresh approach to identifying and capitalising on market opportunities. With the growing pipeline of opportunities this diversity is reducing our risk of focussing on a smaller number of customers with large contracts to award. Following the record year in Power & Infrastructure, we are confident that the renewed sales effort will yield improved results in the near term.

Oil & Gas

In the upstream oil and gas market, where we work with the majority of major operators, we are renowned for our focus on the reduction in operating costs and this will give us a clear advantage in the 'lower for longer' economy. With the referenceability of our remote Operation and Monitoring solution, which is currently being delivered for a major UK operator, we can demonstrate key benefits to other operators focussed on safety gains and efficiency savings.

Power & Infrastructure

Servelec's expanding addressable market provides exciting business prospects for Servelec Controls moving forward. The power and infrastructure market is one of expanding opportunity for Servelec Controls especially as we look to apply our core skills, proven solutions and delivery model into complementary vertical markets alongside those we have traditionally focussed on. The diversity in our pipeline coupled with greater marketplace activity gives an encouraging view moving into 2017.

Servelec Technologies

	2016 (£'000s)	2015 (£'000s)	**% change**
Segment Revenue	17,100	16,142	6%
Gross Profit	8,491	8,368	1%
Underlying Operating Profit	4,084	3,471	18%
Net Margin	24%	22%	
Order Entry	20,503	17,943	14%
Order Bank	12,606	9,203	37%

Positive wins in the UK underpin 2016 performance and investment in global distribution channels positions Servelec Technologies well for future international growth.

Introduction

Servelec Technologies provides a range of hardware and software that delivers end-to-end data acquisition, management, presentation and optimisation of data to make customer operations more efficient and effective.

2016 Performance

On the back of planned sales investment in defined international geographies, Servelec Technologies performed in line with the revised market expectations. Servelec Technologies has delivered an increase in revenue for the year ending December 2016 to £17.1m (2015: £16.1m). Underlying operating profit increased by 18% from prior year to £4.1m (2015: £3.5m). Order entry has increased year on year by 14%.

The focus for Servelec Technologies in 2016 was on further product integration and capitalising on global market niches where our competitors lack a focus. To this end, we have invested in strengthening our global sales team and brought a new Global Channel Director into the business in June. We also strengthened our USA sales team and made gains in expanding our reach in North America through partnerships with new distributors who want to sell our market leading RTU products. Broadening our international RTU sales into previously untapped markets such as Malaysia and Vietnam has started well and opened up additional growth opportunities for RTUs and other products.

RTUs – UK

Delays persist in AMP6 with total expenditure ('totex') by UK water companies 8% below that forecasted by Ofwat in 2015-2016[1]. This was due to a range of reasons including bringing investment forward, adjusting plans which delayed investments and simply inefficient spend. Ofwat has published that they do not expect companies to continue under-spending to this extent in the remaining years in this price review period (2016-20) so we anticipate an increase in spend during the remainder of the AMP period.

Of those that came to market in 2016, Servelec won five major frameworks with UK water companies to supply Remote Telemetry Units (RTUs). Particularly significant was the Anglian Water Framework to supply RTUs to England's geographically largest water company. Whilst Servelec has worked with Anglian Water for many years, providing its MISER business Optimisation software, this is the first time we have been selected to supply RTUs.

RTUs – Global

International product sales showed some growth in the latter part of 2016 as evidence that the investment in global channel partners is building momentum. Significant RTU sales via channel partners to Beijing Gas (China), Empower (Middle East) plus a doubling of our OEM business in North America, contributed to the delivery of Full Year 2016.

SCADA/Telemetry

As a continuation of a customer relationship spanning over 20 years, Servelec Technologies was selected by Wessex Water to deliver an upgrade of its SCOPE Telemetry/SCADA system. The latest Prism5 User Interface is suitable for both control room and mobile use and Wessex Water has been using its predecessor to monitor its entire water and wastewater estate for over two decades.

In December, Servelec secured preferred bidder status with Affinity Water, the UK's largest water-only supplier, to replace their Schneider regional telemetry system with a new SCOPE SCADA system. In addition, Servelec will replace over 350 Schneider outstations with the Seprol S2000 range of Remote Telemetry Units and provide 24/7 support for the scheme for the next five years.

Outside of the UK water industry an upgrade to Heathrow Airport's Servelec-designed SCOPE SCADA system was agreed in the latter part of the year, with Servelec to provide a support contract to the system for a further five years. The upgrade includes the provision of SCOPE's latest Prism5 web user interface which provides operators with a clear graphical visualisation of the status of airport-wide automation systems. Servelec has supplied Heathrow with its SCADA system since 1995 and the system provides Heathrow's operational staff with the tools and critical information needed to control and maintain the diverse range of systems required to keep one of the world's busiest airports running safely and securely.

Business Optimisation

Our range of business optimisation tools has also been gaining traction in the UK and overseas markets. We have been working with a new customer, Sydney Water, to undertake a 'proof of concept' of our PIONEER software. This pilot project is running well and will conclude in early 2017 after which, if deemed successful, we expect Sydney Water to begin using the software across its entire network. In Western Australia we have signed an agreement to deliver our MISER software solution with training and consultancy services to another new client, Perth based Water Corporation.

We are proud to have delivered operational efficiencies and significant cost savings to Wessex Water with our innovative Optimiser closed loop control system. Optimiser has delivered energy cost savings of 10% at key sites for Wessex Water and also helped them to complete the first stage of their Integrated Water Supply Grid which is the largest and most complex project the water company has ever undertaken.

We have also successfully delivered a number of trials of our pioneering FlowSure software to UK water companies. These trials have demonstrated that annual six figure net savings can be realised by use of the

[1] https://www.ofwat.gov.uk/wp-content/uploads/2016/12/Service-delivery-report.pdf

software. FlowSure is self-learning anomaly detection software that helps to identify and predict emerging network events to enable companies to prevent rather than respond to major events.

