Synety Group plc
Interim Report

6 months ended 30 June 2014

1. Summary

Synety announces its interim results for the six month period ended 30 June 2014 ("the Period").

Simon Cleaver, Executive Chairman, commented:
"Synety continues to demonstrate impressive growth across all its core KPIs and the Board remains very confident in the resultant underlying growth of the recurring revenue streams.

The number of licences, end users and annualised recurring revenue (ARR) continued to grow strongly throughout the first half of 2014, although non-recurring sales of hardware and other one-off fees were softer and some of the growth in recurring revenue was later coming through than expected due to longer on-boarding periods of bigger customers, which will have a short term effect on actual revenues for this year.

The second half of the year has started very well and ARR at the year-end is expected to be on target. The board's growth expectations for next year remain unchanged."

Financial Overview

	Unaudited Six months to 30 June 2014 £000	Unaudited Six months to 30 June 2013 £000	Audited Year ended 31 December 2013 £000
Revenue	**608**	194	547
Operating loss (before non-recurring item)	**(2,244)**	(1,350)	(3,041)
Cash and Cash Equivalents	**4,919**	1,550	2,300
Average Monthly Cash Burn *	**(346)**	(186)	(193)
Total Equity Attributable to Shareholders	**4,366**	2,623	2,371

*** Excludes net fund raising proceeds.**

Key Performance Indicators

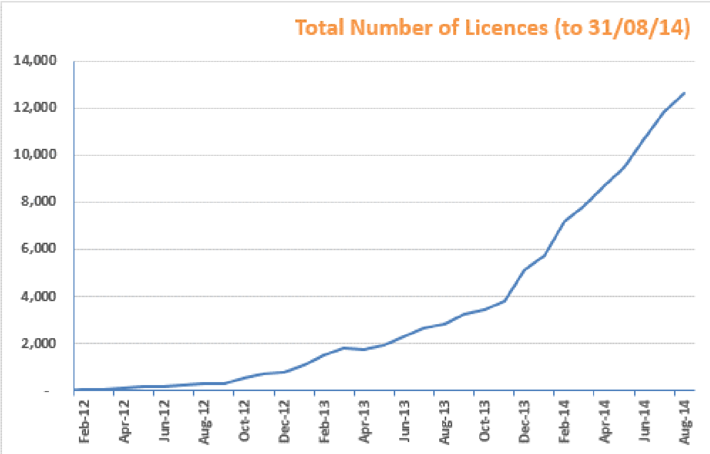
	Unaudited Eight months to 31 August 2014	Unaudited Six months to 30 June 2014	Unaudited Six months to 30 June 2013	Audited Year ended 31 December 2013
No of Users	**5,571**	4,834	1,336	2,678
Average New Users per Month	**362**	359	128	224
No of Licences	**12,602**	10,702	2,149	5,160
Average Users Per Customer	**11.7**	11.8	7.9	10.1
Annualised Recurring Revenue	**£2,007,000**	£1,720,000	£376,000	£871,000
RRPU (all) (1)	**£28.15**	£26.31	£24.17	£24.10

(1) RRPU = Recurring Revenue per User

2. Chairman's Statement

The first half of 2014 was about preparing for growth. Our investments in larger premises in the UK, the doubling of our UK sales team and the launch of our Boston (US) sales office were designed to lay the foundations for building scale and accelerating customer acquisition and recurring revenue.

Total Number of Licences



I'm pleased to be able to report that this investment is beginning to have a positive impact on trading. Indeed during July and August new sales orders received have added another £287k in ARR (Annualised Recurring Revenue). We also witnessed improvements across our other KPIs, with the average rate of new user acquisition increasing since June – particularly encouraging given the holiday period. The increasing recurring revenue per user (RRPU) trend is being fuelled by greater than expected demand for our premium priced service – CloudCall Contact Centre.

Many of the larger Contact Centre customers are choosing to use softphones with headsets rather than traditional desk based telephone handsets, so whilst we see an increase in RRPU, we are seeing a reduction in hardware sales versus expectations.

Results to date from the US are very encouraging. All US indicators are showing that there is considerable appetite for CloudCall and the sales process and conversion matrix, including decision making cycles, which are remarkably similar to the UK, but the market is significantly bigger. To date we have signed up 23 US customers, with several others participating in trials. This is considerably ahead of forecast, and the sales pipeline for later this year looks particularly promising.

