HUNTSWORTH

Audited preliminary results for the year ended 31 December 2016

Huntsworth plc, the international healthcare communications and public relations group, today announces its results for the year ended 31 December 2016.

Financial highlights

	31 December 2016	**31 December 2015**	**Growth %**	**LFL[2] growth %**
Revenue	£180.1m	£168.4m	+7%	+1%
Operating loss	£(14.5)m	£(37.8)m		
Loss before tax	£(16.5)m	£(39.8)m		
Basic & diluted loss per share	(5.6)p	(12.3)p		
Headline operating profit[1]	£18.0m	£15.3m	+18%	+5%
Headline profit before tax[1]	£16.0m	£13.3m	+21%	+6%
Headline basic & diluted EPS[1]	3.4p	3.0p	+13%	
Final dividend per share	1.25p	1.25p		
Net debt	£31.6m	£30.4m		

- Headline profit before tax up 21%
- Strong growth from Huntsworth Health with profits up 33%
- Challenging trading at Grayling but restructuring now complete
- Final dividend maintained at 1.25p
- 52% of revenue now denominated in USD

Paul Taaffe, CEO of Huntsworth plc, commented:

“The Group has delivered a 21% increase in headline profits as a result of strong growth in Huntsworth Health, Citigate Dewe Rogerson and Red, together with favourable movements in exchange rates. While Grayling declined, the restructuring is now complete and as a result the division is well-placed to return to profitability in 2017.

“The Group is now positioned for continued growth, led by Huntsworth Health and supported by favourable exchange rates.”

Enquiries

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Neil Jones, Chief Financial Officer

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Simon Rigby
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Notes:

1. Unless otherwise stated, results have been adjusted to exclude highlighted items. An explanation of how all non-IFRS measures have been calculated is included in Appendix 1 on page 32.
2. Like-for-like results are stated at constant exchange rates and are adjusted to include pre-acquisition results and exclude disposals/closures. A reconciliation of like-for-like revenue growth to IFRS revenue growth is included in Appendix 1.

Performance overview

Chairman's Statement

In last year's annual report I stated that the key operational objective for 2016 was to return the Group to revenue and profit growth. I'm pleased to say that we have achieved that with like-for-like revenue growth of 1% and strong growth in headline profit of 21%. This progress represents a good start to Huntsworth's recovery.

After several changes in the previous two years, the Board has enjoyed some welcome stability this year, with all members now fully embedded into the business. The Board did see the departure of Terry Graunke, a non-executive director, in May 2016, and I would like to thank Terry for his support and help in guiding the Group over the critical restructuring period from 2014 to 2016. CEO Paul Taaffe and Neil Jones, who joined as CFO on 1 February 2016, now form a very experienced and strong executive management team.

This team has continued to refine and execute the Group's strategy during 2016, with a focus on reducing the cost base and removing loss making agencies. Huntsworth Health, which is now firmly established as the largest division in the Group by both revenues and profits, has continued to deliver strong growth and is the primary focus of the Group's future development. Red continues to prove its credentials as a leading PR business in the UK with good growth in a highly competitive environment and has momentum moving into 2017. Citigate Dewe Rogerson has again performed strongly in some regions and less so in others, which are the target for improvement in the coming year. Grayling's performance has been the major disappointment this year with the loss of key contracts in Africa and the Middle East and the restructuring in the US weighing heavily on its profitability. However, the actions taken in late 2015 plus further restructuring undertaken this year are starting to produce results. Grayling is now smaller, more nimble and more focused, and we remain confident that the work we have done has positioned this division to return to improved profitability.

With the restructuring complete and Group profits growing, the key operational objective of 2017 is to accelerate that growth, with improved contributions expected from all divisions. The hard work that has gone into establishing a stronger business is now being seen in the Group's results, and we enter 2017 with confidence for the year ahead.

On behalf of the Board, I would like to thank the management team and staff for their hard work in getting to this stage. I look forward to reporting on our progress in delivering these improvements during 2017.

Performance overview

Chief Executive's Statement

Huntsworth continued to make progress in 2016 with three of our four divisions growing both revenue and profitability, and the restructuring now complete.

Huntsworth Health was the outstanding performer again this year with double-digit revenue and profit growth, and the organic development of new agency offerings within the consumer-focused Evoke Health. Health remains the key asset within the Group, representing over 50% of our revenues, and will be the focus of our development in the coming year.

Red continued to grow well in a very competitive and sluggish market, holding high margins and continuing to win awards for the high quality work it does for its blue chip client base. Citigate Dewe Rogerson has made a welcome return to revenue and profit growth while making a number of changes to expand into more markets.

Grayling's continued disappointing performance led to a deeper restructuring. As noted earlier in the year, Grayling experienced challenging trading conditions, particularly in the US, which was the main focus of our final phase of restructuring, but also in the Middle East region, where it has suffered client losses and delays in client renewals. During the second half of the year we accelerated Grayling's restructuring, removing unprofitable agencies and closing the state lobbying business in the US, and sold Hudson Sandler to management with the Group retaining a 25% minority stake. Since the year end Whiteboard Associates has also been sold to management, allowing Grayling US to focus on its PR offering.

Alongside these divestments, we have looked to reduce the cost base of each business, including central overhead, by redeploying resources, consolidating the property portfolio further, closing offices where necessary and restructuring others to align them to market needs. 2016 saw restructuring costs of £1.6 million (2015: £3.3 million) as we completed the process we started in mid-2015. We have completed the major restructuring and have now positioned each of our businesses for profit growth in 2017 and beyond.

Performance overview

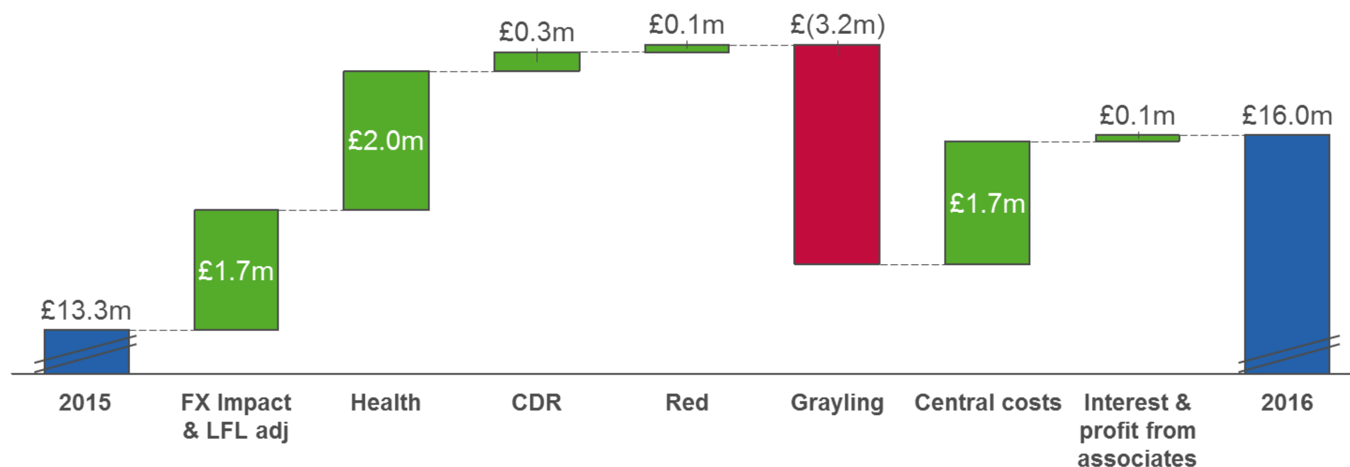
Group performance overview

	2016 £m	Like-for-like growth %	2015 £m
Revenue			
Huntsworth Health	90.8	13.8%	72.3
Grayling	53.9	(17.4)%	63.2
Citigate	22.1	4.5%	20.0
Red	13.3	4.0%	12.8
Total operations	180.1	1.2%	168.4