We are now approaching proof of concept stage for expanding the capability of FlowSure beyond leakage by adding solution modules for identification of other network anomalies in both clean and waste water networks, such as water quality monitoring and pollution event avoidance.

Despite delays persisting in the industry for longer than initially anticipated, Servelec Technologies is well placed to succeed in AMP6 and our expectations for this market remain unchanged. We are well positioned having won framework contracts with new and existing customers and there are signs that orders through these frameworks are now coming to market.

Strategy

Our strategy is to become a global brand in real-time business optimisation, through the delivery of a unified product set, across a developing global distributor network.

We will deliver this through:

- Ongoing productisation developing further intuitive, easy to use products and off the shelf solutions that will increase recurring licence fee revenue with a focus on high volume sales;
- Leveraging opportunities to cross-sell to existing customers, ensuring a seamless process and improved interface to create a low risk sale; and
- Developing new markets focusing on North America, China and the wider Asia Pacific region through a growing distributor network.

Research & Development

Having invested in £1.9m (2015: £2.5m) in the development of our products during 2016, we will continue to invest in the development of our product ranges against a five-year technology roadmap aligned with our growth strategy.

The Market in 2016

The scale of opportunity presented by the global distribution channel of Servelec Technologies presents the greatest prospect for organically growing our business over the next five years. With currently only a minimal share of the global addressable market for RTU sales we see plenty of untapped potential in a market we value at £5bn over the next five years. In addition to an established global presence, Servelec is targeting significant growth in specific regions including North America, China, Vietnam and Malaysia.

Servelec will continue to deliver on a strategy of sector diversification across the product range including broadcast media, rail, power, financial services and the environment. This will be further enhanced in 2017.

Within the UK water market, the current five-year investment period (AMP6) which began in April 2015 is yet to gain momentum. Supported by the published view from Ofwat, we strongly believe AMP6 spend will unlock further post the launch of 'Open Water' in April 2017. 'Open Water' is the opening up of the wholesale water market for UK business' national water procurement. This new legislative requirement, which involves the separating out of an independent, retail business including the IT systems which our products interface with, has been a significant corporate distraction for most UK Water companies. Despite the distractions, the water companies are coming to market with their framework contracts from which we will continue to win orders.

Delivering Opex reduction and sustainable solutions for our customers remains a key driver for our business. As our customers continue to strive to deliver enhanced quality of service to their end users in a cost-effective and energy-conscious way, we are the leading UK provider of hardware and software that can support them in this.

Product development remains targeted towards the real-time acquisition of data with access to data on fixed and mobile platforms as part of a situational awareness solution, coupled with performance dashboards which show business performance against business KPIs in real-time.

2017 Outlook

The outlook for Servelec Technologies is very positive with continued confidence in the key market drivers for growth. The overarching move towards automation of national infrastructure aligns with our product range of market-leading hardware and software that can acquire and optimise data in order to efficiently control assets. With our global presence we have significant opportunity to capitalise on the opportunities available across our entire product range.

The further investment in the productisation of our software to develop SaaS solutions in 2016 provides increased opportunities for global growth from associated product sales in 2017. We are closely engaging with our global distribution channel partners to enable them to sell the full range of our products internationally. There is a significant untapped potential for the majority of our products across new territories, specifically for our cloud based business optimisation products where, in many cases, we are creating the market globally.

We are also pursuing closer collaboration across Servelec Automation and making strides to further integrate in order to cross sell and up-sell more effectively, where there are common customers or known opportunities for additional product sales

Risk Management

Servelec Group adopts a formal risk identification and management process designed to ensure that risks are properly identified, prioritised, evaluated and mitigated to the extent that is possible. Risk management is embedded in the operation of the business.

Business operations maintain risk registers compiled and monitored by the Group Quality and Compliance Manager. The Audit Committee reports to the Board on the risk management process including on matters of internal audit and the evaluation of potential impacts, both financial and reputational.

The following risks are, in the opinion of the Board, the principal risks which affect Servelec Group. It is not intended to be a complete analysis of all risks and may change over time.

Risk		Mitigation	Movement	Status
Regulatory	Changes to legislation may cause customers to divert their spending on the Group's products.	Active consultation with Government bodies and dialogue with customers on their expected project spend profiles.	No change	-Continued health and safety legislation and the push for operating efficiencies ensures spending on automation and software solutions. -Delays in AMP6 spending has impacted Technologies during 2016.
Public Sector Healthcare Spending	A key driver of the Group's business is the level of UK Government spending on IT relating to healthcare delivery. The rate of growth in expenditure on healthcare related IT may reduce significantly.	Active consultation with Government bodies. Continuous improvement of the product offering to meet the long-term government objectives.	Increase	There is a drive to improve systems to meet digital maturity in the Health Sector, however there are significant resource challenges within individual Trusts which may delay procurement. The Group is well placed to benefit from any future changes in funding

