SYNETY

SMARTER COMMUNICATIONS

Synety Group plc

Annual Report and Financial Statements

Year Ended: **31 December 2014**

Registered Number: **5509873**

Contents

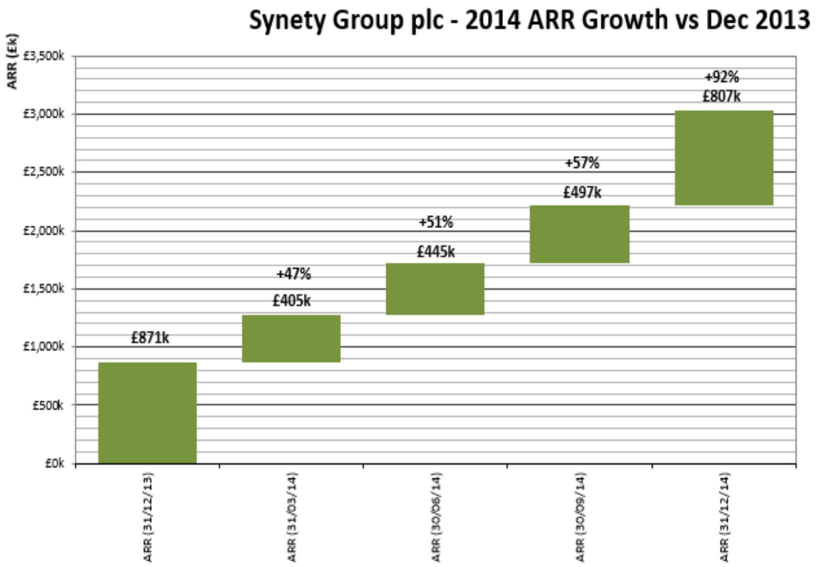
1. About Synety Group plc

Synety Group plc ('Synety or 'the Group') is a UK registered company, quoted on the AIM market of the London Stock Exchange. It is a cloud-based software and communications business that has developed and provides a suite of cloud based software products and services called Synety CloudCall® which are aimed at enabling organisations to use their communications more effectively. The CloudCall suite of products allows companies to fully integrate their telephony systems into their existing software, enabling calls to be made, recorded, logged, categorised and detailed reports easily generated.

2. Chairman's Statement

It has been another strong year for Synety, with a near threefold increase in revenue, a successful launch in the US, a 26% year on year increase in Recurring Revenue per User (RRPU) and the launch of our CloudCall Chrome plugin.

In the traditional software world, most companies do business by selling a "perpetual" licence for their software and reflect the entirety of that licence sale in their revenue line. However, Synety operates a cloud based model selling software as a service (SaaS) and recognises revenue, even for a customer that has signed up for a 12 or 24 month contract, one month at a time. By way of an example, a customer that goes live in January is recognised as being worth 12 times as much in our annual revenue line as an identical customer who goes live in December. This is why we consider Annualised Recurring Revenue ("ARR") as an important determinant of how the business is doing, as opposed to simply looking at historical revenue.



In this respect, I'm particularly pleased not only by the year-on-year ARR growth of 247%, to break through the £3m mark, but also by the acceleration in growth over the latter part of the year – the graph to the right shows how the 247% growth was split by quarter, demonstrating how the investments we have made throughout the year in sales and product innovation are starting to pay off.

The Q4 ARR growth was driven not only by greater sales activity but also by a significant increase in RRPU which we believe can be tracked directly back to product enhancements and a greater proportion of new and existing customers buying or upgrading to our flagship CloudCall Contact Centre product.

US Launch

Synety's US office in Boston has now been open for just over 8 months and early indications are encouraging, with orders received between the launch and the end of 2014 beating original management forecasts. To date, we have focused US sales on a limited number of CRM integrations, however, now that the US operations are starting to develop and show traction, the Board plans to increase marketing and target a wider number of CRMs, which should lead to increased sales activity in 2015.

The Board remains both confident and excited over the scale of the opportunity in the US.

Chrome Plugin Launch

The Group's new plug-in, CloudCall Chrome, was launched in December 2014. The Chrome plug-in sits within the Google Chrome web browser, and works with any browser based software running on it.

This allows users to click-to-call directly from any webpage and online web-based CRM – even those that are not integrated with CloudCall.

Whilst the Board is excited as to the potential for Chrome, it is too early to provide any detailed commentary on its future. We have recently signed up Zoho CRM who are our first Chrome integrated CRM and feedback from early trialists has been particularly encouraging.

The Board expects to provide further information on this new product during 2015.

Quarterly Trading Statements

Going forward, the Board is committed to publishing a trading statement, including an unaudited Key Performance Indicators (KPI) update, on a quarterly basis.

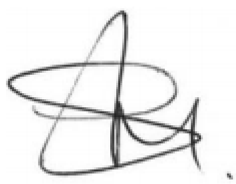
Trading Update Calendar 2015	
Q1	28th April 2015
Q2	21st July 2015
Q3	20th October 2015
Q4	19h January 2016

Looking Forward

The combined positive effects of our investment in a larger sales operation in the UK, which has helped drive an increase in RRPU, and our small scale but successful launch in the US, are beginning to be demonstrated in the KPIs.

While disappointed that progress has been slower than originally anticipated, the Board is encouraged by the KPIs and what we believe to be the significant opportunity in our marketplace. The Board is excited about the prospects for 2015 and are viewing Synety's future with optimism.

On behalf of all the Board, I would like to take this opportunity to say a huge thank you to all the staff of Synety for your exceptional hard work during the year. You should take pride in your achievements as the Company's progress to date is down to you.



Simon Cleaver
Executive Chairman

3. CFO's Statement

Financial Review

2014 continued to build on the foundations laid down by the Group in 2013. The results for the year ended 31 December 2014 show revenues increasing approximately threefold to £1.63m from £0.55m (2013). The Group saw operating losses before non-recurring items climb to £5.35m from £3.04m (2013). The increased loss for the year was in line with our revised expectations, and reflects the continuing investments being made in product development, strengthening the technical hub, launching in the US and further increasing UK sales and marketing. Recurring revenue continued to build throughout 2014, albeit not as quickly as our original estimates, due in the main to implementation on-boarding times lengthening as customers became larger and more complex.

Period-end cash and cash equivalents at 31 December 2014 were £2.36m (2013: £2.30m). Operating cash outflows of £4.31m (2013: £2.22m) were offset by net cash inflows from financing activities (see below) of £4.89m.

Total equity attributable to shareholders was £2.27m at 31 December 2014 (2013: £2.37m). The major elements comprise cash and cash equivalents of £2.36m together with intangible assets of £0.80m and goodwill of £0.34m recognised in respect of the acquisition of Synety Limited in September 2012, offset by £1.4m of contingent consideration due on this acquisition, payable in September 2015.

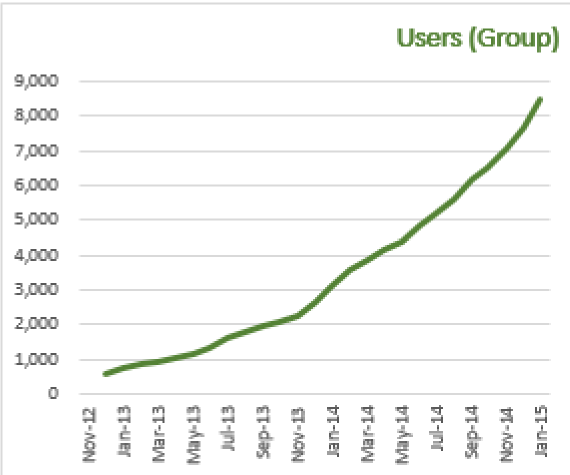
On 8 April 2014 shareholders approved the issue of 2,000,499 new ordinary shares in the Company, pursuant to a placing and open offer at a price of 250 pence each to raise a total of £5.0m before fees and expenses in order to continue to fund the Group's expansion.

As part of the acquisition of Synety Limited, deferred contingent consideration of up to 740,861 shares in the Company may become payable, subject to the business meeting certain growth targets. The Board considers it likely that these targets will be met and, with the share price movement seen in 2014, this has resulted in an exceptional charge of £0.2m in the 2014 income statement (2013: £0.71m).

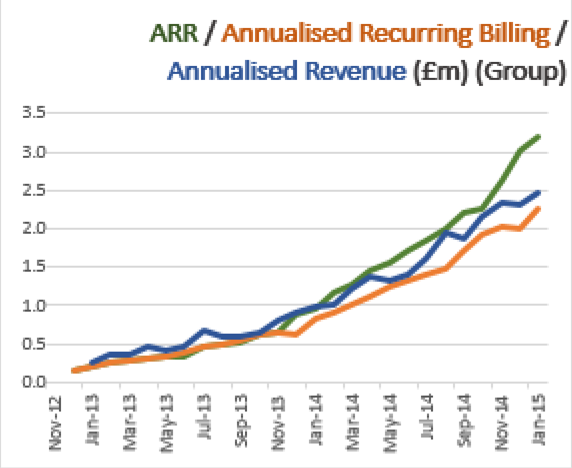
Key Performance Indicators

During the course of 2014, the Group continued to publish its quarterly KPIs, allowing all stakeholders to monitor the key metrics and chart progress as the Group moves forward. The definitions of these six key measures being published quarterly can be found on page 16 below. The calendar for publication of 2015 data can be found on page 5 above.

With two years of underlying activity, the business continues to deliver strong upward growth in user numbers and ARR.



The Group closely monitors the relationship between ARR, a forward-looking KPI measure, customer billing and the resulting revenue booked. The chart to the right shows the headline ARR figure, with annualised equivalent recurring billing and revenue data also plotted. Annualised revenue booked runs slightly ahead of annualised recurring billing as a result of non-recurring revenues such as hardware and set-up fees. Customer billing lags slightly behind the ARR figure as customer orders take time to be provisioned and then go-live. This process for the larger customers typically is running at 6-8 weeks from receipt of order, although some larger customers can take longer due to the complexity of their installation. Typically the lag between ARR and billing / revenue will widen in months of high sales activity (until provisioning catches up). Billing revenue will also fluctuate as the actual number of working days in a month will have an impact on customers' telecom spend.