Operating profit	2016 £m	Operating margin %	2015 £m	Operating margin %
Huntsworth Health	18.3	20.1%	13.8	19.1%
Grayling	(0.8)	(1.4)%	2.6	4.2%
Citigate	3.6	16.2%	3.1	15.3%
Red	2.7	20.3%	2.6	20.3%
Total operations	23.8	13.2%	22.1	13.1%
Central costs and associates	(5.8)		(6.9)	
Operating profit before highlighted items	18.0	10.0%	15.3	9.1%
Operating highlighted items	(32.5)		(53.1)	
Reported operating loss	(14.5)	(8.1)%	(37.8)	(22.4)%
Adjusted diluted EPS	3.4p		3.0p	
Reported diluted EPS	(5.6)p		(12.3)p	

Performance overview

The Group's performance this year primarily reflects a combination of strong growth from Huntsworth Health, underperformance from Grayling, and the impact of a favourable move in exchange rates. The following bridge shows the key movements in headline profits before tax in 2016:



The devaluation of sterling against our main trading currencies over the course of 2016, particularly since the UK's decision to leave the EU, has generated a translational gain of £2.4 million. This has been offset by an incremental loss of £0.6 million on FX forward contracts. Losses from discontinued operations also increased by £0.1 million. Together, these factors left like-for-like profits up £1.7 million.

On a like-for-like basis, Huntsworth Health has generated an additional £2.0 million of profits, driven by strong revenue growth, particularly in the US. In addition, central costs reduced by £1.7 million, reflecting a restructuring of central functions and tighter control over discretionary expenditure. These gains, together with an additional £0.4 million of profits from CDR and Red, were offset by a £3.2 million decrease in profits from Grayling. This has been driven primarily by the META region where trading has been impacted by the loss of a major client and the ending of a key project, and the US where actions have been taken to transition the business to a more stable and profitable client base.

The Group's income statement reflects these trends. Revenues were £180.1 million in 2016 (2015: £168.4 million), with favourable currency movements contributing £14.1 million to revenue. On a like-for-like basis, revenues grew by 1%, reflecting strong growth from Huntsworth Health offset by decreases in Grayling. Headline profit before tax was £16.0 million, an increase of 21%. Operating losses were £14.5 million (2015: loss of £37.8 million), with much of the improvement attributable to a lower goodwill impairment charge. The following table reconciles statutory to headline profits:

Performance overview

£'m	2016	2015
Operating loss	(14.5)	(37.8)
Goodwill impairment	30.5	48.8
Impairment of software development costs	0.2	0.6
Amortisation of intangible assets	0.9	0.8
Restructuring costs	1.6	3.3
Transaction related credit	(0.7)	(0.4)
Operating profit before highlighted items	18.0	15.3
Margin	*10%*	*9%*
Interest	(2.0)	(2.0)
Headline profit before tax	16.0	13.3

The Group's effective tax rate has increased to 30% (2015: 27%) of headline profits as the continued growth of Huntsworth Health increases the proportion of the Group's profits that arise in the USA. Before highlighted items, diluted earnings per share is 3.4p (2015: 3.0p), up 13%. After highlighted items, diluted loss per share is 5.6p (2015: 12.3p).

Currency

The impact of changes in exchange rates versus 2015 was to increase revenues by £14.1 million and increase reported operating profits by £1.8 million.

The weakening of Sterling against the Euro and the Dollar has also resulted in a £20.1 million credit to Other Comprehensive Income and Expense resulting from the retranslation of the Group's overseas assets.

Highlighted items

Operating highlighted items of £32.5 million comprise the following:

	£'m
Goodwill impairment	30.5
Impairment of software development costs	0.2
Amortisation of intangible assets	0.9
Restructuring costs	1.6
Transaction related credit	(0.7)
	32.5

In the Interim Results announced in July 2016, goodwill was impaired by £15.0 million, in respect of Grayling. A further impairment of £15.5 million was booked at 31 December 2016 following the restructure of the US lobbying business, including the post-year end disposal of Whiteboard Associates.

Restructuring costs incurred during 2016 were in relation to the Group wide strategic review. Of the total costs of £1.6 million, the majority related to people (£0.9 million) with the remainder being property and associated costs. The transaction related credit of £0.7 million relates primarily to the revaluation of deferred contingent consideration.

Performance overview

Cash Flow and Net debt

Cash conversion of operating profit into operating cash flows before highlighted items was 87%, reflecting growth from the Health division and a resultant working capital outflow of £5.5 million.

Operating cash flow before highlighted items was £15.6 million. Free cash flow (after interest, tax and capital expenditure) was £3.9 million, reflecting a cash outflow on highlighted items of £3.0 million and capital expenditure of £5.1 million on property refurbishments across the Group. Dividend payments were £5.6 million.

The resulting net debt at year-end was £31.6 million, down from £37.1 million at 30 June 2016 but marginally up from £30.4 million at 31 December 2015.

Financial covenants based on the Group's facility agreements continue to be comfortably met. The Group has total facilities of £70 million available until May 2019.

Dividends

The Board will propose at the forthcoming AGM a final dividend of 1.25 pence, bringing the total dividend for 2016 to 1.75 pence, in line with 2015. The record date for this dividend will be 26 May 2017 and it will be payable on 6 July 2017. A scrip dividend alternative will be available. The dividend payout ratio for 2016 is 51% (2015: 58%).

Tax

The total tax charge of £1.8 million comprises an underlying tax expense of £4.8 million together with a credit of £3.0 million on highlighted items. The full year underlying tax rate is 30% (2015: 27.0%). The highlighted tax credit of £3.0 million includes a £2.6 million deferred tax credit relating to the goodwill impairment charge in the period. Net corporation tax paid in the year was £2.1 million (2015: £1.3 million).

Earnings per share

Profits attributable to ordinary shareholders before highlighted items were £11.2 million (2015: £9.7 million). Losses after highlighted items attributable to ordinary shareholders are £18.3 million (2015: loss of £39.4 million).

Before highlighted items, basic earnings per share for 2016 is 3.4p (2015: 3.0p) and diluted earnings per share is 3.4p (2015: 3.0p). Basic loss per share after highlighted items is 5.6p (2015: 12.3p) and diluted loss per share after highlighted items is 5.6p (2015: 12.3p).