Outlook

The strong trading already seen in the second half of this year, together with the US success to date leads the Board to believe that orders received and ARR will be in line with, or ahead of, city expectations at the year end.

The lower levels of revenue we have seen in the first half of 2014, mainly due to reduced hardware and one-off sales together with longer than forecast on-boarding times, mean that revenue for 2014 as a whole is expected to be lower than previous guidance. However, the margin compensation and the current annualised recurring revenue base at the end of the first half, means that loss before tax is tracking in line with expectations.

The cash position is strong and is expected to support the Company's growth aspirations going forward.

Overall the Board is pleased with the progress made so far this year and remains confident in Synety's outlook and future performance.

Simon Cleaver
Executive Chairman

Further information

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3. Consolidated Income Statement and Statement of Comprehensive Income

	Notes	Unaudited Six months to June 30 2014 (Before non-recurring item) £000	Unaudited Six months to June 30 2014 (non-recurring item) (Note 5) £000	Unaudited Six months to June 30 2014 (After non-recurring item) £000	Unaudited Six months to June 30 2013 (After non-recurring item) £000	Audited Year ended 31 December 2013 (After non-recurring item) £000
Revenue		**608**	**-**	**608**	194	547
Cost of sales		**(156)**	**-**	**(156)**	(64)	(173)
Gross profit		**452**	**-**	**452**	130	374
Sales & marketing expenses		**(556)**	**-**	**(556)**	(276)	(648)
Administrative expenses	5	**(1,572)**	**(804)**	**(2,376)**	(988)	(2,752)
Share based payments		**(120)**	**-**	**(120)**	-	(216)
Total administrative expenses		**(1,692)**	**(804)**	**(2,496)**	(988)	(2,968)
Research & development expenses		**(448)**	**-**	**(448)**	(216)	(509)
Operating loss		**(2,244)**	**(804)**	**(3,048)**	(1,350)	(3,751)
Net financing income		**5**	**-**	**5**	4	9
Loss before tax		**(2,239)**	**(804)**	**(3,043)**	(1,346)	(3,742)
Taxation	3	**32**	**-**	**32**	32	159
Loss for the period attributable to owners of the parent		**(2,207)**	**(804)**	**(3,011)**	(1,314)	(3,583)
Other comprehensive income						
Foreign exchange translation differences		**4**	**-**	**4**	-	-
Other comprehensive income		**4**	**-**	**4**	-	-
Total comprehensive loss for the period attributable to owners of the parent		**(2,203)**	**(804)**	**(3,007)**	(1,314)	(3,583)
Loss per share (£)						
Basic & fully diluted loss per share	**4**	**(0.30)**	**(0.11)**	**(0.41)**	(0.27)	(0.67)

4. Consolidated Statement of Financial Position

	Unaudited Six months to 30 June 2014 £000	Unaudited Six months to 30 June 2013 £000	Audited Year ended 31 December 2013 £000
Non-current assets			
Property, plant and equipment	**614**	272	266
Goodwill	**339**	339	339
Other intangible assets	**957**	1,262	1,110
	1,910	1,873	1,715
Current assets			
Inventories	**40**	22	23
Trade and other receivables	**370**	157	155
Research & development tax credit receivable	**-**	-	95
Cash and cash equivalents	**4,919**	1,550	2,300
	5,329	1,729	2,573
Total assets	**7,239**	3,602	4,288
Current liabilities			
Trade and other payables	**(651)**	(207)	(467)
	(651)	(207)	(467)
Non current liabilities			
Deferred tax liabilities	**(207)**	(271)	(239)
Contingent consideration	**(2,015)**	(501)	(1,211)
Total liabilities	**(2,873)**	(979)	(1,917)
Net assets	**4,366**	2,623	2,371
Equity attributable to shareholders			
Share capital	**1,684**	986	1,266
Share premium	**56,751**	50,654	52,288
Translation reserve	**4**	-	-
Warrant reserve	**30**	34	33
Retained loss	**(54,103)**	(49,051)	(51,216)
Total equity attributable to owners of the parent	**4,366**	2,623	2,371