Key Performance Indicators (KPIs)					
	31 Dec 2012	31 Dec 2013	31 Dec 2014	**Growth in 2014**	28 Feb 2015
Annualised Recurring Revenue (ARR)	£0.15m	£0.87m	£3.02m	**+247%**	£3.46m
No of End Users	564	2,678	7,705	**+188%**	8,779
Recurring Revenue Per User	£22.80	£24.10	£30.48	**+26%**	£30.73
Av. New Users per Month	55	224	419	**+87%**	537
No of Licences	794	5,160	19,221	**+272%**	23,798
Av. Users Per Customer	5.8	10.1	11.7	**+16%**	13.7
Please see page 16 for definition of KPIs – Source: Company's own unaudited KPI analysis					

- **Annualised Recurring Revenue (ARR)** – this forward looking measure captures the future locked in visible recurring revenue expected from existing customers and signed orders over the coming 12 months, and has grown from £0.87m at the end of 2013, to £3.02m at the end of 2014. In 2015 (28 February) a further £0.44m has been added to this number.
- **Number of End Users –** up 188% year-on-year in 2014 and a further 14% to 28 February 2015.
- **Recurring Revenue Per User** – has increased from £24.10 at the end of 2013, to £30.48 at the end of 2014 - a strong increase which shows the increasing value being delivered to our customers as new products and functionality become available.
- **Average New Users per Month** – average monthly user acquisition doubled in 2014, and initial numbers for 2015 to 28 February 2015 are very encouraging.
- **No of Licences** – up 272% year-on-year in 2014, and a further 24% to 28 February 2015.
- **Av Users Per Customer** – continuing the upward trend from 10.1 at the end of 2013 to 11.7 at the end of 2014, with a further significant increase in 2015 (to 28 February) showing clearly the

increasing size of our customers. The average monthly users per customer in the last 3 months (to 28 February 2015) is 25, demonstrating clearly the evolution of the customer base towards larger companies, which in the longer term offer greater economies of scale, resulting in enhanced margins and opportunities for expansion revenues.

Risk Management

The Group is exposed to a number of potential risks which may have a material effect on its reputation, financial or operational performance. It is not possible to identify or anticipate every risk that may affect the Group, or the materiality of that risk.

The Board has overall responsibility for risk management and internal controls and is supported by the Audit Committee. For further details see the Corporate Governance section below.

Operational risks

Key areas for on-going risk management are:

- **Revenues** - The business remains early stage and the prospects of the Group continue to be dependent upon the development of the revenue model. Through the Group's performance dashboards, the Board monitors incoming orders, and customer account provisioning on a daily basis, while revenue is tracked and analysed on a monthly basis. The Group keeps its pricing and sales commission models under constant review, and discounts are monitored and approved on a case by case basis.
- **Business continuity** – The Group is dependent on the efficient functioning of its internal systems and website as well as accessibility to the wider internet infrastructure, key systems and assets on which they depend. Business disruption contingency plans are prepared and reviewed, and work continues to improve the resilience of our systems and core platform.
- **Staff retention and recruitment** – given the importance of know-how, no individual has sole responsibility for any critical element of the Group's business, albeit the loss of certain key personnel would clearly be disruptive to the business. Staff retention is encouraged by a range of staff benefits including share based incentive plans, health care, pensions and death in service benefits. Staff performance is regularly reviewed and training and support provided wherever necessary.
- **Commercial partners** – the Group has partnerships and agreements with a number of third parties. Whilst these partnerships are secured by contracts and in most cases alternative partners could be found in the medium to longer term, a loss of support or disruption of service from any partner could have a short term detrimental impact on Synety's reputation and business. The Group continues to actively monitor its commercial partners, and works with them to ensure commercial and geo-political risks are minimised.

Financial Risks

The major financial risks faced by the Group are liquidity risk, market risk, currency risk and credit risk. The Board regularly reviews these risks and approves policies covering overall risk limits and the use of financial instruments where appropriate to manage financial risk.

Liquidity risk

The key liquidity risk facing the Group continues to be the sufficiency of working capital until profitable trading is established. The Board has detailed business plans, including cash flow projections, which it keeps under regular review, at least monthly, to ensure the adequacy of working capital at all times. The Group does not have any external borrowings or financial obligations or guarantees in respect of its subsidiary undertakings.

The Group's growth plans require additional funding to enable its internal targets to be met. Whilst the directors are confident of obtaining such funding, they have also prepared contingency plans to enable cost savings to be made to ensure that the Group can continue to meet its liabilities as they fall.

Market risks

Currency risk

The greater part of the Group's revenues and costs are denominated in sterling, however the Group is exposed to foreign exchange risk, principally through cash flows incurred in US dollars by the Group's US subsidiary. The foreign exchange risk is partly addressed by matching income and costs denominated in US dollars. Management closely monitors exchange rate fluctuations and will use forward contracts when considered appropriate to reduce this risk.

Credit risk

The Group's billing cycle ensures minimal credit risks as customers pay monthly which minimises the amount of credit outstanding. Each account has an individually assigned credit limit which, if breached, results in suspension of service until the account is paid or revised credit agreed. There were no balances representing over 10% of the total trade receivables at the year end. The Group's funds are held at Santander Bank, a AAA rated bank, reducing credit risk in this area.

Paul Williams
Chief Financial Officer

4. The Board

Board of Directors

Simon Cleaver, 54

Executive Chairman – appointed 12 April 2011

Simon is an entrepreneur and highly experienced director who has built, developed and sold a number of successful companies in both the private and the public arenas. He has specialist knowledge of acquiring and turning around companies or assets, often under distressed circumstances. Businesses that he has built and sold include Serve Logic plc, Business Serve plc, RDP Ltd and Dalehart Ltd. Prior to setting out on his own, Simon worked in the City for Bailey Shatkin working in the field of derivatives.

Mark Seemann, 44

Chief Executive Officer – appointed 26 September 2012

Mark has 14 years' experience as an executive implementing disruptive technologies within the Internet and telecoms sectors. He has been responsible for building internet and telecoms companies during this time and has been instrumental in driving turnarounds and various company acquisitions within this sector. Mark has been directly responsible for various technical innovations including one of the UK's first telecom web control panel and patented VoIP technology now owned by Cable & Wireless.

Paul Williams, 45

Chief Financial Officer – appointed 3 June 2013, re-elected 20th May 2014

Paul Williams is a Chartered Management Accountant with over 18 years' experience in the technology services sector, having worked previously for IBM, ECsoft Group plc and most recently, Ciber as Group Financial Controller and Interim CFO of the International Division. Paul was involved in multiple acquisitions and start-ups, achieved Sarbanes-Oxley compliance, successfully implemented several company-wide ERP systems, controlled audit and external reporting and was instrumental in the creation of a new IT Outsourcing operation.

Dr Georg Oehm, 49

Non-Executive director – appointed 12 April 2011

Georg is one of the founders of Mellinckrodt & Cie, Zug, Switzerland. Prior to this he was MD and Partner in a financial communications boutique in Frankfurt am Main. He was also one of the founders and the first MD of the German CFD Association e.V. Before that Georg worked for five years on special restructuring projects following five years at Metallgesellschaft AG in the Corporate Development and M&A department. He is also Chairman of the Board of Mellinckrodt 2 SICAV, Luxemburg and Member of Supervisory Board of Incity Immobilien AG, Frankfurt am Main.

David Whelan, 40

Non-Executive director – appointed 12 April 2011, re-elected 20th May 2014

David Whelan is CFO at Accretive Group LLC. David was previously Vice President of Corporate Development with the Virgin Group in the US and the UK and prior to that an investment banker in London and Sydney with Goldman Sachs & Company. David qualified as a Chartered Accountant of Australia and has a Bachelor of Laws (Honours) and Bachelor of Commerce from Bond University in Queensland, Australia.

(Alan) Graham Ward, 60

Non-Executive director – appointed 26 September 2012

Graham has many years' experience working with early stage software and telecoms companies as a non-executive director, helping develop those companies and raising funds. He has corporate experience as a finance director of a mobile phone manufacturer Motorola Europe and has been a managing director of mobile phone service providers, Motorola Telco, Vodafone Corporate and Genesis. He is currently chairman of CMS Supatrak Limited, chairman of Dynmark International Limited and a non-executive director of VQ Communications Ltd. He is a non-executive director of Air Tube Technology Ltd and a director of Mobile Strategies Ltd.

5. Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2014.

Principal activities

Synety Group plc ("Synety" or "the Company") is a UK registered, AIM quoted company. The principal activity of the Company is to act as the holding company.

The principal activity of Synety and its subsidiaries ("the Group") is the provision of cloud-based integrated telephony solutions.

Further information can be found on Page 3 - About Synety, and on our website www.synety.com.

Share Capital

The number of ordinary shares in issue on 1 January 2014 was 6,330,075. On 13 January 2014, the Board approved a placing of 85,912 new ordinary shares in the Company at a price of 220 pence for a total consideration of £0.19m. On 8 April 2014 shareholders approved the issue of 2,000,499 new ordinary shares in the Company, pursuant to a placing and open offer, at a price of 250 pence each to raise a total of £5.0m before fees and expenses. As a result, the number of shares in issue immediately after this issue was 8,416,486. Subsequent to this, the Board has approved various small share issues in respect of share option and warrant exercises, as a result of which, the number of shares in issue on 31 December 2014 was 8,430,629.

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group are set out in the Risk Management section on page 8. Additional information in respect of accounting estimates and judgements can also be found in Note 3 to the Financial Statements.

Directors and Directors' interests

The Directors who held office during the year were as follows:

		Appointed / Re-elected
Simon Cleaver	Executive Chairman	
Mark Seemann	Chief Executive	
Paul Williams	Chief Financial Officer	Re-elected 20th May 2014
(Alan) Graham Ward	Non-Executive	
Dr. Georg Oehm	Non-Executive	
David Whelan	Non-Executive	Re-elected 20th May 2014

Simon Cleaver and Georg Oehm, retiring by rotation, will offer themselves for re-election at the forthcoming AGM.