				as the country moves to converged care, which is supported by all political parties.
Competitor Activity	The Group may face significant competition from both domestic and overseas competitors.	• Maintain strong customer relationships and high service levels. • Internal review of bid feedback. • Regular customer user groups to understand areas of improvement.	No change.	**HSC** – We continue to perform well in procurements which gives confidence that we are meeting customer expectations. **Automation** – we have received positive feedback from customers regarding our current product ranges.
Operational	The Group's business involves providing customers with highly reliable software and hardware. If the software or hardware contain undetected defects the Group may fail to meet its customers' performance requirements or otherwise satisfy the contract specifications.	The Group has rigorous testing and review processes embedded in the design and development operations of the business. It maintains accredited Quality Assurance (QA) systems which are independently checked on a regular basis.	No change	We have successfully retained our QA accreditations during the year.
Revenue Recognition and Project Control	The Group recognises revenue on projects based on the percentage complete of the individual project. A key element of this calculation is the estimation of the costs to complete on contracts, which is an inherent risk of project accounting.	The Group has a strong management system and has regular contract reviews with key management to assess the performance of individual contracts.	No change	Group policies are rolled out to new acquisitions. Improved control over working capital requirements of contract variations.
People	The ability of the Group to retain and attract appropriately qualified and experienced staff is key to the continued success of the business.	• The Group believes it has a flexible benefits package and continually reviews the working environment and overall reward to staff. • Each business regularly matches the future resource requirements to current staff identifying training and recruitment needs. • Active Graduate Recruitment programme.	Increase	Changes due to rationalisation of the cost base can be unsettling to staff. Improvements to internal staff communications are being implemented in 2017.

Currency	The Group is exposed to translation and transaction foreign exchange risk.	• The Group matches the revenue and costs of all foreign currency transactions to eliminate, so far as possible, currency exposures. • Foreign exchange policy is monitored by the finance department under policies approved by the Board.	No change	The UK's vote to leave the EU has impacted the stability of Sterling.
Information Technology	Loss of data from failure of systems or Cyber-attack.	• The Group adheres to security standard BS EN ISO27001:2013. • We have a tried and tested business continuity plan, physical access controls and multiple backups off site.	No change	There has been an increase in high profile global cyber-attacks in 2016. We use third party hosting sites for customer hosted solutions. Cyber Essentials, a cyber security accreditation awarded during 2016.
Oil Price	Following the reduction in the US Dollar price of oil in the global market, it has now stabilised and so projects are starting to be proposed.	Servelec Controls specialises in health and safety systems and automation which results in operational cost savings. Servelec Technologies provides hardware and software into the Oil & Gas market.	Decrease	Customers are starting to plan projects and Servelec is well placed to take advantage.

Statement of the Directors' Responsibility in respect of the Annual Report and Financial Statements

We confirm that to the best of our knowledge the accounts, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and the Directors' report includes a fair review of the development and performance of the business and the position of the issuer and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Annual General Meeting

The Group's Annual General Meeting will take place on Wednesday 26 April 2016 at 9.30am, at the offices of Investec, 2 Gresham Street, London, EC2V 7QN. The chairmen of the Board's committees will be present to answer questions put to them by shareholders. The Annual Report and Accounts and Notice of the Annual General Meeting will be sent to shareholders at least 20 working days prior to the date of the meeting.

To encourage shareholders to participate in the AGM process, the Group offers electronic proxy voting through the CREST service and all resolutions will be proposed and voted on at the meeting on an individual basis by shareholders or their proxies. Voting results will be announced through the Regulatory News Service and made available on the Group's website.

Basis of Preparation

The preliminary announcement has been prepared in accordance with applicable International Financial Reporting Standards as adopted by the EU and applied in accordance with the Companies Act 2006.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements.

These financial results do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. The Group Income Statement, Group Statement of Comprehensive Income, Group Statement of Financial Position, Group Statement of Changes in Equity and Group Statement of Cash Flow and selected notes for the year then ended have been extracted from the Group's audited financial statements for 2016 and audited financial statements for 2015. The audited financial information contained within the preliminary announcement for the year ended 31 December 2016 was approved by the Board on 7 March 2017. Statutory accounts for the year ended 31 December 2015 were approved by the Board of Directors on 1 March 2016 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain any statement under Section 498 of the Companies Act 2006.

The 2016 Annual Report will be available in due course on our website:

http://www.servelec-group.com

AR Stubbs
Chief Executive Officer
7 March 2017

MG Cane
Chief Financial Officer
7 March 2017

Group Income Statement

	2016	2015
	£'000	£'000
Group Revenue	60,957	63,095
Cost of Sales	(32,374)	(32,815)
Gross Profit	28,583	30,280
Selling and distribution expenses	(3,441)	(2,427)
Administration and other expenses before amortisation	(10,546)	(11,702)
Underlying Operating Profit*	14,596	16,151
Non-recurring items	(1,200)	-
Share-based payments	(523)	(626)
EBITA**	12,873	15,525
Amortisation on acquired intangible assets	(3,090)	(2,130)
Operating profit from continuing operations	9,783	13,395
Finance costs	(285)	(68)
Finance income	17	37
Profit before taxation from continuing operations	9,515	13,364
Income tax expense	(1,816)	(1,466)
Profit for the financial period	7,699	11,898

Earnings per share:

Basic earnings per share for continuing operations	11.1p	17.1p
Diluted earnings per share for continuing operations	10.8p	16.7p

* Underlying Operating Profit excludes share based payments, non-recurring items and amortisation from acquired intangibles
**EBITA equals operating profit from continuing operations excluding acquired intangible amortisation

Group Statement of Comprehensive Income

	2016	**2015**
	£'000	**£'000**
Profit/(Loss) for the Year	7,699	11,898
Exchange Differences on Translation of Foreign Operations	672	(233)
Total Comprehensive Income for the Financial Period Net of Tax	8,371	11,665