Performance overview

Divisional performance overview

Huntsworth Health

Huntsworth Health is the Group's largest division by both revenue and profit. It has a strong portfolio of specialist healthcare communications agencies that have continued to perform well above industry averages, with double-digit revenue and operating profit growth, and strong operating margins.

Divisional revenues in 2016 were £90.8 million (2015: £72.3 million), up 14% on a like-for-like basis. Operating profits were £18.3 million (2015: £13.8 million), representing operating profit growth of 33% and an operating margin of 20% (2015: 19%).

Growth continues to be driven mainly by the US market where our full service digital consumer agency Evoke Health grew like-for-like revenues by 12%, strategic medical agency ApotheCom grew like-for-like revenues by 19%, and PR agency Tonic Life Communications grew like-for-like revenues by 15%. Huntsworth Health's smaller brands – Audacity, Axiom and Nitrogen – experienced challenging trading conditions with like-for-like revenues down 13%. Actions have been taken to reduce the cost base of these units and they are on track to deliver an improved performance in 2017.

During the year Huntsworth Health invested in new organic growth opportunities with a new Evoke Health office in Los Angeles and a new strategic consulting agency, Traverse Health Strategy. FIRSTHAND, the digitally-driven, full service, marketing communications agency which opened in late 2015, also made a solid contribution to the results. Huntsworth Health will continue to invest in areas which offer the opportunity to accelerate its growth and even better meet the needs of its clients.

All agencies in Huntsworth Health have good momentum going into 2017 with a number of recent significant client wins. As such the division has the foundations for another year of strong revenue and operating profit growth in 2017.

Grayling

Grayling revenues fell 15%, or 17% on a like-for-like basis, to £53.9 million, resulting in a loss of £0.8 million (2015: profit of £2.6 million). 2016 has seen a continuation of the restructuring programme begun in 2015, with the closure or disposal of loss-making operations, and the reduction of the cost base.

The overall result masks a varied performance between regions. Continental Europe remains the strongest and most profitable part of the division, although revenues fell by 6% on a like-for-like basis in 2016 reflecting difficult economic conditions. Nevertheless, margins broadly held up on 2015 levels and actions have been taken to deal with the underperforming operations within the region, including the closure of the Swedish office at the end of 2016.

In the UK, the benefits of the restructure in late 2015 have become apparent in the second half of 2016. Nevertheless, the region experienced tough trading over the course of the year with revenues down 23% on a like-for-like basis. In October 2016 the Group completed the disposal of 75% of Hudson Sandler, its niche financial PR business, to management. The Group's remaining stake in the associate business is expected to be earnings enhancing in 2017.

The META region has experienced a difficult trading year with the loss of a major client and the end of one of its biggest projects, which have impacted on its profitability. Changes made should drive more profitability in 2017.

Performance overview

The US business underwent a transitional year, as it exited from its state and local lobbying activities. As part of this, in January 2017 the Group completed the disposal of Whiteboard Advisors, a strategic communications consultancy, to management, for an initial consideration of $2.5 million. In the future, the division will be focused on higher value PR budgets, digital marketing and branding opportunities, all of which are expected to help the region return to growth.

2016 has been a difficult year for Grayling, but Q4 saw revenues stabilise, and with the actions taken over the past twelve months the division is in a good position to return to profitability in 2017.

Citigate Dewe Rogerson

CDR revenues in 2016 were £22.1 million (2015: £20.0 million), representing like-for-like growth of 4%. Operating profits were £3.6 million (2015: £3.1 million), representing a margin of 16% (2015: 15%). Within this overall result, performance has varied between regions in 2016.

The Asian business, based primarily in Hong Kong and Singapore, continued to produce a strong performance in a tough marketplace with like-for-like revenues up 1%. Margins also rose by 5% as the division focused on its operational efficiency.

Continental Europe faced tough comparatives after strong transaction revenues in the Netherlands in 2015, leaving like-for-like revenues across the region down 2%. Nevertheless, continental Europe maintained its strong margins.

In the UK, CDR has invested in new talent and has continued to build on sector specialisms. As part of this, it established a presence in New York, which adds to its international reach and allows it access to the US market. The benefits of these investments are starting to be seen, despite continued intense price competition and lower volumes of transaction mandates. Overall the UK/US business produced like-for-like revenues up 12%, on fractionally lower margins, which will improve as the staff in which we have recently invested reach their full potential.

Red

Red performed strongly in 2016 in what remains a highly competitive environment, and remains a market leading PR business in the UK. Revenues were £13.3 million (2015: £12.8 million) representing growth of 4%. Operating profits were £2.7 million (2015: £2.6 million), representing a margin of 20% (2015: 20%).

Highlights in 2016 included a major award-winning digital content-based campaign for Boots Opticians which saw the agency build a world first children's eye-test book for parents. Other consumer campaigns in the year included stand out work for McDonald's nationwide restaurant makeover programme and a 'Welcome to Heathrow' online video launch. New clients to the agency included Robinson's soft drinks, Spotify, Gumtree and Trainline. In addition, the agency's outstanding talent development was recognised with its second Media Employer of the Year award.

Growth momentum and organic investment plans give encouragement for continued improvements in 2017.

Group Outlook

The Group is now positioned for continued growth and 2017 has started well. Huntsworth Health continues to grow strongly on the back of multiple client wins, Grayling, Red and CDR are making positive progress, and together with favourable exchange rates, the outlook for 2017 is positive.

Key risks and uncertainties

The Group has undertaken a robust assessment of the principal risks facing the Group during the year. Our risk management approach is led by the Risk Committee and is designed to identify risks to the Group using both a bottom-up and top-down approach. The Group considers macro, strategic, operational and process risks, which includes all operational, IT and financial risks. The likelihood and impact of each risk is determined using a risk scoring system. All risks are documented in the Group's risk register which is reviewed by the Risk Committee at least six monthly or more frequently as required.

The Group obtains various forms of ongoing assurance over the controls in place to mitigate each of the risks identified.

Risk and Impact	Mitigating factors
Economic downturn Any economic downturn may result in fewer new client mandates, longer procurement processes and a squeeze on pricing, or an outright reduction in business. This can impact both revenue growth and operating margins. Weak economic conditions can increase the length of time that clients take to pay for services, which can put pressure on the Group's working capital. There is also an increased risk of bad debts occurring as a result of clients' financial problems. Subdued global financial markets can result in reductions in the level of transactional activity, reducing client mandates. The UK's decision to leave the EU has increased the level of uncertainty surrounding the economic outlook and therefore this risk has increased since last year.	The Group has a wide spread of clients both across geography and industry sector, reducing reliance on any particular economic environment. Costs are managed in each business such that they can be flexed where needed in a downturn. However, where there are protracted economic difficulties in the Group's key markets, the ability of the Group to minimise the impact is constrained and performance may deteriorate. The Group has formal procedures and processes, including contractual assurance, to mitigate against legal and financial risks associated with both new and existing clients. The Group closely reports and monitors aged debts, and ensures local management have action plans in place to minimise the risk of any loss.
Currency risk A substantial proportion of the Group operates outside of the UK, with significant operations in the USA and Europe. The Group may suffer restrictions on the ability to repatriate cash. Reported Group earnings are impacted by any fluctuation of Sterling relative to other currencies, particularly the US Dollar and Euro. The proportion of the Group's profits made in the US is increasing which increases the level of risk when exchange rates fluctuate. The UK's decision to leave the EU has increased the volatility of exchange rate movements against Sterling.	Most of the Group's revenue is matched by costs arising in the same currency. Foreign exchange exposure is continually monitored, and the Group uses derivative financial instruments to mitigate this risk where deemed necessary. Borrowings are also available to be drawn down in US Dollars and Euros if required to hedge foreign currency exposure. Surplus cash balances are swept to the UK to minimise any exposure to particular currencies or locations.