The Directors who held office during the financial year had the following interests in the ordinary shares of Synety Group plc according to the register of Directors' interests:

31st December 2014	2014 Number	2013 Number
Mark Seemann	**876,077**	869,553
Simon Cleaver	**317,254**	298,334
Graham Ward	**206,795**	206,795
Paul Williams	**41,857**	32,004

Employees

The Group is an Equal Opportunity Employer and its policy is to ensure that all employees and job applicants will be given equal opportunities in all aspects of employment and training irrespective of their gender, ethnic origin, disability, age, marital status, sexual orientation or religious affiliation. Synety encourages, where possible, the employment of disabled people and the retention of those who become disabled during their employment with the Group.

The Group recognises the benefit of involving employees in target setting and keeping employees informed of progress. Due to the size of the Group, regular consultations with senior management take place. The views of employees are taken into account in making decisions which are likely to affect their interests.

Research and development

Investment in the development of new and improved products and applications and the protection of the intellectual property of such development work is considered key to the further improvement of Synety's competitive position. Further details can be found in the Risk Management section on page 8.

Proposed dividend

The Directors do not recommend the payment of a dividend (2013: nil).

Business review and future developments

A review of the Group's activities, performance, position and future developments are contained within: About Synety – Page 3, Chairman's Statement – Page 4, and CFO's Statement – Page 6.

Substantial shareholders

So far as is known to the Company, the only persons who, directly or indirectly, were interested in three per cent or more of the Company's share capital as at 31 December 2014 were as:

31st December 2014	Shares	% of Issued Share Capital
Mark Seemann	876,077	10.4%
Herald Investment Management	680,000	8.1%
Mellinckrodt 2 SICAV	614,458	7.3%
Jason Kendall	504,298	6.0%
Commerzbank AG	438,779	5.2%
Aquaglow	389,390	4.6%
Simon Cleaver	317,254	3.8%
Hargreaves Lansdown Asset Mgt	308,824	3.7%
Hargreave Hale	243,457	2.9%
Barclays Wealth Mgt (UK)	230,047	2.7%
	4,602,584	54.7%

Directors' liability insurance

The Company maintains liability insurance for the Directors and officers of all Group companies.

Political and charitable contributions

Neither the Group, the Company nor any of its subsidiaries made any political or charitable donations during the year (2013: £nil).

Disclosure of information to auditors

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

Auditors

Baker Tilly UK Audit LLP acted as auditors during the year. In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of Baker Tilly UK Audit LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

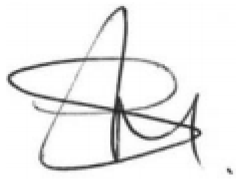
Annual General Meeting

The Annual General Meeting of the Company will take place on Tuesday 19 May 2015 at 12.00 noon at the offices of Synety Group plc, 1 Colton Square, Leicester LE1 1QH.

Going Concern

The Directors confirm that, as disclosed in note 1 on page 30, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

By order of the board



Simon Cleaver
Executive Chairman

One America Square
Crosswall
London
EC3N 2SG

6. Strategic Report

The Directors are required to provide a strategic report. Much of the information required to be disclosed in the strategic report is disclosed elsewhere in this annual report, and accordingly readers should refer to the Chairman's and the CFO's statements, which supplement the information given below.

Business review and future developments

A review of the Group's activities, performance, position and future developments are contained within: About Synety – Page 3, Chairman's Statement – Page 4, and CFO's Statement – Page 6

Key Performance Indicators

The financial KPIs for the Group are revenue, gross profit, operating profit / loss, net cash flow from operating activities, cash and cash equivalents, annualised recurring revenue (ARR) and recurring revenue per user (RRPU). The principal non-financial KPIs used in the year were number of users, average users added per month, number of licences and average users per customer. These KPIs have been set out earlier in this report.

Year ended 31 December ***Financial***	**2014** **£000**	**2013** **£000**
Revenue	**1,629**	547
Gross Profit	**1,184**	374
Operating (Loss) before non-recurring items	**(5,351)**	(3,041)
Net (Loss) after non-recurring items and tax	**(5,265)**	(3,583)
Net Cash Outflow from Operating Activities	**(4,312)**	(2,224)
Cash and Cash Equivalents	**2,359**	2,300
	£000	**£000**
Annualised Recurring Revenue (ARR)	**3,023**	871
Recurring Revenue per. User (RRPU)	**£30.48**	£24.10
Non-Financial		
No of Licences	**19,221**	5,160

As the business develops, it is anticipated that additional KPIs will be implemented such as cost to acquire, cost to manage and the estimated lifetime economic value of customer accounts.

Key Performance Indicators - Note

The Board of Synety Group plc considers the following key performance indicators (KPIs) as key to understanding the performance of the business, and reports these KPIs externally as part of its quarterly trading updates. When calculating its KPIs, the Group considers the receipt of a signed order for a 12 month subscription as a "sale".

No of Users

Number of End Users is defined as the actual number of individual users licenced to access the CloudCall platform.

Number of Licences

A licence is a customer agreement to pay monthly fees (occasionally annually) for the use of a Synety package or service. Example of licences include; CloudCall Click, Unlimited UK landlines calls package, extended call recoding (7 year option) etc.   An 'End User' may purchase multiple licences depending upon the services that they subscribe to.

Average Users per Customer (AUPC)
This is simply the average customer size calculated as the number of End Users divided by the number of customers.

Annualised Recurring Revenue (ARR)
ARR is a forward looking number based on products sold to date. To calculate the ARR, we strip out any one-off invoices such as set-up, hardware sales or professional fees and simply take the ongoing monthly recurring licence fees customers have subscribed for and add in the projected telecommunications income (average daily telecommunications spend X working days in an average month). This figure is then multiplied by 12 to give the expected annual recurring revenue.

The Board believes that this is the clearest way of expressing the underlying annualised recurring revenue as it levels out inconsistencies that may be caused by how many working days there are in any particular month– telecoms revenues that are not included in any calling package, are particularly sensitive to these fluctuations. It further removes any anomalies that may be introduced by large customers coming on-stream partway through the month which lower the ARPU since they are only billed for a partial month.

Recurring Revenue per End User (per month) (RRPU)
This figure is not simply the ARR divided by the number of End Users. RRPU is calculated by combining the actual billed subscription revenue with the monthly subscription fees ordered, together with an estimate of the related telecommunications spend (eliminating any one-off billings) and dividing by number of End Users. To date, the number Synety has circulated has been the RRPU for just the current month.

Having recently reviewed the KPIs, the Board believes that simply publishing a RRPU figure based on one single preceding month has some drawbacks and could possibly be misleading because of the variation in the number of working days etc. as explained above. Therefore, to smooth out these possible fluctuations, all future RRPU numbers published will be calculated on the average RRPU of the preceding three months.

Principal risks and uncertainties
The principal risks and uncertainties faced by the Group are set out in the Risk Management section on page 8. Additional information in respect of accounting estimates and judgements can also be found in Note 3 to the Financial Statements.

By order of the board

Simon Cleaver
Executive Chairman

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7. Corporate Governance

The Board

The Board is responsible for formulating, reviewing and approving the Group's strategies, budgets and corporate actions. The Directors have responsibility for, and recognise the importance of, implementing and maintaining high standards of corporate governance, and the Company complies with the Corporate Governance Code for Small and Mid-sized Quoted Companies issued by the Quoted Companies Alliance in such respects that are appropriate for a company of its size, nature and stage of development.

The Board of Directors

The Company is controlled by the Board of Directors, which currently consists of three Executive and three Non-Executive Directors.

The Directors believe the Board includes an appropriate balance of skills and uses them effectively to provide leadership to the Group.

The role of the Board

The principal responsibility of the Board is to deliver shareholder value and strategic vision and leadership for the Group; it is also responsible for effective risk management and oversight of internal controls.

The Board meets regularly and six Board Meetings were held in 2014. The Board has a formal schedule of matters referred to it for decision; these include:

- Approval of the Company's overall commercial strategy and a review of progress to date;
- Financial matters including the approval of budget and financial plans, changes to the Group's capital structure, major investments such as capital expenditures, acquisitions and disposals;
- Stock Exchange related issues including the approval of communications to the Stock Exchange;
- Meeting Companies Act requirements including the approval of financial statements, dividends and changes in accounting practices and policies;
- Other policy matters including health and safety, and operational controls.

Operational control is delegated by the Board to the Executive Directors. Non-Executive Directors are in regular communication with the Executive Directors.

All the Directors have direct access to the advice and services of the Company Secretary and can take independent advice if necessary, at the Company's expense.

Board Committees

Audit Committee

The Audit Committee consists of Messrs Cleaver, Seemann and Ward (Chair). The Committee meets at least twice a year and more frequently if required. During 2014, three meetings were held. The Committee is responsible for monitoring the quality of internal controls, ensuring the financial performance of the Company is being properly measured and reported on, meeting with the auditors and reviewing reports from the auditors relating to accounting and internal controls. Other members of the management team may be invited to attend meetings. If requested, the Non-Executive Directors are provided an opportunity at the Audit Committee meetings to discuss matters with the Auditors without the presence of the Executive Directors.

Remuneration Committee

The Remuneration Committee consists of Messrs Oehm, Whelan (Chair) and Ward. During 2014, four meetings were held. The Committee reviews the performance of Executive Directors and senior management, sets the scale and structure of their remuneration and reviews the basis of their service agreements with due regard to the interests of the shareholders. Other members of the management team may be invited to attend meetings. The Remuneration Committee will also make recommendations to the Directors concerning the allocation of share options to Directors and employees. No Director is permitted to participate in discussions concerning their own remuneration. The remuneration and terms of appointment of Non-Executive Directors are set by the Board as a whole.

Nomination Committee

The Nomination Committee consists of Messrs Cleaver (Chair), Whelan, Oehm and Ward. During 2014, no meetings were held. The Committee leads the process for board appointments. Other board members and external advisors may be invited to attend meetings. The Committee will meet to review the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regard to any changes. The Committee is also responsible for succession planning and identification and nomination of candidates to fill Board vacancies as and when they arise.

Internal control

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The processes to identify and manage the key risks of the Group are an integral part of the internal control environment. Such processes, which are regularly reviewed and improved as necessary, include strategic planning, approval of annual budgets, regular monitoring of performance against budget (including full investigation of significant variances), control of capital expenditure, ensuring that proper accounting records are maintained, the appointment of senior management and the setting of high standards for health, safety and environmental performance.