Group Statement of Financial Position

	31 Dec 2016	31 Dec 2015
	£'000	£'000
ASSETS		
Non-Current Assets		
Property, Plant and Equipment	**3,428**	3,048
Intangible Assets	**69,338**	47,739
Deferred Tax Asset	**244**	270
Total Non-Current Assets	**73,010**	51,057
Current Assets		
Inventories	**1,684**	1,482
Trade and Other Receivables	**28,268**	22,151
Cash and Cash Equivalents	**5,555**	9,896
Total Current Assets	**35,507**	33,529
TOTAL ASSETS	**108,517**	84,586
EQUITY AND LIABILITIES		
Current Liabilities		
Trade and Other Payables	**35,088**	17,372
Current Corporation Tax	**235**	285
Total Current Liabilities	**35,323**	17,657
Non-Current Liabilities		
Provisions	**201**	189
Deferred Tax Liabilities	**3,265**	2,383
Total Non-Current Liabilities	**3,466**	2,572
TOTAL LIABILITIES	**38,789**	20,229
Equity shareholders' funds		
Share Capital	**12,501**	12,491
Share premium	**3,675**	3,563
Share Based Payments Reserve	**1,625**	1,173
Currency Translation Reserve	**(397)**	(1,069)
Retained Earnings	**52,324**	48,199
Total Equity Shareholders Funds	**69,728**	64,357
TOTAL EQUITY AND LIABILITIES	**108,517**	84,586

Group Statement of Changes in Equity

	Share Capital £'000	Share Premium £'000	Share Based Payments Reserve £'000	Currency Translation Reserve £'000	Retained Earnings £'000	Total £'000
Balance at 1 January 2015	12,491	3,563	546	(836)	39,528	55,292
Profit for the Period	-	-	-	-	11,898	11,898
Other Comprehensive Income	-	-	-	(233)	-	(233)
Share Based Payments	-	-	626	-	-	626
Tax on Share Based Payments	-	-	1	-	-	1
Issue of Shares	-	-	-	-	-	-
Dividends	-	-	-	-	(3,227)	(3,227)
As at 31 December 2015	12,491	3,563	1,173	(1,069)	48,199	64,357
Profit for the Period	-	-	-	-	7,699	7,699
Other Comprehensive income	-	-	-	672	-	672
Share Based Payments	-	-	523	-	-	523
Tax on Share Based Payments	-	-	(71)	-	-	(71)
Issue of Shares	10	112	-	-	-	122
Dividends	-	-	-	-	(3,574)	(3,574)
As at 31 December 2016	12,501	3,675	1,625	(397)	52,324	69,728

Group Statement of Cash Flow

	2016 £'000	2015 £'000
Profit before Tax	**9,515**	13,364
Adjustments to Reconcile Profit before Tax to Net Cash Flows:		
Depreciation and Impairment of Property , Plant and Equipment	**1,110**	852
Share Based Payments	**523**	626
Amortisation and Impairment of Intangible Assets	**3,181**	2,207
Finance Income	**(17)**	(37)
Finance Costs	**285**	68
Movement in Provisions	**12**	(135)
Working Capital Adjustments		
(Increase)/decrease in Trade and Other Receivables and Prepayments	**(4,278)**	6,043
(Increase)/Decrease in Inventories	**(202)**	(202)
Increase/(Decrease) in Trade and Other Payables	**(1,707)**	(3,195)
Cash Flows from Operating Activities	**8,422**	19,591
Interest Received	**17**	37
Interest Paid	**(267)**	(68)
Income Tax Paid	**(2,700)**	(3,814)
Net Cash Flows from Operating Activities	**5,472**	15,746
Investing Activities		
Purchase of property, plant and equipment and intangibles	**(1,245)**	(1,382)
Acquisition of Subsidiary Undertaking net of Cash Acquired	**(20,879)**	(84)
Net Cash Flows from Investing Activities	**(22,124)**	(1,466)
Financing Activities		
Movement in loans	**15,113**	(6,901)
Dividends Paid	**(3,574)**	(3,227)
Proceeds from the issue of shares	**122**	-
Net Cash Flow from Financing Activities	**11,661**	(10,128)
Net Increase in Cash and Cash Equivalents	**(4,991)**	4,152
Net Foreign Exchange Difference	**650**	(216)
Cash and Cash Equivalents at 1 January	**9,896**	5,960
Cash and Cash Equivalents at 31 December	**5,555**	9,896

Segment information

For management purposes, the Group is organised into business units according to the nature of the products and services, and has two divisions and three reportable segments as follows:

The HSC division develops high quality, enterprise-wide systems for implementation across community health, mental health, child health, social care, children's services and hospital based services. The segment supplies software and IT solutions and services into the healthcare and social services markets. It is made up of three business units, Healthcare, Social Care and Children's Services, which have been aggregated as the Board consider that they have similar economic characteristics.

The Automation division is made up of two operating segments, Controls and Technologies. The Controls segment is engaged in the provision of complex, mission critical control and safety systems to the oil and gas, power and infrastructure industries.

The Technologies segment specialises in wide area telemetry control systems, business optimisation consultancy and remote telemetry units to the water, oil and gas and rail industries.

Management monitors the operating results of its business units separately for the purposes of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss, which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. This measurement basis excludes the effect of central services, non-recurring expenditure, purchased intangible amortisation and group financing costs which are not allocated to operating segments.

Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties.

The following tables present revenue and profit information for continuing operations regarding the Group's business segments for the years ended 31 December 2016 and 31 December 2015.