Key risks and uncertainties

Risk and Impact	Mitigating factors
Investment decisions fail to deliver expected growth The Group's strategy includes investing in new business opportunities, talent, start-ups and the acquisition of businesses which will broaden and enhance existing business operations. There is a risk that investments are based on inaccurate information or assumptions which fail to meet client needs and which may result in the investment being less financially beneficial than anticipated.	All significant investments are supported by a business case, which must be approved by Executive Management and the Board, where appropriate. Rigorous due diligence procedures are performed prior to all acquisitions in order to identify and evaluate potential risks to the extent possible. In addition to the receipt of legal warranties and indemnities, the total consideration paid for a business typically includes an element of deferred consideration contingent upon future performance which mitigates the risk of overpaying for a business.
New services do not meet changing market needs The communications industry is always changing, driven by client changes, technological change or emergence of competitors. The Group needs to be pro-active in identifying and delivering solutions to changing client needs. Failure to evolve can result in loss of market share, client losses and pressures on pricing, which can impact on revenue and margins.	The Group's range of services and international footprint increasingly allows us to offer clients an integrated portfolio of services across geographical locations which are attractive to new clients and help to strengthen existing client relationships. The Group continues to diversify its service offering to provide a full spectrum of healthcare communications and public relations services. Reviews of all new business opportunities won and lost across the Group are performed regularly. Appropriate actions are taken where new business conversion rates are below expectations.
Loss of key clients Any loss of a key client would result in reduced revenues and profits and potentially an inability to recover amounts due under the contract.	The Group endeavours to build long-term relationships with its clients and to obtain preferred supplier and agency of record status where possible. The Group has a large portfolio of clients and seeks to expand and diversify its client base where possible. There is no dominant client or set of clients. Within each of our large healthcare clients, the Group typically provides services to multiple brands within that client. Client satisfaction reviews are also undertaken periodically to evaluate service quality.

Key risks and uncertainties

Risk and Impact	Mitigating factors
Loss of key talent The Group's talent base is its most important resource. There is strong competition within the industry for experienced healthcare communications and PR professionals. Recruitment and retention of key individuals is important both for maintaining client relationships and ensuring that our services are of the highest quality.	The Group's policy is to recruit both Directors and employees of the highest quality and to remunerate them accordingly. The Group carries out succession planning and provides promotion opportunities as well as operating both short-term and long-term incentive plans to motivate and retain key individuals. Restrictive covenants are included in employee contracts where legally enforceable.
Information systems access and security Any information systems failure could negatively impact the Group's business operations, including delays to client work. Unauthorised access to confidential information held by the Group could compromise our client relationships and have a detrimental effect on our reputation. Cyber security risks are perceived to be increasing across the industry at the moment.	Business and IT disaster recovery plans have been put in place to minimise any disruption in the event of an IT failure. External access to data is protected by the Group's IT security, which is reviewed and tested frequently to ensure that the Group's network is as secure as possible. Internal access to data is restricted appropriately. Compliance with data protection legislation is given high priority within the Group.
Loan facility and covenant headroom risk Any liquidity issues could result in reputational damage and potentially impair the Group's ability to make future acquisitions or settle existing obligations.	The Group has £70 million of multi-currency loan facilities with a syndicate of banks maturing in 2019. Management closely monitors all covenants on the Group's facilities and actively manages undrawn headroom. The Group has robust cash management processes including weekly cash reporting from our operations and cash pooling arrangements.
Legal and regulatory compliance Any failure to adhere to legislative requirements, including imposed sanctions on the supply of services to certain individuals, businesses and countries, could lead to reputational as well as financial damage to the Group. Compliance risks increase as the Group expands into new and emerging markets.	The Group uses internal and external legal counsel throughout the world to advise on local legal and regulatory requirements and minimise the risk of loss. In-house training is conducted on key legislative matters such as health and safety, and the UK Bribery Act. Policies on gifts, entertainment, anti-bribery and corruption, electronic communications, share trading and confidentiality are communicated to all employees using dedicated Policy Management Software.

Consolidated Income Statement
for the year ended 31 December 2016

	Notes	2016 £000	2015 £000
Turnover		**216,145**	208,802
Revenue	3	**180,137**	168,398
Operating expenses		**(194,723)**	(206,216)
Share of profit from associate		**57**	–
Operating loss	3	**(14,529)**	(37,818)
Finance income	5	**9**	7
Finance costs	5	**(1,982)**	(2,008)
Loss before tax		**(16,502)**	(39,819)
Comprising:			
Profit before tax and highlighted items	4	**16,005**	13,252
Highlighted items	4	**(32,507)**	(53,071)
		(16,502)	(39,819)
Taxation (expense)/credit	6	**(1,759)**	380
Loss for the year attributable to Parent Company's equity shareholders		**(18,261)**	(39,439)

	Note	2016	2015
Loss per share			
Basic – pence	8	**(5.6)**	(12.3)
Diluted – pence	8	**(5.6)**	(12.3)

Consolidated Statement of Comprehensive Income and Expense

for the year ended 31 December 2016

	2016 £000	2015 £000
Loss for the year	**(18,261)**	(39,439)
Other comprehensive income and expense		
Items that may be reclassified subsequently to the Income Statement		
Amounts recognised in the Income Statement on interest rate swaps	**231**	157
Movement in valuation of interest rate swaps	**(664)**	(186)
Tax credit on interest rate swaps	**82**	6
Currency translation differences	**20,095**	3,655
Tax expense on currency translation differences	**-**	(78)
Total items that may be reclassified subsequently to profit or loss	**19,744**	3,554
Other comprehensive income and expense for the year	**19,744**	3,554
Total comprehensive income and expense for the year attributable to Parent Company's equity shareholders	**1,483**	(35,885)

Consolidated Balance Sheet

as at 31 December 2016

	Notes	2016 £000	2015 £000
Non-current assets			
Intangible assets	9	**159,797**	178,737
Property, plant and equipment		**11,832**	8,083
Investment in associate		**182**	–
Other receivables		**188**	199
Deferred tax assets		**926**	1,466
		172,925	188,485
Current assets			
Work in progress		**5,396**	3,537
Trade and other receivables		**56,087**	44,363
Current tax receivable		**1,504**	518
Cash and short-term deposits		**14,978**	8,918
Assets of disposal group classified as held for sale		**3,319**	–
		81,284	57,336
Current liabilities			
Obligations under finance leases		**(2)**	(4)
Bank overdraft		**(495)**	–
Trade and other payables		**(47,920)**	(44,226)
Current tax payable		**(756)**	(853)
Derivative financial liabilities	10	**(154)**	–
Provisions	11	**(1,979)**	(2,164)
		(51,306)	(47,247)
Non-current liabilities			
Bank loans and overdrafts		**(45,412)**	(39,172)
Obligations under finance leases		**(4)**	(21)
Trade and other payables		**(2,892)**	(1,320)
Derivative financial liabilities	10	**(525)**	(92)
Deferred tax liabilities		**(202)**	(202)
Provisions	11	**(1,553)**	(2,465)
		(50,588)	(43,272)
Net assets		**152,315**	155,302

