

BALANCE AND AGILITY MANAGING RISKS

The key risks we manage

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

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

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

SALES & COMPETITIVE RISKS

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

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

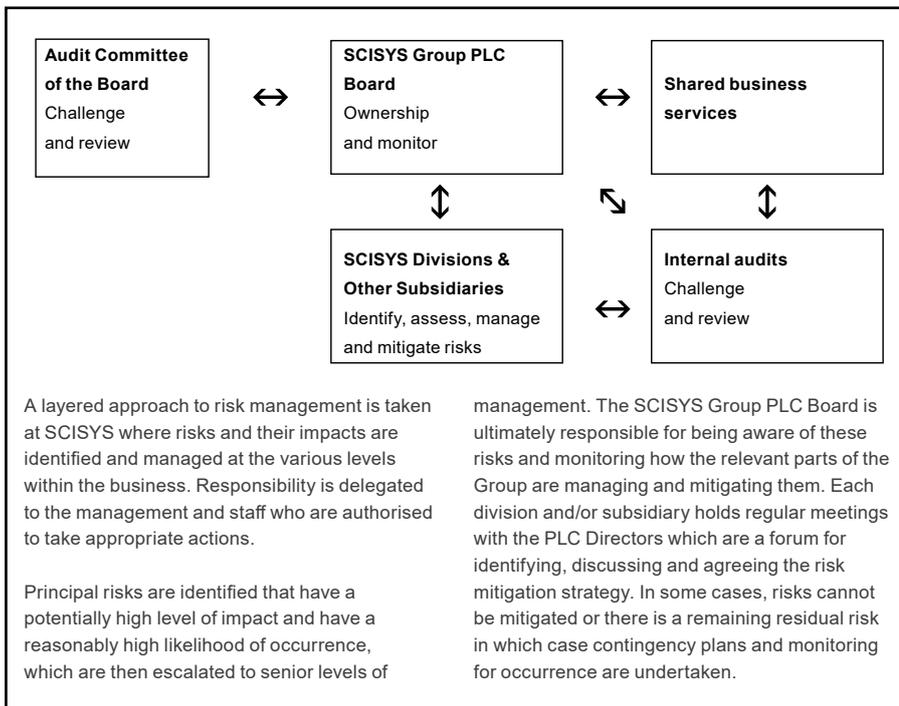
agreements that provide certainty to both parties.

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

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

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

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



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

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

COMMERCIAL & DELIVERY RISKS

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

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

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

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

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

Customer projects are managed to recognised project management standards.

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

ECONOMIC RISKS

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

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

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

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

FINANCIAL RISKS

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

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

SCISYS GROUP – Residual risk-distribution chart



extent required (which was not the case in 2018) it mitigates short-term currency risk by taking out exchange-rate cover on the anticipated net surplus of euro to working capital requirements in Germany. Where possible it will contract with customers in the same currency as its cost base.

HUMAN RESOURCES RISKS

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

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

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

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

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

ORGANISATIONAL RISKS

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

us on time or default on payments.

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

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

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

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

The Group has a reasonable balance (a natural hedge) between its sterling/euro earnings and sterling/euro cost base. To the

the computing facilities in these locations remotely.

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

INFORMATION SECURITY & CYBER-SECURITY RISKS

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

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

GDPR RISKS

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

GDPR introduces more stringent guidelines on the management, recording and processing of personal data and infringement could result in substantial fines. SCISYS has implemented significant improvements to its current data protection policies, processes and procedures across the Group to ensure compliance in all countries. SCISYS has

also assessed its exposure due to existing customer contracts where it is a data processor under the new regulations. New projects and contracts are assessed at an early stage for data protection risks ensuring the appropriate cyber and other information security measures are put in place by the operations teams.

ORGANIC GROWTH

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

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

EXPANSION VIA ACQUISITION

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

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

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

It is essential that any acquisition matches

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

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

'BREXIT'

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

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