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SMARTER COMMUNICATIONS

5. Consolidated Statement of Changes in Equity

	Share capital £'000	Share premium £'000	Translation reserve £'000	Warrant reserve £'000	Retained earnings £'000	Total equity attributable to owners of the parent £'000
Balance at 1 January 2013	986	50,654	-	34	(47,850)	3,824
Loss for the period	-	-	-	-	(1,314)	(1,314)
Total comprehensive income for the period	-	-	-	-	(1,314)	(1,314)
Equity settled share based payments transactions	-	-	-	-	113	113
Balance at 30 June 2013	986	50,654	-	34	(49,051)	2,623
Balance at 1 July 2013	986	50,654	-	34	(49,051)	2,623
Loss for the period	-	-	-	-	(2,269)	(2,269)
Total comprehensive income for the period	-	-	-	-	(2,269)	(2,269)
Equity settled share based payments transactions	-	-	-	(1)	104	103
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	**-**	**-**	**-**	**-**	**(3,007)**	**(3,007)**
Other comprehensive income						
Foreign exchange differences on translation of foreign operations	**-**	**-**	**4**	**-**	**-**	**4**
Total comprehensive income for the period	**-**	**-**	**4**	**-**	**(3,007)**	**(3,003)**
Equity settled share based payments transactions	**-**	**-**	**-**	**(3)**	**120**	**117**
Issue of equity shares	**418**	**4,463**	**-**	**-**	**-**	**4,881**
Balance at 30 June 2014	**1,684**	**56,751**	**4**	**30**	**(54,103)**	**4,366**

6. Consolidated Cash-flow Statement

	Unaudited Six months to 30 June 2014 £000	Unaudited Six months to 30 June 2013 £000	Audited Year ended 31 December 2013 £000
Cash flows from operating activities			
Loss for the period	**(3,007)**	(1,314)	(3,583)
Adjustments for:			
Depreciation and amortisation	**215**	183	390
Fair value of contingent consideration	**804**	-	710
Financial income	**(5)**	(4)	(10)
Financial expenses	**-**	-	1
Equity settled share-based payment expenses	**117**	113	216
Taxation	**(32)**	(32)	(159)
Operating loss before changes in working capital and provisions	**(1,908)**	(1,054)	(2,435)
(Increase) / Decrease in trade and other receivables	**(215)**	22	24
(Increase) in inventory	**(17)**	(9)	(10)
Increase / (decrease) in trade and other payables	**184**	(63)	197
Cash absorbed by operations	**(1,956)**	(1,104)	(2,224)
Tax received	**95**	-	-
Net cash absorbed by operating activities	**(1,861)**	(1,104)	(2,224)
Cash flows from investing activities			
Interest received	**5**	4	9
Acquisition of property, plant and equipment	**(410)**	(54)	(91)
Development expenditure capitalised and other intangible assets acquired	**-**	-	(12)
Net cash absorbed by investing activities	**(405)**	(50)	(94)
Cash flows from financing activities			
Proceeds from the issue of share capital	**4,881**	-	1,914
Net cash from financing activities	**4,881**	-	1,914
Net increase / (decrease) in cash and cash equivalents	**2,615**	(1,154)	(404)
Cash and cash equivalents at start of period	**2,300**	2,704	2,704
Effect of exchange rate fluctuations on cash held	**4**	-	-
Cash and cash equivalents at end of period	**4,919**	1,550	2,300

Notes

1. Basis of preparation

The condensed consolidated interim financial information for the six months ended 30 June 2014 has been prepared in accordance with the presentation, recognition and measurement requirements of applicable International Financial Reporting Standards adopted by the European Union ('IFRS') except that the Group has not applied IAS 34, Interim Financial Reporting, which is not mandatory for UK Groups listed on AIM, in the preparation of the condensed consolidated interim financial information.

The financial information does not include all of the information required for full annual financial statements and should be read in conjunction with the financial statements of the Group for the year ended 31 December 2013 which are prepared in accordance with International Financial Reporting Standards and International Reporting Interpretations Committee pronouncements as adopted by the European Union.

The accounting policies used in the preparation of condensed consolidated interim financial information for the six months ended 30 June 2014 are in accordance with the presentation, recognition and measurement criteria of IFRS and are consistent with those which are expected to be adopted in the annual statutory financial statements for the year ending 31 December 2014.