Consolidated Balance Sheet
as at 31 December 2016

Equity	Notes	**2016 £000**	2015 £000
Called up share capital		**107,188**	107,170
Share premium account		**62,926**	62,811
Merger reserve		**29,468**	30,369
Foreign currency translation reserve		**44,004**	23,909
Hedging reserve		**(525)**	(92)
Treasury shares		**(1,166)**	(1,166)
Investment in own shares held in the Employee Benefit Trusts		**(1,764)**	(4,095)
Retained earnings		**(87,816)**	(63,604)
Equity attributable to equity holders of the parent		**152,315**	155,302

The financial statements were approved by the Directors on 20 March 2017 and signed on their behalf by:

Neil Jones

Director

Consolidated Cash Flow Statement
for the year ended 31 December 2016

	Notes	2016 £000	2015 £000
Cash inflow from operating activities			
Cash inflow from operations	12(a)	**12,640**	15,154
Interest paid		**(1,629)**	(1,765)
Interest received		**6**	7
Cash flows from hedging activities		**–**	17
Net tax paid		**(2,107)**	(1,307)
Net cash inflow from operating activities		**8,910**	12,106
Cash outflow from investing activities			
Proceeds from sale of businesses, net of cash disposed		**462**	–
Deferred consideration payments		**–**	(662)
Acquisition of intangible assets		**(488)**	–
Cost of internally developed intangible assets		**(933)**	(612)
Purchases of property, plant and equipment		**(5,053)**	(2,051)
Proceeds from sale of property, plant and equipment		**27**	104
Net cash outflow from investing activities		**(5,985)**	(3,221)
Cash outflow from financing activities			
Proceeds from sale of own shares to settle share options		**251**	227
Repayment of finance lease liabilities		**(24)**	(7)
Net drawdown/(repayment) of borrowings		**5,975**	(5,420)
Dividends paid to equity holders of the parent		**(5,562)**	(3,827)
Net cash inflow/(outflow) from financing activities		**640**	(9,027)
Increase/(decrease) in cash and cash equivalents		**3,565**	(142)
Movements in cash and cash equivalents			
Increase/(decrease) in cash and cash equivalents		**3,565**	(142)
Effects of exchange rate fluctuations on cash held		**2,000**	234
Cash and cash equivalents at 1 January		**8,918**	8,826
Cash and cash equivalents at 31 December	12(c)	**14,483**	8,918

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

	Called up share capital £000	Share premium account £000	Merger reserve £000	Foreign currency translation reserve £000	Hedging reserve £000	Treasury shares £000	Investment in own shares £000	Retained earnings £000	Total £000
At 1 January 2015	107,157	62,635	43,422	20,254	(63)	(1,568)	(4,775)	(33,188)	193,874
Loss for the year	–	–	–	–	–	–	–	(39,439)	(39,439)
Other comprehensive income/(expense)	–	–	–	3,655	(29)	–	–	(72)	3,554
Settlement of deferred consideration	8	–	338	–	–	–	–	–	346
Settlement of share options	1	41	–	–	–	402	680	(897)	227
Share issue costs	–	(18)	–	–	–	–	–	–	(18)
Charge for share-based payments	–	–	–	–	–	–	–	392	392
Credit for unclaimed dividends	–	–	–	–	–	–	–	230	230
Tax on share-based payments	–	–	–	–	–	–	–	(37)	(37)
Scrip dividends	4	153	–	–	–	–	–	–	157
Equity dividends	–	–	–	–	–	–	–	(3,984)	(3,984)
Transfer	–	–	(13,391)	–	–	–	–	13,391	–
At 31 December 2015	107,170	62,811	30,369	23,909	(92)	(1,166)	(4,095)	(63,604)	155,302
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(18,261)**	**(18,261)**
Other comprehensive income/(expense)	**–**	**–**	**–**	**20,095**	**(433)**	**–**	**–**	**82**	**19,744**
Settlement of deferred consideration	**15**	**–**	**593**	**–**	**–**	**–**	**–**	**–**	**608**
Settlement of share options	**–**	**–**	**–**	**–**	**–**	**–**	**2,331**	**(2,080)**	**251**
Share issue costs	**–**	**(21)**	**–**	**–**	**–**	**–**	**–**	**–**	**(21)**
Charge for share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**234**	**234**
Credit for unclaimed dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**11**	**11**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**10**	**10**
Scrip dividends	**3**	**136**	**–**	**–**	**–**	**–**	**–**	**–**	**139**
Equity dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5,702)**	**(5,702)**
Transfer	**–**	**–**	**(1,494)**	**–**	**–**	**–**	**–**	**1,494**	**–**
At 31 December 2016	**107,188**	**62,926**	**29,468**	**44,004**	**(525)**	**(1,166)**	**(1,764)**	**(87,816)**	**152,315**

Notes to the Preliminary Consolidated Financial Statements
for the year ended 31 December 2016

1. Basis of preparation

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted in the European Union and as applied in accordance with the provisions of the Companies Act 2006. On 20 March 2017 the Consolidated Financial Statements of the Group and this preliminary announcement were authorised for issue in accordance with a resolution of the Directors and will be delivered to the Registrar of Companies following the Company's Annual General Meeting. Statutory accounts for the year ended 31 December 2015 have been filed with the Registrar of Companies. The auditor's reports on the financial statements for the years ended 31 December 2016 and 31 December 2015 are unqualified and do not contain any statement under Section 498 (2) or (3) of the Companies Act 2006.

The annual financial information presented in this preliminary announcement for the year ended 31 December 2016 is based on, and is consistent with, that in the Group's audited financial statements for the year ended 31 December 2016. This preliminary announcement does not constitute statutory accounts of the Group within the meaning of Section 435 of the Companies Act 2006. Whilst the information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The Consolidated Financial Statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except where otherwise indicated.

Going concern

The Group's activities, financial performance, position, cashflows and borrowing facilities are described in the Chief Executive's Statement.

After reviewing the Group's performance, future forecasted profits and cash flows, and ability to draw down on its facilities, the Directors consider 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 Company's and the Group's financial statements.

2. Significant accounting policies

With the exception of the following new standards and amendments to standards, the preliminary consolidated financial statements have been prepared in accordance with the accounting policies of the Group which are set out on pages 86 to 90 of the 2015 Annual Report and Accounts.