The effectiveness of the internal control system and procedures is monitored regularly through a combination of review by management, the results of which are reported to and considered by the Audit Committee. The system of internal control comprises those controls established to provide assurance that the assets of the Group are safeguarded against unauthorised use or disposal and to ensure the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. Any system of internal control can only provide reasonable, but not absolute, assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failing to achieve the business objectives of the Group.

Relations with shareholders

The Company is committed to open communication with all its shareholders. Communication is primarily through the Annual General Meeting which shareholders are encouraged to attend and where participation is encouraged so that the Board may answer questions. All shareholders will receive a copy of the Annual Report (electronic or hard copy depending on shareholder preference) and an interim report at the half year will be available on the Company's website.

8. Directors' Remuneration Report

Directors' emoluments

	Year ended 31 December 2014					2013
	Salaries and other £000	Bonus £000	Pension £000	Other benefits £000	Total £000	Total £000
Simon Cleaver	**146**	**73**	**7**	**1**	**227**	190
Mark Seemann	**121**	**60**	**6**	**1**	**188**	163
Paul Williams	**103**	**48**	**5**	**1**	**157**	91
Alan (Graham) Ward	**20**	**-**	**-**	**-**	**20**	20
Dr. Georg Oehm	**20**	**-**	**-**	**-**	**20**	20
David Whelan	**20**	**-**	**-**	**-**	**20**	20
Total	**430**	**181**	**18**	**3**	**632**	504

David Whelan provides his services through Albedo Partners Inc., a company incorporated in the USA and controlled by David Whelan, pursuant to an agreement dated 13 April 2011 under which Albedo Partners Inc. is paid £20,000 plus expenses (or the equivalent in US$ if so requested by David Whelan) per annum (2013: £20,000). £20,000 was charged to the Company in the year to 31 December 2014 by Albedo Partners Inc. in respect of his services to the Company (2013: £20,000).

Georg Oehm provides his services through Mediaforum UG, a company registered in Germany and controlled by the family of Georg Oehm pursuant to an agreement dated 13 April 2011 under which Mediaforum UG is paid £20,000 plus expenses (or the equivalent in Euros if so requested by Georg Oehm) per annum (2013: £20,000). £20,000 was charged to the Company in the year to 31 December 2014 (2013: £20,000).

Directors' Rights to Subscribe for Shares

According to the register of Directors' interests, there were no rights to subscribe for shares in, or debentures of, Group companies granted to any Directors during the financial year ended 31 December 2014. None of the Directors or their immediate families exercised any such rights during the financial year.

Directors' maximum rights to subscribe for shares in the Company pursuant to the Management Incentive Plan as described in note 19 to the financial statements are as follows:

	2014 Number	2013 Number
Simon Cleaver	**379,928**	379,928
Dr. Georg Oehm	**126,643**	126,643
David Whelan	**126,643**	126,643

Two of the Directors are entitled to deferred contingent consideration in the form of shares in the Company under the contingent consideration terms of the acquisition of Synety Limited in September 2012 (see note 6 to the financial statements), as follows:

	2014 Number	2013 Number
Mark Seemann	**424,736**	424,736
(Alan) Graham Ward	**103,720**	103,720

Directors' rights to subscribe for shares in the Company pursuant to the Synety Group plc 2011 Share Option Plan are indicated below:

	At 31 December 2013	Granted	At 31 December 2014	Exercise price
	Number	Number	Number	Pence
Simon Cleaver	50,000	-	**50,000**	**292**
Dr. Georg Oehm	15,000	-	**15,000**	**292**
David Whelan	15,000	-	**15,000**	**292**
Paul Williams	10,000	-	**10,000**	**150**
Total	90,000	-	**90,000**	

There were no options granted during the year. Further details on the plan are set out in note 19 to the financial statements.

All Directors benefit from Directors and Officers insurance.

9. Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

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

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. As required by the AIM rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and have elected under company law to prepare the Parent Company financial statements on the same basis.

The financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU: and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

10. Independent Auditor’s report to the members of Synety Group plc

We have audited the Group and Parent Company financial statements (“the financial statements”) on pages 25 to 57. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As more fully explained in the Directors’ Responsibilities Statement set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s (APB’s) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group’s and the Parent Company’s affairs as at 31 December 2014 and of the Group’s loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors’ Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

GEOFF WIGHTWICK BA FCA (Senior Statutory Auditor)
For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
3 Hardman Street
Manchester
M3 3HF

Date: 17 March 2015

11. Financial Statements and notes

Consolidated Income Statement and Statement of Comprehensive Income

For year ended 31 December 2014

	Notes	Before non-recurring item Group 2014 £000	Non-recurring item (Note 6) Group 2014 £000	After non-recurring item Group 2014 £000	After non-recurring item Group 2013 £000
Revenue	5	**1,629**	**-**	**1,629**	547
Cost of sales		**(445)**	**-**	**(445)**	(173)
Gross profit		**1,184**	**-**	**1,184**	374
Sales & marketing expenses		**(1,505)**	**-**	**(1,505)**	(648)
Administrative expenses	7,8	**(3,735)**	**(196)**	**(3,931)**	(2,752)
Share based payments		**(269)**	**-**	**(269)**	(216)
Total administrative expenses		**(4,004)**	**(196)**	**(4,200)**	(2,968)
Research & development expenses		**(1,026)**	**-**	**(1,026)**	(509)
Operating loss before non-recurring items		**(5,351)**	**(196)**	**(5,547)**	(3,751)
Financial income	9	**25**	**-**	**25**	10
Financial expenses	9	**-**	**-**	**-**	(1)
Net financing income/(expense)		**25**	**-**	**25**	9
Loss before tax		**(5,326)**	**(196)**	**(5,522)**	(3,742)
Taxation	10	**257**	**-**	**257**	159
Loss for the year attributable to owners of the parent		**(5,069)**	**(196)**	**(5,265)**	(3,583)
Other comprehensive income					
Foreign exchange translation differences		**-**	**-**	**-**	-
Other comprehensive income		**-**	**-**	**-**	-
Total comprehensive income for the year		**(5,069)**	**(196)**	**(5,265)**	(3,583)
Earnings / (Loss) per share (£)					
Basic & fully diluted loss per share	21	**(0.64)**	**(0.03)**	**(0.67)**	(0.67)

The notes on pages 30 to 57 are an integral part of these consolidated financial statements.

Consolidated and Company Statement of Financial Position

At 31 December 2014

	Notes	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Non-current assets					
Investment in subsidiaries	13	**-**	-	**2,600**	2,311
Property, plant and equipment	11	**646**	266	**-**	1
Goodwill	12	**339**	339	**-**	-
Other intangible assets	12	**801**	1,110	**3**	8
		1,786	1,715	**2,603**	2,320
Current assets					
Inventories	15	**70**	23	**-**	-
Trade and other receivables	16	**480**	155	**8,120**	3,062
Research & development tax credit receivable		**194**	95	**-**	-
Cash and cash equivalents	17	**2,359**	2,300	**2,083**	2,164
		3,103	2,573	**10,203**	5,226
Total assets		**4,889**	4,288	**12,806**	7,546
Current liabilities					
Trade and other payables	18	**(988)**	(467)	**(522)**	(274)
Liabilities classified as held for sale		**(50)**	-	**-**	-
Contingent consideration	6	**(1,407)**	-	**(1,407)**	-
		(2,445)	(467)	**(1,929)**	(274)
Non-current liabilities					
Deferred tax liabilities	14	**(176)**	(239)	**-**	-
Contingent consideration	6	**-**	(1,211)	**-**	(1,211)
Total liabilities		**(2,621)**	(1,917)	**(1,929)**	(1,485)
Net assets		**2,268**	2,371	**10,877**	6,061
Equity attributable to shareholders					
Share capital	20	**1,686**	1,266	**1,686**	1,266
Share premium		**56,761**	52,288	**56,761**	52,288
Translation reserve		**-**	-	**-**	-
Warrant reserve		**29**	33	**29**	33
Retained earnings		**(56,208)**	(51,216)	**(47,599)**	(47,526)
Total equity attributable to shareholders		**2,268**	2,371	**10,877**	6,061

The notes on pages 30 to 57 are an integral part of these consolidated financial statements.

These financial statements were approved by the Board on 17th March 2015 and were signed on its behalf by:

Simon Cleaver
Executive Chairman

Consolidated and Company Statements of Changes in Equity

For year ended 31 December 2014

Group	Share capital £'000	Share premium £'000	Translation reserve £'000	Warrant reserve £'000	Retained earnings £'000	Total equity attributable to shareholders £'000
Balance at 1 January 2013	986	50,654	-	34	(47,850)	3,824
Loss for the period	-	-	-	-	(3,583)	(3,583)
Other comprehensive income						
Foreign exchange differences on translation of foreign operations	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	(3,583)	(3,583)
Equity settled share based payments transactions	-	-	-	(1)	217	216
Issue of equity shares	280	1,634		-	-	1,914
Balance at 31 December 2013	1,266	52,288	-	33	(51,216)	2,371
Balance at 1 January 2014	1,266	52,288	-	33	(51,216)	2,371
Loss for the period	-	-	-	-	(5,265)	(5,265)
Other comprehensive income						
Foreign exchange differences on translation of foreign operations	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	(5,265)	(5,265)
Equity settled share based payments transactions	-	-	-	(4)	273	269
Issue of equity shares	420	4,473	-	-	-	4,893
Balance at 31 December 2014	**1,686**	**56,761**	**-**	**29**	**(56,208)**	**2,268**

The notes on pages 30 to 57 are an integral part of these consolidated financial statements.

Consolidated and Company Statements of Changes in Equity (continued)

For year ended 31 December 2014

Company	Share capital £'000	Share premium £'000	Translation reserve £'000	Warrant reserve £'000	Retained earnings £'000	Total equity attributable to shareholders £'000
Balance at 1 January 2013	986	50,654	-	34	(47,402)	4,272
Loss for the period	-	-	-	-	(341)	(341)
Other comprehensive income						
Total comprehensive income for the period	-	-	-	-	(341)	(341)
Equity settled share based payments transactions	-	-	-	(1)	217	216
Issue of equity shares	280	1,634		-	-	1,914
Balance at 31 December 2013	1,266	52,288	-	33	(47,526)	6,061
Balance at 1 January 2014	1,266	52,288	-	33	(47,526)	6,061
Loss for the period	-	-	-	-	(346)	(346)
Other comprehensive income						
Total comprehensive income for the period	-	-	-	-	(346)	(346)
Equity settled share based payments transactions	-	-	-	(4)	273	269
Issue of equity shares	420	4,473		-	-	4,893
Balance at 31 December 2014	**1,686**	**56,761**	-	**29**	**(47,599)**	**10,877**

The notes on pages 30 to 57 are an integral part of these consolidated financial statements.