		Servelec Automation			
	Servelec HSC £'000	**Servelec Controls £'000**	**Servelec Technologies £'000**	**Central £'000**	**Total £'000**
Year Ended 31 December 2016					
Segment Revenue	33,081	10,776	17,100	-	60,957
Cost of Sales	(16,543)	(7,222)	(8,609)	-	(32,374)
Gross Profit	16,538	3,554	8,491	-	28,583
Overheads	(4,832)	(2,020)	(4,407)	(2,728)	(13,987)
Underlying Operating Profit by Segment	**11,706**	**1,534**	**4,084**	**(2,728)**	**14,596**
Non-recurring Items	(629)	328	(250)	(649)	(1,200)
Shared Based Payments	-	-	-	(523)	(523)
Amortisation	-	-	-	(3,090)	(3,090)
Segment Operating Profit from continued operations	11,077	1,862	3,834	(6,990)	9,783

		Servelec Automation			
	Servelec HSC £'000	Servelec Controls £'000	Servelec Technologies £'000	Central £'000	Total £'000
Year Ended 31 December 2015					
Segment Revenue	32,532	14,421	16,142	-	63,095
Cost of Sales	(16,347)	(8,694)	(7,774)	-	(32,815)
Gross Profit	16,185	5,727	8,368	-	30,280
Overheads	(4,105)	(2,371)	(4,897)	(2,756)	(14,129)
Shared Based Payments	-	-	-	(626)	(626)
Amortisation	-	-	-	(2,130)	(2,130)
Segment Operating Profit from continued operations	12,080	3,356	3,471	(5,512)	13,395

Operating assets and liability information are measured on a Group basis and so have not been disclosed at segment level.

Adjustments and Eliminations

Segment profit for each operating segment excludes net finance charges of £268,000 (2015: £31,000).

Geographical Analysis

	2016 £'000	2015 £'000
United Kingdom	**50,994**	51,948
Europe (excl. UK)	**4,950**	4,123
Middle East	**560**	643
Africa	**76**	198
Far East	**2,576**	4,378
Australasia	**1,502**	1,547
North America	**299**	258
TOTAL	**60,957**	63,095

Non-current assets for this purpose consist of property, plant and equipment and intangible assets and are all located in the United Kingdom.

Group Operating Profit

	2016 £'000	2015 £'000
Stated after charging		
Research & Development costs Written Off	**5,151**	5,532
Depreciation of property, plant & equipment - Owned Assets	**1,110**	852
Amortisation of Intangibles in Admin	**91**	77
Amortisation of acquired intangibles	**3,090**	2,130
Total Depreciation and Amortisation Expense	**4,291**	3,059
EY Audit of Group	**65**	55
EY Audit of Subsid	**116**	78
Total Audit	**181**	133
Audit related assurance services	**15**	15
Total EY Fees	**196**	148
Foster Raffan Auditors - Audit	**6**	11
Foster Raffan Auditors - Non Audit	**-**	19
BDO - Audit	**36**	35
BDO – Non Audit	**2**	1
Ellacotts	**-**	9
Bullimores	**-**	13
Net gain on Foreign Currency Translation	**(105)**	(52)
Operating Lease Rentals Payable	**998**	1,109
Cost of Inventories recognised as an Expense	**36**	35

Non-recurring Items

Recognised in arriving at operating profit from continuing operations	2016 £'000	2015 £'000
Acquisition Costs	**559**	-
Aborted Acquisition Costs	**90**	-
Research & Development Expenditure Credits	**(376)**	-
Restructuring costs	**927**	-
Total non-recurring items	**1,200**	-

In 2013, UK legislation changed so that UK government credits for research & development spend are now accounted for as part of operating profit rather than part of taxation expenses. This treatment was optional for the first three years and has been adopted in the 2016 accounts. Credits claimed in 2016 relating to 2014 and 2015 are included in non-recurring Research & Development Expenditure Credits (RDEC).

During the year the Group incurred restructuring costs of £927,000 (2015: Nil) in relation to redundancies and office closures following restructures predominantly in the HSC and Technology divisions.

Earnings per Share

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the parent by the weighted average number of Ordinary Shares outstanding during the year.

The following reflects the income and share data used in the basic earnings per share computation:

	2016 **£'000**	2015 £'000
Net Profit Attributable to Shareholders	**7,699**	11,898
Basic Weighted average number of shares	**69,429**	69,394
Dilutive potential	**1,919**	1,697
Diluted Weighted Average	**71,348**	71,091
Basic earnings per share	**11.1 p**	17.1 p
Fully Diluted Earnings per Share	**10.8 p**	16.7 p

The following transactions involving ordinary shares have occurred since the reporting date and the date of completion of the historical information:

Under the Company's SAYE scheme

- 18 January 2017 - 10,338 shares issued
- 1 February 2017 - 196,709 shares issued
- 7 February 2017 - 9,049 shared issued
- 14 February 2017 - 5,027 shares issued
- 21 February 2017 - 5,429 shares issued

Income Tax Expense

(a) Tax charged in the Income Statement

	2016 **£'000**	2015 £'000
Current Income Tax		
UK & Foreign Corporation Tax	**2,772**	3,012
Amounts overprovided in previous years	**(155)**	(968)
Total Income Tax on Continuing Operations	**2,617**	2,044
Deferred Tax		
Origination and Reversal of Temporary Difference	**(822)**	(605)
Adjustment in respect of prior periods	**21**	27
Total Deferred Tax	**(801)**	(578)
Tax Expense in the Income Statement on Continuing Operations	**1,816**	1,466

(b) Tax relating to items charged or credited to equity

	2016 £'000	2015 £'000
Deferred Tax		
Tax on share based payments	**(71)**	1
Total Deferred Tax	**(71)**	1
Tax Expense in the Income Statement on Continuing Income	**(71)**	1

(c) Reconciliation of income tax credit/charge

The income tax expense in the income statement for the period differs from the standard rate of corporation tax in the UK of 20.00%, (2015: 20.25%). The differences are reconciled below:

	2016 £'000	2015 £'000
Profit before Tax from continuing Operations	**9,515**	13,364
Tax on profit on ordinary activities at 20.0% (2015: 20.25%)	**1,903**	2,706
Expenses not allowable for tax purposes	**117**	383
Income not taxable	**(94)**	(29)
Adjustment in respect of prior periods	**(55)**	(941)
R&D tax credits	**-**	(312)
Losses arising in period not recognised	**-**	(28)
Other Timing Differences	**(132)**	(183)
Other/Tax Rate Change	**77**	(130)
Total Tax Expense Reported in the Income Statement	**1,816**	1,466

The large companies rates was reduced to 20% from 1 April 2016. Finance (No. 2) Act 2016 received Royal Assent on 26 October 2016 and enacted a reduction in the main rate of corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020. Deferred tax has provided at relevant rates dependent upon the timings of reversal.