Changes in accounting policies

The following new standards, amendments to standards and interpretations were mandatory for the first time for the financial year beginning 1 January 2016, but had no significant impact on the Group:

- IAS 19 (amendment) – Employee Benefits
- Annual Improvements (2012–2014 Cycle);
- IFRS 11 (amendment) – Accounting for Acquisition of Interests in Joint Operations;
- IAS 16 and IAS 38 (amendment) – Clarification of Acceptable Methods of Depreciation and Amortisation;
- IAS 16 and IAS 41 (amendment) – Bearer Plants;
- IAS 27 (amendment) – Equity Method in Separate Financial Statements;
- IAS 1 (amendment) – Disclosure Initiative; and
- IFRS 10, IFRS 12, IAS 28 (amendment) Investment entities: applying the consolidation exception.

Notes to the Preliminary Consolidated Financial Statements continued
for the year ended 31 December 2016

3. Segmental analysis

The following is an analysis of the Group's revenue and operating profit before highlighted items by reportable segment.

The Group's business activities are split into four operating divisions: Citigate Dewe Rogerson (CDR), Grayling, Red and Huntsworth Health. These divisions are the basis on which information is reported to the Group's Chief Operating Decision Maker, which has been determined to be the Group Board. The segment result is the measure used for the purposes of performance assessment and represents profit earned by each segment, but before highlighted operating expenses, net finance costs and taxation.

Year ended 31 December 2016	**CDR £000**	**Grayling £000**	**Red £000**	**Huntsworth Health £000**	**Total £000**
Segment revenue before highlighted items	**22,087**	**53,862**	**13,349**	**90,839**	**180,137**
Segment operating profit before highlighted items	**3,584**	**(750)**	**2,710**	**18,299**	**23,843**

Year ended 31 December 2015	CDR £000	Grayling £000	Red £000	Huntsworth Health £000	Total £000
Segment revenue before highlighted items	20,039	63,209	12,830	72,320	168,398
Segment operating profit before highlighted items	3,075	2,645	2,602	13,784	22,106

Highlighted items are not presented to the Board on a segmental basis.

A reconciliation of segment operating profit before highlighted items to total loss before tax is provided below:

	2016 £000	2015 £000
Segment operating profit before highlighted items	**23,843**	22,106
Unallocated costs	**(5,922)**	(6,853)
Share of profit from associate	**57**	–
Operating profit before highlighted items	**17,978**	15,253
Highlighted items	**(32,507)**	(53,071)
Operating loss	**(14,529)**	(37,818)
Net finance costs before highlighted items	**(1,973)**	(2,001)
Loss before tax	**(16,502)**	(39,819)

Unallocated expenses comprise central head office costs which are not considered attributable to any segment.

4. Highlighted items

Highlighted items charged to profit for the year comprise significant non-cash charges and non-recurring items.

	Notes	2016 £000	2015 £000
Reported loss before tax		**(16,502)**	(39,819)
Adjustments charged/(credited) to operating expenses:			
Amortisation of intangible assets	9	**840**	789
Goodwill impairment	9	**30,499**	48,764
Impairment of software development costs	9	**239**	579
Restructuring costs		**1,608**	3,292
Acquisition and transaction related credit		**(679)**	(353)
Total adjustments charged to operating expenses		**32,507**	53,071
Adjusted profit before tax		**16,005**	13,252

	Notes	2016 £000	2015 £000
Charged to profit before tax		**32,507**	53,071
Taxation credit on highlighted items		**(3,038)**	(3,964)
Charged to profit for the year		**29,469**	49,107

Amortisation of intangible assets

Intangible assets are amortised systematically over their estimated useful lives, which vary from 2 to 20 years depending on the nature of the asset. The amortisation charge in respect of intangible assets is excluded from adjusted results as they relate to historic business combinations rather than normal ongoing operations.

Goodwill impairment

Impairments totalling £30.5 million (2015: £48.8 million) were recognised in the year relating to goodwill in the Grayling CGU. Further disclosures are given in Note 9. Impairment charges are individually disclosed and are excluded from adjusted results as they do not relate to underlying trading.

Impairment of software development costs

The impairment relates to significant adverse changes in the extent to which internally developed software is expected to be used. Further disclosures are given in Note 9. The recoverable amount is value in use which was determined to be £nil. The charge is excluded from adjusted results as it does not relate to underlying trading.

Restructuring costs

Restructuring costs comprise cost-saving and right-sizing initiatives including severance payments, compensation for loss of office and other contract termination costs. Property costs relating to onerous contract provisions raised for property leases because of restructuring initiatives are included as well as profits on disposal of subsidiaries. These costs, which are part of the new management teams strategic refocus of the business, are excluded from adjusted results as they do not relate to underlying trading. These costs are not expected to reoccur as the restructuring was completed in 2016.

Acquisition and transaction related credit

The credit relates to subsequent re-measurement of the fair value of deferred contingent consideration. These costs are excluded from adjusted results as they relate to historic business combinations rather than ongoing operations. Transaction costs are costs incurred in relation to acquisitions and disposals. These costs are excluded from adjusted results as they are one-off in nature.

Taxation

The tax related to highlighted items is the tax effect of the items above.

5. Finance costs and income

	2016 £000	2015 £000
Bank interest payable	**1,955**	1,988
Finance lease interest	**–**	1
Imputed interest on long-term payables and provisions	**27**	19
Finance costs	**1,982**	2,008
Bank interest receivable	**(2)**	(3)
Other interest receivable	**(7)**	(4)
Finance income	**(9)**	(7)
Net finance costs	**1,973**	2,001

6. Taxation

The charge for the year can be reconciled to the profit/(loss) per the Income Statement as follows:

	2016 £000	2015 £000
Loss before tax	**(16,502)**	(39,819)
Notional income tax credit at the effective UK statutory rate of 20% (2015: 20.25%) on loss before tax	**(3,300)**	(8,063)
Permanent differences	**4,069**	7,904
Impact of share-based payments	**58**	150
Different tax rates on overseas profits	**590**	(423)
Impact of changes in statutory tax rates	**(19)**	319
Adjustments in respect of prior years	**(476)**	(942)
Utilisation and recognition of tax losses	**(27)**	19
Unrelieved current year losses	**864**	656
Income tax expense/(credit)	**1,759**	(380)

Comprising:		
Income tax charge on loss before tax and highlighted items	**4,797**	3,584
Income tax credit on highlighted items	**(3,038)**	(3,964)
	1,759	(380)

The income tax expense for the year is based on the United Kingdom effective statutory rate of corporation tax of 20.00% (2015: 20.25%). Overseas tax is calculated at the rates prevailing in the respective jurisdictions.

7. Dividends

	2016 £000	2015 £000
Equity dividends on ordinary shares:		
Final dividend for the year ended 2015: 1.25 pence (2014: 0.75 pence)	**4,071**	2,385
Interim dividend for the year ended 2016: 0.5 pence (2015: 0.5 pence)	**1,631**	1,599
Total dividend expense	**5,702**	3,984

The total dividend includes a cash element of £5.6 million (2015: £3.8 million) and a scrip element of £0.1 million (2015: £0.2 million). Shareholdings under the Group's Employee Benefit Trust of 2,591,344 and 2,507,643 shares waived their rights to the 2015 final dividend and 2016 interim dividend respectively (2014 final dividend and 2015 interim dividend: 7,029,278 and 6,430,310 shares respectively).

A 2016 final dividend of 1.25 pence per share has been proposed for approval at the Annual General Meeting in 2017.