Share capital represents the nominal value of shares issued and paid up.

Share premium represents the excess of consideration received over the nominal value of shares issued.

Translation reserve represents the cumulative foreign exchange differences arising on the translation of subsidiaries' financial results denominated in a currency other than Sterling.

Warrant Reserve represents the cumulative charge in respect of warrants issued over the Company's shares.

Retained earnings represents the cumulative retained earnings / (losses) of the Group.

Consolidated and Company Cash Flow Statements

For year ended 31 December

	Notes	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Cash flows from operating activities					
Loss for the period		**(5,265)**	(3,583)	**(346)**	(341)
Adjustments for:					
Depreciation and amortisation		**474**	390	**6**	4
Fair value of contingent consideration		**196**	710	**-**	-
Loss on disposal of property, plant and equipment		**2**	-	**-**	-
Financial income		**(25)**	(10)	**(19)**	(10)
Financial expenses		**-**	1	**-**	-
Equity settled share-based payment expenses		**269**	216	**176**	189
Taxation		**(257)**	(159)	**-**	-
Operating loss before changes in working capital and provisions		**(4,606)**	(2,435)	**(183)**	(158)
Decrease / (Increase) in trade and other receivables		**(325)**	24	**(5,058)**	(2,216)
Decrease / (Increase) in inventory		**(47)**	(10)	**-**	-
(Decrease) / Increase in trade and other payables		**571**	197	**248**	75
Cash absorbed by operations		**(4,407)**	(2,224)	**(4,993)**	(2,299)
Tax received		**95**	-	**-**	-
Net cash absorbed by operating activities		**(4,312)**	(2,224)	**(4,993)**	(2,299)
Cash flows from investing activities					
Net Interest received		**25**	9	**19**	10
Acquisition of property, plant and equipment		**(547)**	(91)	**-**	(13)
Development expenditure capitalised and other intangible assets acquired		**-**	(12)	**-**	-
Net cash absorbed by investing activities		**(522)**	(94)	**19**	(3)
Cash flows from financing activities					
Net proceeds from the issue of share capital		**4,893**	1,914	**4,893**	1,914
Net cash from financing activities		**4,893**	1,914	**4,893**	1,914
Net (decrease)/increase in cash and cash equivalents		**59**	(404)	**(81)**	(388)
Cash and cash equivalents at start of period		**2,300**	2,704	**2,164**	2,552
Cash and cash equivalents at end of period	17	**2,359**	2,300	**2,083**	2,164

The notes on pages 30 to 57 are an integral part of these consolidated financial statements.

SYNETY
SMARTER COMMUNICATIONS

Notes

1. Accounting policies

Accounting convention and basis of preparation

Synety Group plc (the 'Company') is a company incorporated and domiciled in the UK and the Company and its subsidiaries are referred to as the 'Group'.

The consolidated financial statements consolidate those of the Group. The Company financial statements present information about the Company as a separate entity and not about the Group.

Both the Company financial statements and the Consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU. On publishing the Company financial statements here together with the consolidated financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements. The parent company incurred a loss of £346k for the year.

The financial statements are prepared on the historical cost basis, except for derivative financial instruments which are measured at fair value in both the Company and consolidated financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

Judgements made by the Directors in the application of these accounting policies that have significant effect on the financial statements, and estimates with a significant risk of material adjustment in the next year, are discussed in Note 3.

Going concern

The accounts have been prepared on a going concern basis.

The Group made a loss of £5,265k after non-recurring items in the year ended 31 December 2014. As at 31 December 2014 the Group had cash reserves of £2,359k.

The Directors have prepared projections covering three years. Such forward looking projections are inevitably subjective and sensitive to changes in the underlying assumptions and the Directors have sensitised these projections, in particular to factor in a delay in the growth of revenue. These projections, as sensitised, indicate that, based on the assumptions underlying the projections, sufficient working capital will be available to settle liabilities as they fall due for at least 12 months from the date of approving these accounts.

The Group's growth plans require additional funding to enable its internal targets to be met, and the availability of such funding is a critical assumption in the projections. Whilst the directors are confident of obtaining such funding, they have also prepared contingency plans to enable cost savings to be made to ensure that the Group can continue to meet its liabilities as they fall.

For these reasons, the Directors have adopted the going concern basis in preparing the annual financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings. Entities are accounted for as subsidiary undertakings when the Group is exposed to, or has rights to variable returns through its involvement with the entity and it has the ability to affect those returns through its power over the entity. The results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The consideration transferred in a business combination is measured as the fair value of the assets given, equity instruments issued, contingent consideration and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date.

Provisional fair values are adjusted against goodwill if additional information is obtained within one year of the acquisition date, about facts or circumstances existing at the acquisition date. Other changes in provisional fair values are recognised through profit or loss.

Changes in contingent consideration arising from additional information, obtained within one year of the acquisition date, about facts or circumstances that existed at the acquisition date are recognised as an adjustment to goodwill. Other changes in contingent consideration are recognised through profit or loss, unless the contingent consideration is classified as equity. In such circumstances, changes are recognised within equity.

Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at the reporting date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The functional currency of the Group companies is Sterling. Exchange differences arising from the translation of foreign operations are taken directly to the balance sheet translation reserve and on disposal or closure, the cumulative translation reserve is transferred to retained earnings.

Exchange differences arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the translation reserve.

Share premium

Costs which are directly attributable to the issue of equity securities are written off against the share premium account.

Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

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

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

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. The Group does not have Bank overdraft facilities.

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss and is included in financial income/expense.

Investments

Investments in subsidiaries, associates and joint ventures are recorded at cost in the Statement of Financial Position. They are tested for impairment when there is objective evidence of impairment. Any impairment losses are recognised in profit or loss in the period they occur.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives are as follows:
Technical Plant and equipment; 2 - 10 years
Office and Business; 2 – 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Intangible assets and goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

The Group makes an assessment of the fair value of intangible assets arising on acquisitions. These include intellectual property arising from software development. An intangible asset will be recognised as long as the asset is identifiable and its fair value can be measured reliably. An intangible asset is identifiable if it is separable or if it was obtained through contractual or legal rights. Amortisation is provided on the fair value of the asset and is calculated on a straight line basis over its useful life, which has been assessed as five years. Amortisation is recognised within operating expenses. All intangible assets except Goodwill are amortised.

Expenditure on development activities is capitalised if, and only if, the product or process is technically and commercially feasible and the Group intends to complete the intangible to use or sell, it is probable the intangible asset will generate future economic benefit, the expenditure attributable to the intangible asset during its development can be measured reliably, the Group has the technical ability and sufficient resources to complete development and future economic benefits are probable. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of direct overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each reporting date. Other intangible assets are amortised from the date they are available for use.

The estimated useful lives are as follows:
Patents and trademarks; 15 years
Capitalised development costs; 5 years
Software; 3 years

Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently at amortised cost.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Impairment

The carrying amounts of the Group's assets other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Employee benefits

Share-based payment transactions.

The Management Incentive Plan and Share Option Plan allow Group employees to acquire shares of the ultimate parent Company; these awards are granted by the ultimate parent Company. The fair value of options granted is recognised as an employee expense. The fair value is measured at grant date and spread over the period during which the employee becomes unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity. Amounts recharged to the subsidiary are recognised as a reduction in the cost of investment in subsidiary.

Trade and other payables

Trade and other payables are recognised initially at historical cost. Subsequent to initial recognition they are measured at amortised cost.

Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Revenue

Revenues represent the amounts (excluding value added tax) derived from the provision of goods and services to customers during the period. Revenues from call charges and subscriptions are recognised in the month they are earned which is taken as the date of invoice.

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Net financing costs

Net financing costs comprise interest payable, interest receivable on funds invested and foreign exchange gains and losses that are recognised in the income statement (see Foreign Currency accounting policy).

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

2. Changes to accounting policies and disclosures

IFRSs issued but not yet effective

The following IFRSs, IASs and IFRICs have been issued, are not yet effective, and have not been adopted by the Group or the Company in these financial statements:

IFRS 9 Financial Instruments, effective for periods commencing on or after 1 July 2018.

IFRS 15 Revenue for Contracts with Customers, effective for periods commencing on or after 1 January 2017.

The directors are still assessing the potential impact of IFRS 15, but do not believe the adoption of the above standards will have a material impact on the reported results of the business.

IFRSs adopted in the year

The following IFRSs, IASs and IFRICs are considered relevant to the Group and Company and have been adopted for the first time in the year:

IFRS 10 'Consolidated Financial Statements'

IFRS 11 'Joint Arrangements'

IFRS 12 'Disclosure of Interests in Other Entities'

IAS 27 'Separate Financial Statements'

IAS 28 'Investments in Associates and Joint Ventures'

Other interpretations to existing standards and new or amended standards that are not yet effective are not relevant to the Group or the Company.

3. Critical accounting estimates and judgements

The following accounting judgements and estimates have been made by the Directors in interpreting treatment of amounts included in these financial statements in accordance with IFRSs.

Share option charge

The fair values in respect of the management incentive plan and share options granted to employees have been estimated using a share option valuation model. The assumptions used as inputs to the model are by their nature areas of judgement (see Note 19). The share option charge or credit in respect of continuing operations is charged or credited to the income statement.

Deferred tax

The decision as to whether deferred tax assets should be recognised in the financial statements is governed by IAS 12 *Income Taxes*. The Directors have concluded that taking account of the Group's historic losses, the Group's new strategy and the uncertainties inherent in future projected profitability, it is not appropriate to recognise a deferred tax asset in the Group or Company accounts (see Note 14).