(d) Deferred Tax

Deferred tax included in the balance sheet is as follows:

	31 Dec 2016 £'000	31 Dec 2015 £'000
Deferred tax liability		
Intangible assets	**3,022**	2,159
Accelerated capital allowances	**243**	224
	3,265	2,383
Deferred Tax Asset		
Other timing differences	**244**	270

(e) Deferred Tax in the Income Statement

	2016	2015
	£'000	£'000
Intangible assets	**(681)**	(603)
Deferred tax liability on accelerated capital allowances	**19**	132
Other Timing Difference	**(139)**	(107)
	(801)	(578)

Business Combinations

a). Acquisition of Synergy
On 1 March 2016, the Group agreed to purchase the Synergy business from Tribal Group plc for cash consideration of £20,250,000 on a cash free debt free basis. On 31 March 2016, the trade and assets were transferred to a new company, 'Elise Newco Limited' (now Servelec Synergy Limited).

On 1 April 2016 the Group acquired 100% of the voting shares of Elise Newco Limited for the agreed cash consideration, less a working capital adjustment of £807,000.

Synergy supplies software and IT solutions and services into local government organisations to assist in monitoring education and Children's Services.

The fair values of the identifiable assets and liabilities of Servelec Synergy Limited as at the date of acquisition were:

	Fair value recognised on acquisition £'000
Assets	
Property, Plant & Equipment	222
Trade and other Receivables	1,762
Intangibles	8,350
Liabilities	
Trade and Other Payables	(3,364)
Deferred Tax Liability	(1,503)
Total Identifiable net assets at fair value	**5,467**
Goodwill arising on acquisition	13,976
Total	19,443

The goodwill of £13,976,000 comprises the value of the assembled workforce and expected value of synergies. Goodwill is allocated entirely to the HSC segment. None of the goodwill is expected to be deductible for income tax purposes.

All receivables are expected to be collected and fair value equals gross value. From the date of acquisition, Servelec Synergy Limited has contributed £5,145,000 of revenue and a profit of £2,121,000 to the profit before tax from continuing operations of the Group.

If the combination had taken place at the beginning of the year, Group revenue from continuing operations would have been £62,470,000 and the profit before tax from continuing operations for the Group would have been £10,075,000.

	£'000
Purchase consideration	
Cash paid	(20,250)
Working capital adjustment	807
Total consideration	(19,443)

Analysis of cash flows on acquisition	
Transaction costs of the acquisition (included in cash flows from operating activities)	(478)
Net cash acquired with the subsidiary (included in cash flows from investing activities)	(19,443)
Net cash flow on acquisition	(19,921)

The fair value of the consideration given is £19,443,000.

Transaction costs of £478,000 have been expensed and are included in non-recurring items.

b). Acquisition of Servelec Abacus Limited

On 4 May 2016, the Group acquired 100% of the voting shares of Target eSolutions Holdings Limited (now Servelec Abacus Holdings Limited) and its wholly owned subsidiary company Target eSolutions Limited (now Servelec Abacus Limited). Servelec Abacus Limited provides an integrated suite of products, designed to manage Social Care finance.

The provisional fair values of the identifiable assets and liabilities of Servelec Abacus Holdings Limited and Servelec Abacus Limited as at the date of acquisition were:

	Fair value recognised on acquisition £'000
Assets	
Property, plant & equipment	10
Trade and other receivables	76
Intangible	723
Cash and cash equivalents	164
Liabilities	
Trade and Other Payables	(950)
Deferred tax liability	(130)
Total Identifiable net assets at fair value	**(107)**
Goodwill arising on acquisition	1,722
Total Consideration	1,615

The goodwill of £1,722,000 comprises the value of the assembled workforce and expected value of synergies. Goodwill is allocated entirely to the HSC segment. None of the goodwill is expected to be deductible for Income tax purposes.

All receivables are expected to be collected and fair value equals gross value.

From the date of acquisition, Servelec Abacus Limited has contributed £650,000 of revenue and a profit of £116,000 to the profit before tax from continuing operations of the Group.

If the combination had taken place at the beginning of the year, Group revenue from continuing operations would have been £61,368,000 and the profit before tax from continuing operations for the Group would have been £9,512,000.

	£'000
Purchase consideration	
Cash paid	(1,600)
Deferred Contingent consideration	(15)
Total consideration	(1,615)

Analysis of cash flows on acquisition	
Transaction costs	(80)
Cash acquired	(1,436)
Net cash flow on acquisition	(1,516)

The fair value of the consideration given is £1,615,000.

Transaction costs of £80,000 have been expensed and are included in exceptional expenses.

c). Acquisition of Aura Healthcare Limited

On 5 May 2015, the Group acquired 100% of the voting shares of Aura Healthcare Limited (now Servelec Aura Limited) to supplement the current healthcare offering. Servelec Aura Limited is a developer of software for the healthcare sector that controls bed management and patient flows across hospitals, clinics and primary care centres enabling improved care of patients.

The fair values of the identifiable assets and liabilities of Aura Healthcare Limited as at the date of acquisition were:

	Fair value recognised on acquisition £'000
Assets	
Property, plant & equipment	69
Trade and other receivables	520
Software	646
Liabilities	
Trade and Other Payables	(2,003)
Bank Overdraft	(84)
Loans	(901)
Deferred tax liability	(123)
Total Identifiable net assets at fair value	**(1,876)**
Goodwill arising on acquisition	1,926
Total Consideration	50

The goodwill of £1,926,000 comprises the value of the assembled workforce and expected value of synergies. Goodwill is allocated entirely to the HSC segment. None of the goodwill is expected to be deductible for income tax purposes.