8. Earnings per share

	2016	2015
Basic loss per share – pence	**(5.6)**	(12.3)
Diluted loss per share – pence	**(5.6)**	(12.3)
Adjusted basic earnings per share – pence	**3.4**	3.0
Adjusted diluted earnings per share – pence	**3.4**	3.0

The data used in the calculations of the earnings per share numbers is summarised in the table below:

	2016 (Loss)/ earnings £000	2016 Weighted average number of shares 000s	2015 (Loss)/ earnings £000	2015 Weighted average number of shares 000s
Basic	**(18,261)**	**325,245**	(39,439)	320,966
Diluted	**(18,261)**	**325,245**[1]	(39,439)	320,966[1]
Adjusted basic	**11,208**	**325,245**	9,668	320,966
Adjusted diluted	**11,208**	**329,488**	9,668	326,846

1. Because basic EPS results is a loss per share the diluted EPS is calculated using the undiluted weighted average number of shares.

8. Earnings per share (continued)

The basic (loss)/earnings per share calculation is based on the (loss)/profit for the year attributable to the Parent Company's shareholders divided by the weighted average number of ordinary shares outstanding during the year.

Diluted (loss)/earnings per share takes the basic (loss)/earnings per share and adjusts for the potentially dilutive impact of employee share option schemes and shares to be issued as part of contingent consideration on acquisitions of subsidiaries.

Adjusted earnings per share is calculated in order to provide information to shareholders about underlying trading performance and is based on the profit attributable to the Parent Company's shareholders excluding highlighted items.

	2016 £000	2015 £000
Earnings:		
Loss for the year attributable to the Parent Company's shareholders	**(18,261)**	(39,439)
Highlighted items (net of tax) attributable to the Parent Company's shareholders	**29,469**	49,107
Adjusted earnings	**11,208**	9,668

	2016 £000	2015 £000
Number of shares:		
Weighted average number of ordinary shares – basic	**325,245**	320,966
Effect of share options in issue	**4,243**	4,380
Effect of deferred contingent consideration	**–**	1,500
Weighted average number of ordinary shares – diluted	**329,488**	326,846

9. Intangible assets

	Brands £000	Customer relationships £000	Goodwill £000	Intellectual property £000	Software development costs £000	Total £000
Cost						
At 1 January 2015	25,022	29,868	307,026	1,564	2,963	366,443
Capitalised development costs	–	–	–	–	612	612
Exchange differences	335	857	4,401	(77)	96	5,612
At 31 December 2015	25,357	30,725	311,427	1,487	3,671	372,667
Acquisitions	**–**	**488**	**–**	**–**	**–**	**488**
Capitalised development costs	**–**	**–**	**–**	**–**	**707**	**707**
Transferred to disposal group classified as held for sale	**–**	**–**	**(3,319)**	**–**	**–**	**(3,319)**
Disposals	**–**	**–**	**(124)**	**–**	**–**	**(124)**
Exchange differences	**2,518**	**3,887**	**28,791**	**267**	**335**	**35,798**
At 31 December 2016	**27,875**	**35,100**	**336,775**	**1,754**	**4,713**	**406,217**
Amortisation and impairment charges						
At 1 January 2015	20,309	29,829	88,351	1,154	1,122	140,765
Charge for the year	479	17	–	293	235	1,024
Impairment	–	–	48,764	–	579	49,343
Exchange differences	339	852	1,640	(57)	24	2,798
At 31 December 2015	21,127	30,698	138,755	1,390	1,960	193,930
Charge for the year	**490**	**241**	**–**	**109**	**206**	**1,046**
Impairment	**–**	**–**	**30,499**	**–**	**287**	**30,786**
Exchange differences	**2,393**	**3,830**	**14,068**	**255**	**112**	**20,658**
At 31 December 2016	**24,010**	**34,769**	**183,322**	**1,754**	**2,565**	**246,420**
Net book value at 31 December 2016	**3,865**	**331**	**153,453**	**–**	**2,148**	**159,797**
Net book value at 31 December 2015	4,230	27	172,672	97	1,711	178,737

The performance of the Grayling CGU in the first half of 2016 was considered to be an indicator of impairment as at 30 June 2016. The Group revised its forecasts to current expectations of the future performance of each CGU based on the prevailing conditions prior to any future restructuring and investment. Accordingly, goodwill was impaired by £15.0m.

The Group has performed further impairment testing as at 31 December 2016. Following the restructure of the US lobbying business, including the post-year end disposal of Whiteboard Associates, a further impairment of goodwill of £15.5m has been recognised in highlighted items in the Income Statement.

10. Financial risk management and financial instruments

The group's activities expose it to a variety of financial risks including foreign exchange risk, interest rate risk, credit risk and liquidity risk.

Fair values of financial liabilities and assets

All financial assets and financial liabilities have been recognised at their carrying values which are not materially different to their fair values.

Fair value measurement

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 December 2016	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial liabilities				
Interest rate swap	**–**	**525**	**–**	**525**
Foreign exchange derivative	**–**	**154**	**–**	**154**
	–	**679**	**–**	**679**

At 31 December 2015	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial liabilities				
Interest rate swap	–	92	–	92
Deferred contingent consideration	–	–	693	693
	–	92	693	785

<u>Valuation techniques used to derive Level 2 fair values</u>

Level 2 derivatives comprise foreign exchange contracts and interest rate swaps. The foreign exchange contracts have been fair valued using exchange rates that are quoted in an active market. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves.

<u>Valuation techniques used to derive Level 3 fair values</u>

Deferred contingent consideration liabilities were valued using a discounted cash flow methodology. The liability was based on the acquired business' forecast average profits for the period from the date of acquisition. The significant unobservable inputs to this valuation included forecast average profits and the discount rate of 1%.

The sensitivity of this liability to changes in this discount rate is immaterial.

11. Provisions

	Deferred contingent consideration £000	Property £000	Re-organisation and other £000	Total £000
At 1 January 2015	1,507	2,277	812	4,596
Arising during the year	–	844	3,083	3,927
Released during the year	(531)	(210)	(83)	(824)
Utilised	(346)	(326)	(2,570)	(3,242)
Foreign exchange movements	55	85	17	157
Unwind of discount	8	7	–	15
At 31 December 2015	693	2,677	1,259	4,629
Arising during the year	**–**	**1,035**	**1,597**	**2,632**
Released during the year	**(755)**	**(19)**	**(293)**	**(1,067)**
Utilised	**–**	**(1,160)**	**(2,100)**	**(3,260)**
Disposals	**–**	**(57)**	**–**	**(57)**
Foreign exchange movements	**58**	**432**	**139**	**629**
Unwind of discount	**4**	**22**	**–**	**26**
At 31 December 2016	**–**	**2,930**	**602**	**3,532**
Current	**–**	**1,413**	**566**	**1,979**
Non-current	**–**	**1,517**	**36**	**1,553**

Deferred contingent consideration for acquisitions

Acquisitions made by the Group typically involve an earn-out arrangement whereby the consideration payable includes a deferred element, payable in either cash or a combination of cash and shares at the Company's option, which is contingent on the future financial performance of the acquired entity. The amount utilised in the year represents the cash paid or shares issued under the earn-out arrangements. The amount arising or released in the year represents a change in the estimated future financial performance of the acquired company. Where deferred consideration is not contingent on the outcome of future events the amount is included in trade and other payables.