4. Financial Risk Management

Overview

The major financial risks faced by the Group are liquidity risk, market risk and credit risk. The Board regularly reviews these risks and approves policies covering overall risk limits and the use of financial instruments to manage financial risk. The risks are managed centrally following board approved policies. The Group operates a centralised treasury function in accordance with board approved policies and guidelines covering funding and management of foreign exchange exposure and interest rate risk. Transactions entered into by the Group are required to be in support of, or as a consequence of, underlying commercial transactions.

Liquidity risk

The key liquidity risk facing the Group is the sufficiency of working capital until profitable trading is established. The Board has detailed business plans, including cash flows, which it keeps under regular review, at least monthly, to ensure the adequacy of working capital at all times. The Group does not have any external borrowings or financial obligations or guarantees in respect of its subsidiary undertakings.

Market risks

Currency risk

The greater part of the Group's revenues and costs are denominated in sterling, however the Group is exposed to foreign exchange risk, principally through cash flows incurred in US dollars by the Group's US subsidiary. The foreign exchange risk is partly addressed by matching income and costs denominated in US dollars. Management closely monitors exchange rate fluctuations and will use forward contracts when considered appropriate to reduce this risk.

Credit risk

The Group's billing cycle ensures minimal credit risks as customers pay monthly which minimises the amount of credit outstanding. Each account has an individually assigned credit limit which, if breached, results in suspension of service until the account is paid or revised credit agreed. There were no balances representing over 10% of the total trade receivables at the year end. The Group's funds are held at Santander Bank, a AAA rated bank, reducing credit risk in this area.

Capital management

The Company will raise additional funds as and when required subject to market conditions and availability and having due regard to the prevailing equity price and dilution effect when considering any equity placing. Typically, where available, debt will be used for shorter term financing requirements with equity favoured for the longer term financing needs of the Group.

The Board is keen that employees are interested in the Company's growth and as such they are encouraged to hold shares in the Company through participation in the Synety Group plc. 2011 Share Option Plan. The number of Ordinary Shares which may be utilised within any 10 year period under the Share Option Plan and under any other discretionary/executive share option plans established by the Company shall not normally exceed 10% of the issued Ordinary Share Capital of the Company from time to time.

Currently the Group has no external borrowings and working capital is funded from equity.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group has no plans to make dividend payments.

5. Operating Segments

The provision of hosted integrated telecoms solutions comprises the sole activity of the Group.

The Head office segment comprises the expenses of Synety Group plc. relating to the head office function, Stock Exchange listing fees and related professional and investor relations costs.

The accounting policies of all segments are consistent with Note 1.

Information regarding each operating segment is included below. Segments are assessed based on revenues and loss before tax, as included in the management information that is reviewed by the Chief Operating Decision Maker. Inter-segment pricing is determined on an arm's length basis.

Information about reportable segments

For year ended 31 December 2014	Hosted telecomms solutions £'000	Head office £'000	Adjustments and restatements £'000	Group £'000
Revenue				
Sales to external customers	1,629	-	-	**1,629**
Sales with other segments	-	-	-	**-**
Total segment revenue	**1,629**	**-**	**-**	**1,629**
Result				
Segment result being loss from operations	(4,682)	(365)	(500)	**(5,547)**
Finance income	6	19	-	**25**
Loss before tax	**(4,676)**	**(346)**	**(500)**	**(5,522)**
Tax	194	-	63	**257**
Loss for the year before non-recurring items	**(4,482)**	**(346)**	**(437)**	**(5,265)**
Balance sheet				
Segment assets	1,630	13,003	(9,744)	**4,889**
Segment liabilities	(8,584)	(1,929)	7,892	**(2,621)**
Net assets/(liabilities)	**(6,954)**	**11,074**	**(1,852)**	**2,268**
Other information				
Capital additions tangible and intangible	547	-	-	**547**
Depreciation and amortisation	179	5	290	**474**
Other non cash expenses (share option charge/(credit) and directors' shares)	93	176	-	**269**
Research and development	1,026	-	-	**1,026**

For year ended 31 December 2013	Hosted telecomms solutions £'000	Head office £'000	Adjustments and restatements £'000	Group £'000
Revenue				
Sales to external customers	547	-	-	**547**
Sales with other segments	-	-	-	-
Total segment revenue	**547**	-	-	**547**
Result				
Segment result being loss from operations	(2,399)	(352)	(1,000)	**(3,751)**
Finance income	-	10	-	**10**
Finance expense	(1)	-	-	**(1)**
Loss before tax	**(2,400)**	**(342)**	**(1,000)**	**(3,742)**
Tax	95	-	64	**159**
Loss for the year before non-recurring items	**(2,305)**	**(342)**	**(936)**	**(3,583)**
Balance sheet				
Segment assets	686	6,834	(3,232)	**4,288**
Segment liabilities	(3,249)	(1,484)	2,816	**(1,917)**
Net assets/(liabilities)	**(2,563)**	**5,350**	**(416)**	**2,371**
Other information				
Capital additions tangible and intangible	89	14	-	**103**
Depreciation and amortisation	96	4	290	**390**
Other non cash expenses (share option charge/(credit) and directors' shares)	26	190	-	**216**
Research and development	509	-	-	**509**

Adjustments comprise adjustments to eliminate transactions between group undertakings and consolidation adjustments such as amortisation of intangibles. The assets of each operating segment are located solely in the country in which the subsidiary is domiciled.

Revenue by location of customer

	Continuing operations	
	Group 2014 £'000	Group 2013 £'000
UK	**1,485**	528
USA	**72**	-
Rest of Europe	**72**	19
Total revenues	**1,629**	547

Revenue by product

	Continuing operations	
	Group	Group
	2014	2013
	£'000	£'000
Hosted telecoms solutions	**1,629**	547
Total revenues	**1,629**	547

Information about major customers

The Group had no customers for continuing operations which represented more than 10% of sales in the period to 31 December 2014.

6. Non-recurring Item

Contingent consideration for the issued share capital of Synety Ltd, acquired on 25 September 2012, of up to 740,861 ordinary shares will be due on 25 September 2015 dependent upon the number of user licences contracted to Synety Ltd at that time. The maximum contingent consideration will be due if more than 25,000 user licences are contracted and none will be due if less than 10,000 user licences are contracted at that date. A sliding scale applies between 10,000 and 25,000 user licences contracted. The fair value of the contingent consideration, which is included in financial liabilities, is £1,407,000 (2013: £1,211,000) calculated at 740,861 ordinary shares to be issued at 190.0 pence and based on sensitised projections of the numbers of user licences projected to be in place in September 2015. Following the year end, the Group's share price has fallen and, based on the price at 16 March 2015, the effect of this, had it been reflected at the reporting date, would have been to eliminate the £196k charge and instead show a credit of £185k.

7. Expenses and Auditor's remuneration

	Group	Group
	2014	2013
	£'000	£'000
Depreciation & amortisation	**474**	390
Loss on disposal of property, plant and equipment	**2**	-
Operating lease rental payments	**81**	53

Auditor's remuneration	Group 2014 £'000	Group 2013 £'000
Amounts receivable by auditors and their associates in respect of:-		
Audit of these financial statements	**34**	34
Audit of financial statements of subsidiaries pursuant to legislation	**8**	8
Other services relating to taxation - compliance services	**24**	10
	66	52

8. Directors and employees

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

Number of employees	2014	2013
Engineering	**8**	4
Development	**15**	11
Customer support	**15**	7
Sales and marketing	**32**	12
Admin and finance	**12**	7
Total	82	41

The aggregate payroll costs of these persons were as follows:

Aggregate payroll costs (all employees)	2014 £'000	2013 £'000
Wages and salaries	**3,474**	1,659
Share based payments (see note 19)	**269**	190
Social security costs	**374**	162
Other pension costs	**77**	21
Total	**4,194**	2,032

The table below includes the aggregate payroll costs of those employees, including directors, considered to comprise the key management in the year as follows:

Aggregate payroll costs (key management employees)	2014 £'000	2013 £'000
Wages and salaries	**825**	774
Share based payments (see note 19)	**167**	201
Social security costs	**96**	71
Other pension costs	**48**	21
Total	**1,136**	1,067

Details of Directors' emoluments and share interests are shown in the Directors' Remuneration Report on page 20.

9. Finance income and expense

	Group 2014 £'000	Group 2013 £'000
Finance income		
Interest income - bank	25	10
Total finance income	25	10

	Group 2014 £'000	Group 2013 £'000
Finance expenses		
Other interest expense	-	(1)
Total finance expense	-	(1)
Net finance income / (expense)	25	9

10. Taxation

Recognised in the Consolidated Income Statement and Statement of Comprehensive Income

	Group 2014 £000	Group 2013 £000
Current tax income/(expense)		
Current period	-	-
Adjustments prior period - R&D tax credit	194	95
Origination and reversal of temporary timing differences	63	64
Total tax income	257	159
Reconciliation of effective tax rate		
Loss before tax	(5,522)	(3,742)
Tax credit using the Group's effective tax rate of 21.5% (2013 23.25%)	1,187	870
Share based payments - deferred tax asset not recognised	(58)	(50)
Tax losses not recognised	(983)	(562)
Depreciation in excess of capital allowances	(39)	(27)
Non-deductible expenses	(44)	(167)
Prior period adjustment - R&D tax credit	194	95
Total tax in the income statement	257	159

11. Property, plant and equipment

Group	Technical plant and equipment £'000	Office and business £'000	Total £'000
Cost			
Balance at 1 January 2013	231	38	269
Additions	77	14	91
Balance as at 31 December 2013	308	52	360
Balance at 1 January 2014	**308**	**52**	**360**
Additions	**348**	**199**	**547**
Disposals	**-**	**(2)**	**(2)**
Balance as at 31 December 2014	**656**	**249**	**905**

	Technical plant and equipment £'000	Office and business £'000	Total £'000
Depreciation			
Balance at 1 January 2013	(11)	(2)	(13)
Depreciation charge for the period	(57)	(24)	(81)
Balance as at 31 December 2013	(68)	(26)	(94)
Balance at 1 January 2014	**(68)**	**(26)**	**(94)**
Depreciation charge for the period	**(111)**	**(54)**	**(165)**
Balance as at 31 December 2014	**(179)**	**(80)**	**(259)**
Net Book Value			
At 31 December 2013	240	26	266
At 31 December 2014	**477**	**169**	**646**

No assets are held under finance leases.