All receivables are expected to be collected and fair value equals gross value.

	£'000
Purchase consideration	
Cash paid	-
Contingent consideration	50
Total consideration	50

Analysis of cash flows on acquisition	
Transaction costs of the acquisition (included in cash flows from operating activities)	(73)
Net cash acquired with the subsidiary (included in cash flows from investing activities)	(84)
Net cash flow on acquisition	(157)

The fair value of the consideration given is £50,001. The contingent consideration is dependent upon receipt of a purchase order for Flow, which was received during the year. This was satisfied by the issue of shares on 18 January 2016.

A further maximum amount of £300,000 was contingent on the attainment of certain performance conditions over a 3 year period ending April 2018. This was dependent upon the recipient remaining employed with the Servelec Group and is no longer payable.

Transaction costs of £73,000 have been expensed and are included in administrative expenses.

Impairment Test for Goodwill

Goodwill acquired through business combinations has been allocated for annual impairment testing purposes to five cash-generating units, as follows:

	31 Dec 2016 £'000	31 Dec 2015 £'000
HSC – Corelogic	**16,750**	16,750
HSC – Healthcare (including Aura)	**1,926**	1,926
HSC – Synergy & Abacus	**15,698**	-
Technologies(i)	**5,191**	5,191
Controls	**11,208**	11,208
	50,773	35,075

(i) Technologies includes goodwill of Servelec Systems, Semaphore and Tynemarch previously split out but now combined into one CGU.

The recoverable amount of a CGU is determined based on value-in use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three year period extrapolated for a further two years assuming annual growth rates of 3% in perpetuity as an approximation to the rate of inflation. The pre-tax cash flows for the 5-year period have been discounted back to the period end using weighted average costs of capital of 11.7% to 18.1%. This exercise has confirmed that there is no impairment. Cash flows beyond the 5-year period are extrapolated using the estimated growth rates stated in the key assumptions.

Key assumptions used in value in use calculations:
The calculation of value in use for each of the CGUs is most sensitive to the following assumptions:

- Discount rate 11.7% to 18.1%
- Growth rate 3% from year 4 to perpetuity
- Gross margins in line with current values

Discount rate
Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated into the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC).

Management has applied the same assumptions, as noted above, to all CGUs.

Sensitivity to changes in assumptions
Synergy and Abacus recoverable amount currently exceeds its carrying value by 3,410,000 based on a discount rate of 16.0%.

The value in use of this cash generating unit is approximately equal to its carrying amount if a discount rate of 18.0% is applied to the calculation.

Other cash generating units
With regards to the assessment of value in use of the other cash generating units, management believes that no reasonable change in any of the above key assumptions would cause the carrying amount of the unit to materially exceed its recoverable amount.

Financial Instruments and Financial Risk Management Objectives and Policies

Fair values
The Group's financial instruments comprise cash and cash equivalents, trade receivables trade payables and interest bearing loans and borrowings. The carrying value of these assets and liabilities does not differ materially from their fair value.

Financial risk management objectives and policies
The Group is exposed to market risk, liquidity risk and credit risk. The Group's senior management oversees the management of these risks. This note presents information about the Group's exposure to each of the above risks, the Group's management of capital, and the Group's objectives, policies and procedures for measuring and managing risk. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

Capital risk management
The prime objective of the Group's capital management is to ensure that it maintains the financial flexibility needed to allow for value-creating investments as well as healthy balance sheet ratios.

The Group is profitable and has high cash conversion. As a result capital risk is not significant for the Group and measurement of capital management is not a tool used in the internal management reporting procedures of the Group.

The Group currently has a bank loan and has significant headroom on the current covenants. Should additional cash be required to fund specific projects or acquisitions the Group would fund short-term requirements by additional external borrowings.

Market risk
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Key market risks affecting the Group include interest rate risk and currency risk. Financial instruments affected by market risk include loans and borrowings and deposits.

Interest rate risk
The Group has minimal exposure to interest rate risk.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries.

Exposure to foreign currency risk is monitored by the Finance Department under policies approved by the Board. An assessment of the risks is provided to the Board at regular intervals and is discussed to ensure the risk mitigation procedures are compliant with Group policy and that any new risks are appropriately managed. The exposure to a short-term fluctuation in exchange rates on the investment in foreign subsidiaries is not expected to have a material impact on the results of the Group.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The Group's principal financial assets are cash and cash equivalents and trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets. The Group's credit risk is primarily attributable to its trade and other receivables. The requirement for an impairment is analysed at each reporting date on an individual basis for major customers. Additionally, minor receivables are grouped together into homogenous groups and assessed for impairment collectively. The calculation is based on actual historical data.

The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

At 31 December 2016 there was one customer owing £3,179,000 of trade receivables (31 December 2015: no single customer owing a significant proportion of trade receivables).

£3,179,000 (as noted above) is included in trade receivables relating to invoices raised for work done on a Combined Heat and Power plant in the Mardin region of Turkey. Deferred revenue of £570,000 has been included in accruals and deferred income resulting in an exposure of £2,609,000 as at 31 December 2016. This exposure relates to revenue and profits taken in 2015 and collection of the debt has been delayed due to additional financing requirements of the end customer. Full recovery of the debt is expected and we are in constant dialogue with the end client and its banker to resolve the situation. Work has been performed in January 2017, which successfully confirmed generation of the power plant to the Turkish Electricity grid. The Board is monitoring events closely and is encouraged by the level of interaction between all parties together with the need for electricity generation in the region.