Property provisions

Provisions for property represent amounts set aside in respect of property leases which are onerous and the unavoidable costs of restoring leasehold properties to the condition specified in the lease at the end of the contractual term. The quantification of these provisions has been determined based on external professional advice and is dependent on the Group's ability to exit the leases early or to sublet the properties. In general, property costs are expected to be incurred over a range of one to eight years.

Reorganisation and other provisions

This provision relates principally to redundancy provisions. In addition, when acquiring businesses, provisions have been made to cover the best estimate of the Group's exposure to liabilities arising due to the acquisition.

Notes to the Preliminary Consolidated Financial Statements continued

for the year ended 31 December 2016

12. Cash flow analysis

(a) Reconciliation of operating loss to net cash inflow from operations

	2016 £000	2015 £000
Operating loss	**(14,529)**	(37,818)
Share of profit from associate	**(57)**	–
Depreciation	**2,737**	2,459
Share option charge	**234**	392
Loss on disposal of property, plant and equipment	**72**	39
Amortisation of intangible assets	**1,046**	1,024
Impairment of intangible assets	**30,786**	49,343
Loss on financial instruments	**154**	–
Profit on disposal of subsidiaries and investments	**(436)**	–
Increase in work in progress	**(1,712)**	(223)
Increase in debtors	**(6,125)**	(2,107)
Increase in creditors	**2,339**	1,831
(Decrease)/increase in provisions	**(1,869)**	214
Net cash inflow from operations	**12,640**	15,154

Net cash inflow from operations is analysed as follows:

	2016 £000	2015 £000
Before highlighted items	**15,639**	18,157
Highlighted items	**(2,999)**	(3,003)
Net cash inflow from operations	**12,640**	15,154

(b) Reconciliation of net cash flow to movement in net debt

	2016 £000	2015 £000
Increase/(decrease) in cash and cash equivalents in the year	**3,565**	(142)
Cash (outflow)/inflow from movements in debt	**(5,975)**	5,420
Repayment of capital element of finance leases	**24**	7
Change in net debt resulting from cash flows	**(2,386)**	5,285
Amortisation of loan fees	**(264)**	(266)
New finance lease	**(6)**	–
Movement in fair value of derivative financial instruments	**(587)**	(46)
Translation differences	**2,000**	234
(Increase)/decrease in net debt	**(1,243)**	5,207
Net debt at beginning of year	**(30,371)**	(35,578)
Net debt at end of year	**(31,614)**	(30,371)

12. Cash flow analysis continued

(c) Analysis of net debt

	2016 £000	2015 £000
Cash and short term deposits	**14,978**	8,918
Bank overdraft	**(495)**	–
Bank loans	**(45,412)**	(39,172)
Derivative financial liabilities	**(679)**	(92)
Obligations under finance leases	**(6)**	(25)
Net debt	**(31,614)**	(30,371)

At 31 December 2016 the Group had undrawn committed facilities of £24 million (2015: £24 million) available.

13. Commitments and contingent liabilities

In the normal course of business, the Group is, from time to time, subjected to legal actions, contractual disputes, employment claims and tax assessments. In the opinion of the Directors the ultimate resolution of these matters will not have a material adverse effect on the Consolidated Financial Statements.

The Company and its subsidiaries have entered into a number of indemnifications, performance and financial guarantees, in the normal course of business, which gives rise to obligations to pay amounts or fulfil obligations to external parties should certain conditions not be met or specified events occur. As at the date of this report, no matter has come to the attention of the Group which indicates that any material outflow will occur as a result of these indemnities and guarantees.

14. Related party transactions

The ultimate controlling party of the Group is Huntsworth plc (incorporated in the United Kingdom). The Group has a related party relationship with its subsidiaries and with its Directors.

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

Directors' Responsibility Statement

The Annual Report and Accounts comply with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority in respect of the requirement to produce an annual financial report. The responsibility statement below has been prepared in connection with the Company's Annual Report, certain parts of which are not included within this announcement.

We confirm on behalf of the board that to the best of our knowledge:

- the Group financial statements have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial positions and profit and loss of the Company and the undertakings included in the consolidation taken as a whole; and

- the Annual Report and Accounts include a fair review of the development and performance of the business and the positions of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Neil Jones
Chief Financial Officer

Appendix 1

This report makes reference to various non-IFRS measures, which are defined below. All performance based measures are presented to provide insight into ongoing profit generation, both individually and relative to other companies.

Headline operating profit/profit before tax

Calculated as operating profit/profit before tax excluding highlighted items. Highlighted items in the current year comprise amortisation of intangible assets, goodwill impairment, restructuring costs, and acquisition/transaction related costs. In the prior year, impairment of software development costs was also included in highlighted items.

Both headline profit and IFRS profit measures are presented in the income statement. An analysis of highlighted items is presented in Note 4.

Margin

Headline operating profit as a percentage of revenue.

Headline basic and diluted EPS

Headline basic EPS is calculated using profit for the period before highlighted items. Headline diluted EPS is the same calculation but takes into account the impact of share options in issue and deferred consideration that could be settled in shares. Details of the underlying inputs to headline and IFRS measures of EPS are included in Note 8.

Net debt

Net debt is the total of current and non-current borrowings and derivative financial instruments, less cash and cash equivalents. The group uses this as a measure of indebtedness. An analysis of net debt is included in Note 12.

Cash conversion

Cash conversion is the net cash inflow from operations before highlighted items expressed as a percentage of adjusted operating profit and provides an understanding of how much profit the group has converted to cash.

Highlighted cash flows are the cash flows directly attributable to the items presented within highlighted items in the income statement. A reconciliation of the difference between cash flows before highlighted items and IFRS cash flows is included in Note 12.

Effective tax rate

The effective tax rate is the total tax charge incurred by the Group on headline profit before tax, expressed as a percentage. This provides a more comparable basis to analyse our tax rate both individually and relative to other companies.

Like-for-like

Like-for-like results are stated at constant exchange rates and are adjusted to include pre-acquisition results and exclude disposals/closures. Constant currency results are calculated by translating prior period foreign currency results using the current period exchange rate. This provides insight into the organic growth of the business. A reconciliation of the material adjustments made between like-for-like revenue and IFRS revenues are included in the table below:

Year ended 31 December 2016	Citigate	Grayling	Red	Huntsworth Health	Total Group
	£000	£000	£000	£000	£000
IFRS revenue	22,087	53,862	13,349	90,839	180,137
Business closures	–	(4,730)	–	(28)	(4,758)
Like-for-like revenue	**22,087**	**49,132**	**13,349**	**90,811**	**175,379**

Year ended 31 December 2015	Citigate	Grayling	Red	Huntsworth Health	Total Group
	£000	£000	£000	£000	£000
IFRS revenue	20,039	63,209	12,830	72,320	168,398
Constant exchange rates	1,101	5,360	–	7,617	14,078
Business closures	–	(9,072)	–	(104)	(9,176)
Like-for-like revenue	21,140	59,497	12,830	79,833	173,300