There are no restrictions on title associated with the Group's property, plant and equipment. No assets are pledged as security and there are no contractual commitments to purchase.

The Company has no property, plant and equipment and hence no separate Company property, plant and equipment note is presented.

12. Intangible assets

Group	Goodwill £'000	Patents & trademarks £'000	Software development costs £'000	Total £'000
Cost				
Balance at 1 January 2013	339	-	1,483	1,822
Acquisitions - internally developed	-	12	-	12
Balance as at 31 December 2013	339	12	1,483	1,834
Balance at 1 January 2014	**339**	**12**	**1,483**	**1,834**
Acquisitions - internally developed	**-**	**-**	**-**	**-**
Balance as at 31 December 2014	**339**	**12**	**1,483**	**1,834**

	Goodwill £'000	Patents & trademarks £'000	Software development costs £'000	Total £'000
Amortisation				
Balance at 1 January 2013	-	-	(76)	(76)
Amortisation for the year	-	(4)	(305)	(309)
Balance as at 31 December 2013	-	(4)	(381)	(385)
Balance at 1 January 2014	**-**	**(4)**	**(381)**	**(385)**
Amortisation for the year	**-**	**(5)**	**(304)**	**(309)**
Balance as at 31 December 2014	**-**	**(9)**	**(685)**	**(694)**
Net Book Value				
At 31 December 2013	339	8	1,102	1,449
At 31 December 2014	**339**	**3**	**798**	**1,140**

Goodwill

Goodwill arose on the acquisition of Synety Ltd and represents the excess of the initial and contingent consideration over the fair value of the net assets acquired.

The goodwill was tested for impairment at 30 November 2014 by comparing the carrying value of the cash-generating unit with the recoverable amount. The recoverable amount was determined using a value in use methodology based on discounted cash flow projections. The key assumptions used in the value in use calculations were as follows:

> The operating cash flows of the business for the 3 years to 31 December 2017 were taken from the plan approved by the Board which is closely linked with recent historical performance and current sales opportunities;
>
> Growth of 2.5% has been assumed in operating cash flows for the remainder of the value in use calculation period;
>
> A pre-tax discount rate of 20% has been used;

The use of cash flow projections over longer than a 5 year period is considered appropriate as the CGU has a strong and growing recurring revenue base and the Group continues to invest in the development of the products in the CGU.

On the basis of the above assumptions, over a 10 year projection period, the recoverable amount of the CGU based on value in use is estimated to exceed the carrying amount by £9,746k. Future annual operating cash inflows, which are most sensitive to the level of new business sales, would need to be consistently 64% below the growth assumption used in the value in use calculation over a 10 year projection period to cause the carrying amount to exceed the recoverable amount. Based on the historic sales performance of the business and actions being taken to grow the business further, the directors do not currently expect this to be the case.

Software

Other intangible assets comprise internally capitalised software and website costs acquired on the acquisition of Synety Ltd and software capitalised on the acquisition of Synety Ltd:

	2014		2013	
	Acquired IPR	**Software and Website**	Acquired IPR	Software and Website
	£'000	**£'000**	£'000	£'000
Cost at 1 January	**1,448**	**35**	1,448	35
Cost at 31 December	**1,448**	**35**	1,448	35
Accumulated amortisation at 1 January	**(362)**	**(19)**	(72)	(4)
Amortisation	**(290)**	**(14)**	(290)	(15)
Accumulated amortisation at 31 December	**(652)**	**(33)**	(362)	(19)
Net Book Value				
At 31 December 2013			1,086	16
At 31 December 2014	**796**	**2**		

The acquired IPR arose on the acquisition of Synety Ltd and represents the fair value of the proprietary software developed within Synety. The fair value is based on its value in use and was determined by discounting the future cash flows to be generated over the 6 years following acquisition and applying a royalty rate. The key assumptions used in determining the value of software were:

- Royalty rate of 8%
- Corporation tax of 20%
- Discount rate of 20%

Costs incurred on software and website development since acquisition of Synety Ltd continue to be expensed as they do not currently meet the recognition criteria for capitalising under IAS 38.

Patents, Trademarks and licenses - Company

	2014 Patents, trademarks and licences £'000	2013 Patents, trademarks and licences £'000
Cost at 1 January	**12**	-
Acquisitions - internally developed	-	12
Cost at 31 December	**12**	12
Accumulated amortisation at 1 January	**(4)**	-
Amortisation - internally developed	**(5)**	(4)
Accumulated amortisation at 31 December	**(9)**	(4)
Net Book Value		
At 31 December 2013		8
At 31 December 2014	**3**	

13. Investment in subsidiaries

The Company has the following investments in subsidiaries:

	Country of Incorporation	Class of share held	Ownership 2014	Ownership 2013
Synety Ltd.	England and Wales	Ordinary	100%	100%
Synety, Inc. *	USA	Ordinary	100%	100%

* Synety, Inc. is indirectly owned, being a 100% subsidiary of Synety Ltd.

Movement on cost and net book value of investments in subsidiaries:

	Synety Ltd £'000
Balance at 1 January 2013	1,574
Share option charge	27
Movement in fair value of contingent consideration	710
Balance at 31 December 2013	2,311
Balance at 1 January 2014	**2,311**
Share option charge	**93**
Movement in fair value of contingent consideration	**196**
Balance at 31 December 2014	**2,600**

14. Deferred tax assets and liabilities

Recognised deferred tax liabilities

Deferred tax of £176k is provided at 31 December 2014 (2013: £239k) in respect of the timing difference arising on the recognition of software development costs fair-valued at £1,448,000 on the acquisition of Synety Ltd:

Group	2013 £'000	Recognised in income £'000	Recognised in equity £'000	**2014** **£'000**
Intangible assets				
Software development	239	(63)	-	**176**

No deferred tax asset has been recognised in respect of the cumulative losses of the Company or the Group in relation to unrelieved trading losses or temporary differences on share based payments as, in accordance with IAS 12, there is at present insufficient evidence that sufficient taxable profits will be available to recover the assets. This is due to the early stage of commercialisation of product and the position will be reviewed each year. The amount not recognised is £2,126k (2013: £1,507k).

15. Inventories

	Group **2014** **£000**	Group 2013 £000	**Company** **2014** **£000**	Company 2013 £000
Cost				
Finished goods	**70**	23	-	-
	70	23	-	-
Write-down to net realisable value	-	-	-	-
Net Inventories	**70**	23	-	-

16. Trade and other receivables

	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Trade receivables	**170**	42	**-**	-
Other receivables and prepayments	**310**	113	**38**	6
Amounts receivable due from group undertakings	**-**	-	**8,082**	3,056
	480	155	**8,120**	3,062
Provision for receivables due from group undertakings	**-**	-	**-**	-
	480	155	**8,120**	3,062

All trade and other receivables are expected to be recovered in less than 12 months except for the amounts due from group undertakings.

17. Cash and cash equivalents

	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Bank - current account	**324**	143	**88**	47
Bank - deposit account	**2,035**	2,157	**1,995**	2,117
	2,359	2,300	**2,083**	2,164

18. Trade and other payables

	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Trade payables	**261**	60	**32**	31
Non-trade payables and accrued expenses	**727**	407	**444**	243
Amounts payable to group undertakings	**-**	-	**46**	-
	988	467	**522**	274

All trade and other payables are payable in less than 12 months.

19. Equity settled share based payments

Management Incentive Plan

The Management Incentive Plan was approved by shareholders on 25 September 2012 pursuant to which the Directors were issued with subordinated ordinary shares of £0.0001 each in the capital of Synety Ltd ("Synety Growth Shares"). The Synety Growth Shares have no voting rights, rights to dividends or rights to transfer. In the event of a return of capital by Synety Ltd or on a sale of Synety Ltd, the Company will receive the first £1,242,000 of value and thereafter any value would be split 82.967 per cent. to the Company and 17.033 per cent. to the Synety Growth Shares.

The Management Incentive Plan and the individual award agreement entered into between the Company and each Director provides that, conditional upon certain sales targets being reached, the Synety Growth Shares may be exchanged for New Ordinary Shares in Synety Group plc. The number of Synety Growth Shares which will be exchanged will depend on the amount of Active User Licences sold by Synety as at 26 September 2015 (the "End of the Award Period"). The minimum target is 10,000 Active Seats and this will result in the Directors being able to exchange, within 30 days of the End of the Award Period, a set number of Synety Growth Shares (being 15 per cent. of all the Synety Growth Shares) for, in aggregate, 103,981 New Ordinary Shares. The remaining Synety Growth Shares will automatically be re-designated as deferred shares and will have no economic value. The maximum sales target is 30,000 Active User Licences in which event all the issued Synety Growth Shares will be exchanged for, in aggregate, 633,214 New Ordinary Shares.

The Management Incentive Plan provides that in the event of a change of control of the Company, each Director may exchange all his Synety Growth Shares for New Ordinary Shares. The Management Incentive Plan also provides that if a Director ceases to be a director of the Company due to his giving notice of termination or for cause then he shall cease to be the holder of such Synety Growth Shares and subject to all conditions being met be able to exchange such Synety Growth Shares for New Ordinary Shares at the end of the Award Period.

Set out below is the maximum amount of New Ordinary Shares which each Director may receive at the end of the Award Period:

Name	Number
Simon Cleaver	**379,928**
Dr. Georg Oehm	**126,643**
David Whelan	**126,643**
	633,214

The fair value of subordinated shares issued was calculated using the following assumptions:

- Percentage of subordinated shares that will vest – 90%
- Date of grant – 25 September 2012
- Date of vesting – 29 September 2015
- Expected volatility – 23.37%
- Risk free interest rate – 2.5%
- %-age employees expected to stay over the life of the plan – 100%

The expected percentage of shares that will vest is based upon sensitised projections of the Group, sensitised to reflect the downside risks that revenues targets are not met.

The expected volatility is based upon the historic volatility of the Company's share price over the three years to 25 September 2012.
The risk free interest rate is based on 15 year UK government bond yields at 31 December 2014.

This resulted in a charge of £179k for the Company and the Group in the year.