A number of IFRSs and Interpretations have been endorsed by the EU that will apply for the first time in the period to 30 June 2014 and although they have been adopted by the Group, none of them has had a material impact on the Group's financial statements.

The Group's 2013 annual report provides full details of significant judgements and estimates used in the application of the Group's accounting policies. There have been no significant changes to these judgements and estimates during the period.

The financial information included in this document is unaudited and does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The comparative figures for the financial year ended 31 December 2013 are the Group's statutory accounts for that financial year. Those accounts have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2. Going Concern

The Group made a loss of £3,007,000 after non-recurring items for the six months ended 30 June 2014. As at 30 June 2014, the Group had cash reserves of £4,919,000, and an average monthly cash burn for the half-year to date of £346,000 (net of fund raising proceeds).

The directors have prepared trading and cash flow forecasts which indicate that the Group has sufficient funding in order to meet its growth targets and have prepared contingency plans to enable cost savings to be made if necessary in order to ensure that the Group can continue to meet its liabilities as they fall due for the next 12 months. The directors are therefore comfortable that the Group can continue to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these results.

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

3. Taxation

	Unaudited Six months to 30 June 2014 000's	Unaudited Six months to 30 June 2013 000's	Audited Year ended 31 December 2013 000's
Adjustments prior period - R&D tax credit	**-**	-	95
Origination and reversal of temporary differences	**32**	32	64
Total tax income	**32**	32	159

4. Loss per Share

	Unaudited Six months to 30 June 2014 000's	Unaudited Six months to 30 June 2013 000's	Audited Year ended 31 December 2013 000's
Issued ordinary shares at start of period	**6,330**	4,930	4,930
Share options exercised	**1**	-	-
Shares issued for cash	**906**	-	433
Shares issued in settlement of fees	**80**	-	-
Weighted average number of ordinary shares	**7,317**	4,930	5,363
	£000	£000	£000
Loss attributable to ordinary shareholders (£000)	**(3,011)**	(1,314)	(3,583)
	£	£	£
Earnings/(loss) per share (£)			
Basic and fully diluted loss per share	**(0.41)**	(0.27)	(0.67)

5. Contingent Consideration

The non-recurring item represents the increase in the fair value of the contingent consideration payable in respect of the acquisition of Synety Limited, calculated as 740,861 ordinary shares to be issued at a share price of 272 pence. The liability reflects the directors' assessment of the likelihood of meeting the targets set at the time of the acquisition, being based on a sliding scale of contracted user licences between 10,000 and 25,000, with the maximum consideration being payable on the achievement of 25,000 user licences by 26 September 2015.

The Board note there has been discussion between shareholders as to the definition of the terms 'active seats' and 'user licences' in connection with the above deferred consideration. The following is provided to provide clarification on this matter.

In the 2012 Sales and Purchase agreement for the acquisition of Synety Limited, the deferred consideration calculation is based upon hitting predefined performance criteria. This performance criteria is defined in the document as the number of 'Active Seats' paying subscription fees on 26 September 2015 – 3 years from the date of acquisition. To allow and encourage upsells and the launch of higher priced products, all additional products which increase the revenue by £10 per month are calculated as additional 'Active Seats'.

Whilst the term 'Active Seats' has appeared in a number of published documents, the Board, decided that there was a possibility that it could be misinterpreted as 'End Users' by some investors. Therefore, with the aim of providing maximum transparency and clarity the decision was taken that the term 'Active Seats' would in future always be referred to as 'Licences' or 'User licences'. All calculations remained the same. Synety Growth Shares whilst based on a different numerical target, are calculated according to this same definition.

Synety's regularly published KPIs include updated totals for both End Users and Licences so investors can track their progress and relationship. The KPI updates also include definitions of both terms.

INDEPENDENT REVIEW REPORT TO SYNETY GROUP PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 30 June 2014 which comprises the consolidated income statement and statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated cash flow statement, and the related notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “'Review of Interim Financial Information performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board. Our review work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors’ Responsibilities

The interim financial report, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing and presenting the interim financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with the presentation, recognition and measurement criteria of International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements, as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 June 2014 is not prepared, in all material respects, in accordance with the presentation, recognition and measurement criteria of International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements as adopted by the European Union, and the AIM Rules of the London Stock Exchange.

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8th September 2014