Liquidity risk

The table below summarises the maturity profile of the group's financial liabilities at 31 December 2016 and 2015 based on contractual undiscounted payments.

	On demand £'000	Less than 1 year £'000	Total £'000
31 December 2015			
Trade and other payables	4,760	12,612	17,372
31 December 2016		-	
Trade and other payables	**5,831**	**14,144**	**19,975**
Interest bearing loans and borrowings	**15,113**	**-**	**15,113**
	20,944	**14,144**	**35,088**

Management reviews the liquidity position of the Group on a regular basis from KPI and other management information. All liabilities are due within 1 year and it is therefore considered unlikely that any would be settled significantly earlier than indicated.

During the year the Group took out a loan with Lloyds Bank plc consisting of a revolving credit facility of £20,000,000 and accordion of £10,000,000 which has a termination date of 1 March 2019. Interest is charged quarterly based on LIBOR plus a margin of between 1.00% and 1.95% depending on the Group's leverage ratio for the relevant period.

Fair values of financial assets and financial liabilities
Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments that are carried in the financial statements.

	Carrying Amount		Fair Value	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Assets				
Cash and cash equivalents	5,555	9,896	5,555	9,896
Trade and other payables	26,166	21,152	26,166	21,152
Liabilities				
Current				
Trade and other payables	(18,185)	(14,994)	(18,185)	(14,994)
Bank Loan	(15,113)	-	(15,113)	-
Non-current				
Dilapidation provision	(201)	(189)	(201)	(189)

For all financial instruments, their carrying amount approximates to fair value.

Issued Capital and Reserves

Authorised Shares

	31 Dec 2016 Thousands	31 Dec 2015 Thousands
Ordinary Shares of 18 pence each	69,448	69,394

Ordinary Shares Issued and Fully Paid	**31 Dec 2016 Thousands**	31 Dec 2016 £'000	31 Dec 2015 Thousands	31 Dec 2015 £'000
Share capital				
Shares at beginning of the period	69,394	12,491	69,394	12,491
Shares issued	54	10	-	-
Shares at end of period	69,448	12,501	69,394	12,491

	31 Dec 2016 £'000	31 Dec 2015 £'000
Share premium		
Shares at the beginning of the period	3,563	3,563
Shares issued	112	-
	3,675	3,563

In 2016, the following ordinary shares were issued with a nominal value of 18p each:

	Date issued	Number	Market value per share
Ordinary shares issued	18 January 2016	16,384	305p
Ordinary shares issued	14 April 2016	2,317	380p
Ordinary shares issued	16 December 2016	34,470	240p

Share-based Payments

Group Executive Share Option Plan

In November 2013 Servelec Group plc introduced an executive share option plan. Share options are granted to employees, as determined by the Remuneration Committee and only vest in accordance with the performance conditions of each executive as determined by the Remuneration Committee. The options cannot be exercised within three years and have a maximum life of 10 years. The option will be settled by the issue of new shares and there are no cash settlement alternatives.

	Date granted	Number granted	Exercise price	Vesting period years	Expiry period years
Options granted during the year	8 April 2016	450,000	£3.85	3	10

Save-As-You-Earn (SAYE) Scheme

In November 2013, Servelec Group plc introduced a SAYE scheme which was conditional upon admission to the London Stock Exchange. Under the scheme employees may elect to save between £5 and £500 per month.

	Date granted	Number granted	Exercise price	Vesting period years	Expiry period years
Options granted during the year	4 November 2016	307,307	£2.14	3	3.5

Long-term Incentive Plan

In November 2013, Servelec Group plc introduced an LTIP share option scheme for granting options to senior executives, as determined by the Remuneration Committee. The exercise price of the options is Nil. The options only vest in accordance with the performance conditions for each executive as determined by the Remuneration Committee. The options cannot be exercised within three years and have a maximum life of 10 years. The option will be settled by the issue of new shares and there are no cash settlement alternatives.

	Date granted	Number granted	Exercise price	Vesting period years	Expiry period years
Options granted during the year	8 April 2016	118,701	£nil	3	10

Deferred Share Bonus Plan (DSPB)

Share awards were granted to senior executives by the Remuneration Committee. The exercise price of the awards will be subject to time pro rating.

	Date granted	Number granted	Exercise price	Vesting period years	Expiry period years
Options granted during the year	8 April 2016	19,822	£nil	2	10

The following table summarises the number and weighted average exercise prices (WAEP) of and movements in, share options during the year.

	2016 No	**2016 WAEP (£)**	2015 No	2015 WAEP (£)
Outstanding as at 1 January	2,062,552	1.61	1,228,101	1.21
Granted during the year	895,830	2.67	941,605	2.25
Exercised during the year	(37,903)	1.79	-	-
Performance condition expired	(833,713)	3.07	(107,154)	2.62
Outstanding at 31 December	2,086,766	1.51	2,062,552	1.61

There are no options exercisable at the year end.

The following table lists the inputs to the models used.

	2016	2015
Dividend yield	1.5%	1.5%
Volatility	0.3	0.3
Expected life of option	3.5 – 10 Years	3.5 - 10 Years
Share price at:		
23 April 2015	-	2.80
29 October 2015	-	3.21
8 April 2016	3.85	-
4 November r106	2.47	-
Risk-free rate	1.37%	1.79%

The expected life of the options has been estimated as six months following exercise date. As there is little historical data the volatility has been estimated at 0.35 based on similar quoted companies.

The fair value of the share options is measured at the grant date taking into account the terms and conditions upon which the instruments were granted. The cost of the options is recognised over expected vesting period. Until the liability is settled it is re-measured at each reporting date with changes in fair value recognised in profit or loss.

The expense recognised during the year to 31 December 2016 is £523,000 (31 December 2015: £626,000).

<ENDS>