Synety Group plc 2011 Share Option Plan

The Company operates the Synety Group plc 2011 Share Option Plan. The Plan allows for the granting of options of up to 10% of the issued share capital of the Company and the principal terms are summarised below:

Options to subscribe for Ordinary Shares of the Company may be granted (at the discretion of the Board or the Remuneration Committee of the Board) to selected employees or Directors of or consultants to the Group.

The options granted in June 2011 will vest (become exercisable) 1/3 on the expiry of 12 months from the date of grant. Thereafter, an equal percentage of the options will vest each month until the expiry of three years from the date of grant when 100 per cent of the options will have vested.

All other options will vest (become exercisable) 25 per cent on the expiry of 12 months from the date of grant. Thereafter, an equal percentage of the options will vest each month until the expiry of four years from the date of grant when 100 per cent of the options will have vested.

All options are equity settled by physical delivery of shares.

The following options were issued in the year:

Effective date of award	No. of instruments	Life
07 January 2014	**8,000**	10 years
01 May 2014	**1,000**	10 years
12 May 2014	**1,050**	10 years
17 June 2014	**14,550**	10 years
07 July 2014	**5,300**	10 years
04 August 2014	**6,450**	10 years
05 August 2014	**18,700**	10 years
19 August 2014	**11,850**	10 years
31 August 2014	**49,910**	10 years
01 October 2014	**2,300**	10 years
14 October 2014	**8,000**	10 years
15 October 2014	**2,200**	10 years
03 November 2014	**12,900**	10 years
30 November 2014	**58,700**	10 years
	200,910	

The number and weighted average exercise prices of share options for the Group are as follows:

Year ended 31 December 2014	No. of instruments	Weighted average exercise price Pence
Outstanding at the beginning of the period	181,516	202
Granted during the period	200,910	216
Exercised during the period	(10,143)	125
Lapsed during the period	-	
Surrendered during period	2,348	150
Outstanding at the end of the period	374,631	212
Exerciseable at the end of the period	155,253	192

The options outstanding at the year-end have an exercise price in the range of 80 to 292 pence and a weighted average contractual life of 10 years.

The fair value of options granted was measured using a Black-Scholes share option valuation model and using the following assumptions as inputs:

Expected dividend rate - nil
Risk free interest rate – 2.5%
Expected volatility – 73-147%,
%-age employees expected to stay over the life of the plan – 100%

The expected volatility is based on the historic volatility up to the date of grant, adjusted for any expected changes to future volatility due to publicly available information.

There are no market conditions associated with the share option grants.

The options in existence in the year resulted in a share option charge of £269k (2013: £216k) for the Group and a charge of £176k (2014: £190k) for the Company in the year.

Warrants

Year ended 31 December 2014	Group No. of instruments	Group Weighted average exercise price Pence	Company No. of instruments	Company Weighted average exercise price Pence
Outstanding at the beginning of the period	45,500	115	45,500	115
Granted during the period	-		-	
Exercised during the period	(4,000)		(4,000)	
Lapsed during the period	-		-	
Surrendered during period	-		-	
Outstanding at the end of the period	41,500	115	41,500	115
Exerciseable at the end of the period	41,500	115	41,500	115

There were no new warrant awards granted during 2014.

The 45,500 warrants in issue at the beginning of the year were issued at par, 1p, on 16 August 2006. There are no conditions on their exercise and they expire 22 August 2016.

20. Share Capital

The issued, called up and fully paid share capital of the Company at 31 December was as follows:

Number of shares	**2014 (000)**	2013 (000)	**2014 £'000**	2013 £'000
Allotted, called up and fully paid Ordinary shares of £0.20 each	**8,431**	6,330	1,686	1,266
Shares classified in equity	**8,431**	6,330	1,686	1,266

The movement in the issued share capital in the year was as follows:

Number of shares	Ordinary Shares (000)
In issue at 31 December 2013 - fully paid	**6,330**
Issued in lieu of bonuses	**86**
Issued in consideration for additional shares placed	**2,001**
Issues in respect of share options	**10**
Issued in respect of warrants	**4**
In issue at 31 December 2014 - fully paid	**8,431**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

On 9 April 2014, 2,000,499 ordinary shares were issued for cash at a price of £2.50 per share in order to fund further development and working capital in the Group.

21. Earnings per share

Basic earnings per share

The calculation of basic loss per share at 31 December 2014 of £0.67 (2013: £0.67) was based on the Loss for the year attributable to owners of the parent of £5.26m (2013: £3.58m) and a weighted average number of Ordinary Shares outstanding during the period of 7,879,000 (2013: 5,363,000), calculated as follows:

(Thousands of shares)	2014 (000)	2013 (000)
Issued ordinary shares at start of period (*)	**6,330**	4,930
Shares issued in lieu of bonuses	**83**	-
Issued for cash on 9th April 2014	**1,463**	-
Issued for cash on 9th September 2013	**-**	433
Issued in resepct of warrants and options	**3**	-
Weighted average number of ordinary shares	**7,879**	5,363

Diluted earnings per share

The weighted average number of shares and the loss for the year for the purposes of calculating diluted earnings per share are the same as for the basic loss per share calculation. This is because the outstanding share options would have the effect of reducing the loss per share and would not, therefore, be dilutive under the terms of IAS 33.

22. Financial instruments

Exposure to currency and credit risk arises in the normal course of business.

Qualitative disclosures in respect of the nature and extent of the Group's and Company's exposure to risks arising from financial instruments along with the methods used to measure the risks and the objectives, policies and processes employed for managing the exposure are described in Note 4.

Credit risk

The carrying amount of financial assets at the reporting date represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Cash and cash equivalents

	Group 2014 £000	Group 2013 £000	**Company 2014 £000**	Company 2013 £000
Bank - current account	**324**	143	**88**	47
Bank - deposit account	**2,035**	2,157	**1,995**	2,117
	2,359	2,300	**2,083**	2,164

Trade and other receivables

	Group 2014 £000	Group 2013 £000	**Company 2014 £000**	Company 2013 £000
Trade receivables	**170**	42	**-**	-
Other receivables and prepayments	**310**	113	**38**	6
Amounts receivable due from group undertakings	**-**	-	**8,082**	3,056
	480	155	**8,120**	3,062
Provision for receivables due from group undertakings	**-**	-	**-**	-
	480	155	**8,120**	3,062

No collateral or security is held in relation to amounts shown within trade and other receivables. None of the amounts shown are past due or impaired. Trade receivables are all current, there is little significant concentration of credit risk by customer and geography and the Group considers the possibility of significant loss in the event of non-performance by a commercial counterparty to be unlikely.

Liquidity risk

The following are the contractual maturities of financial liabilities at the year-end:

Group 2014	Carrying amount £000	Contractual cash flow £000	6-12 months £000
Non derivative			
Trade and non trade payables and accruals	988	988	-
	988	988	-
Company 2014			
Non derivative			
Trade and non trade payables and accruals	476	476	-
	476	476	-

Group 2013	Carrying amount £000	Contractual cash flow £000	6-12 months £000
Non derivative			
Trade and non trade payables and accruals	467	467	-
	467	467	-
Company 2013			
Non derivative			
Trade and non trade payables and accruals	274	274	-
	274	274	-

Interest rate risk

The Group's and Company's interest-bearing financial instruments at the year-end were:

	Group 2014 £000	Group 2013 £000	**Company 2014 £000**	Company 2013 £000
Variable rate instruments				
Cash and cash equivalents	**2,359**	2,300	**2,083**	2,164

The Group and Company invest surplus cash in short term money market or deposit accounts, in order to achieve the highest possible interest rates, but having regard to the credit rating of the banking institutions and the currencies required by the Group. Neither the Group nor the Company currently has any borrowings.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by an amount which is deemed to be immaterial.

Foreign currency risk
The Group undertakes operations using £ sterling and US dollars. Exchange differences arising on the settlement of invoices are taken to the income statement as incurred. Exchange gains or losses on the retranslation of monetary items at the reporting date are also taken to the income statement (note 9).

Intercompany debt is denominated in the currency of the borrowing subsidiary, as such at the reporting date the exchange gain or loss on the retranslation of these debts is taken to the income statement.

Fair values
Due to the short term nature of the assets and liabilities it is considered that the carrying amount equals fair value.

23. Operating leases
There are no non-cancellable operating lease rentals in place. Amounts paid under short term operating leases:

	Group 2014 £000	Group 2013 £000	**Company 2014 £000**	Company 2013 £000
Less than one year	**77**	53	-	-
Between one and five years	**110**	-	-	-
More than five years	-	-	-	-
	187	53	-	-

Group
Synety Ltd occupies premises on a sub-lease, expiring 2017.

Company
During the year £nil (2013: £nil) was recognised as an expense in the income statement in respect of operating leases.

24. Capital commitments
Group
Outstanding capital commitments at 31 December 2014 were £nil (2013: £nil).

Company
Outstanding capital commitments at 31 December 2014 were £nil (2013: £nil).

25. Contingencies
There were no contingencies at 31 December 2014 (2013: nil)

26. Related parties

Synety Group plc is the immediate parent Company of Synety Ltd and Synety, Inc.

Zenergy FCL Ltd was formally dissolved on 4 March 2014.

During the year the Company provided finance to Synety Ltd and Synety, Inc. of £4,980k (2013: £3,035k) and £nil (2013: £20k) respectively.

During the year, the Company charged share option costs of £93k (2013: £27k).

During the year, the Company charged Synety Ltd with management fees of £641k (2013: £825k).

The balances between the companies at 31 December 2014 are summarised as follows:

Due to Due from	Synety Group plc. £000	Synety Ltd. £000
Synety Group plc	-	46
Synety Ltd.	8,062	-
Synety, Inc.	20	-
	8,082	46

There are no guarantees in place between Group companies.

Directors of the Company and their immediate relatives control 17.1% per cent of the voting shares of the Company as at 31 December 2014.

Details of Key Management's share holdings, options, and remuneration and service contracts are set out in the Directors Remuneration Report on page 20.

It should be noted that following the acquisition of Synety Ltd. there remain in place a maximum number of 740,861 performance related contingent consideration shares in respect to the earn-out commitments due to Mark Seemann, Jason Kendall and Alan (Graham) Ward.

SYNETY

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