HUNTSWORTH

Audited preliminary results for the year ended 31 December 2017

Huntsworth plc, the healthcare and communications group, today announces its preliminary results for the 12 months to 31 December 2017.

Financial Highlights

- Revenue up 9% at £197.0 million (2016: £180.1 million)
- Headline operating profit up 47% at £26.4m (2016: £18.0m), representing a margin of 13.4% (2016: 10.0%)
- Headline profit before tax up 52% at £24.4 million (2016: £16.0 million)
- Headline diluted earnings per share increased to 5.8p (2016: 4.0p)
- Strong cash conversion of 113% (2016: 87%) with free cash flow of £20.7m (2016: £2.9m)
- Proposed final dividend up 16% at 1.45p per share (2016: 1.25p per share) giving a total dividend for the year of 2.0p per share (2016: 1.75p per share)

Operational Highlights

- Continued strong organic growth from Healthcare divisions
- All operating divisions growing profits
- Acquisition of The Creative Engagement Group (TCEG), which is now integrated and performing well
- Restructuring of the Group into four principal divisions which reflect the increased Healthcare focus
- Grayling restructuring completed with a return to profitability

Paul Taaffe, CEO of Huntsworth, commented:

"Huntsworth made strong progress in 2017, led by its Healthcare agencies. Our focus is to better serve our Healthcare clients by developing and adding capability to the Group, and with a strengthening balance sheet we are well placed to continue to do so. Despite increasing FX headwinds, the year has started well with good trading momentum and Huntsworth is well positioned for further growth in 2018."

Summary Financial Performance

	31 December 2017	31 December 2016
Revenue	£197.0m	£180.1m
Operating profit / (loss)	£24.9m	£(14.5)m
Profit / (loss) before tax	£22.9m	£(16.5)m
Diluted earnings / (loss) per share	4.7p	(5.6)p
Headline operating profit[1]	£26.4m	£18.0m
Headline profit before tax[1]	£24.4m	£16.0m
Headline diluted earnings per share[1]	5.8p	4.0p
Final dividend per share	1.45p	1.25p
Net debt	£36.3m	£31.6m

For further information, please contact

Huntsworth via Citigate

Paul Taaffe, CEO

Neil Jones, CFO

Citigate Dewe Rogerson 020 7638 9571

Anghard Couch
Elizabeth Kittle

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.

2 Like-for-like revenues are stated at constant exchange rates and excluding the effect of acquisitions and disposals. A reconciliation of IFRS revenues and operating profit to like-for-like results is included in Appendix 1.

Performance overview

Chairman's Statement

I am pleased to report a very strong year at Huntsworth. We have made significant progress in executing our strategy of transforming the Group into a Healthcare marketing services-focused business, helped by the acquisition of The Creative Engagement Group (TCEG).

Our continued focus on operational efficiencies and the elimination of loss-making agencies combined with strong organic growth from the Healthcare division produced a very strong like-for-like growth in headline profit of 20%.

We continued to refine and execute the Group's strategy during 2017. The restructuring of the Group into four principal divisions following the acquisition of TCEG gives a better balance to our reporting structure and provides greater insight into the performance of the Group.

Buoyant trading in the three Healthcare-focused divisions was again led by Evoke (within the Marketing division) and Apothecom (in the Medical division), both of which had outstanding years. I was delighted to welcome TCEG into the Group in July, an excellent team with a passion for their work. They bring new capabilities in mixed media and exhibitions to the Group, as well as access to new types of clients. TCEG has performed well in its first six months, it is now fully integrated within the Group and is increasingly engaged in joint new business with other Group agencies.

In our Communications division, I am pleased to report that Grayling has responded positively to its restructuring and has now returned to profitability, with a notably strong performance from its UK operation. Red has had a good year despite some client attrition, but recent wins emphasise its fundamental strength. Citigate Dewe Rogerson has had a solid year despite difficult market conditions in the UK and Asia.

There is real momentum at Huntsworth as all the agencies focus on what is of most value to their clients. There is a very different sense of what is possible than there was just over three years ago when I joined the Group. So it is with much sadness that, given my other commitments, I will step down as Chair, subject to an orderly succession process.

After three years' service, Tim Ryan, the Group's Senior Independent Director, stepped down from the Board in December 2017. I would like to thank Tim for his support and help in guiding the Group over the critical restructuring period from 2014 to 2017. Andy Boland, who is the Group's longest serving Non-Executive Director, will become the new Senior Independent Director. We also welcomed Liz McKee Anderson to the Board on 1 January 2018. Liz brings a wealth of experience in healthcare and will be a valuable asset for the Group as it expands its Healthcare focus in the coming years.

On behalf of the Board, I would like to thank the management team and staff for their hard work in achieving the growth we have enjoyed this year and look forward to more of the same during 2018.

These impressive results are an encouraging indicator of the progress made over the past three years. We enter 2018 with good trading momentum and confidence for the year ahead.

Performance overview

Chief Executive's Statement

Huntsworth made strong progress in 2017 with all operating divisions growing profit. Revenue grew by 9% to £197.0 million and headline profit before tax by 52% to £24.4 million. On a like-for-like basis, this represents growth of 4% and 20% respectively.

As part of the strategic development of the Group and its increased focus on Healthcare we took the decision to streamline how we organise ourselves, providing shareholders with a better understanding of the Group and offering clients easier access to multiple services when required. The Group now has two distinct areas of focus: Healthcare, which is made up of three divisions, Medical, Marketing, and Immersive; and Communications, which constitutes one division and contains the agencies Grayling, Red and Citigate Dewe Rogerson.

Healthcare remains the primary focus of Huntsworth. Fast-moving innovation in healthcare treatments, along with growing global demand for new drugs to help ageing populations, are driving a complex market place that requires a combination of higher margin consultancy services and more effective marketing.

We see increasing opportunities arising from healthcare-focused clients seeking a more differentiated and increasingly digital offering for their medical and marketing communications. To further support this we acquired The Creative Engagement Group ('TCEG') in July 2017 for £25.0 million, settled in cash. TCEG consists of three agencies that provide experiential marketing, primarily to healthcare clients. Its integration will further strengthen our digital capability while allowing TCEG to benefit from access to the Group's global resources.

While Huntsworth is firmly focused on developing and adding to its Healthcare assets, Communications remains an important part of the Group, contributing 21% of profits before central costs. 2017 has seen further good progress in reorganising and right-sizing elements of the offering, leaving the division in a better position to compete and increase profitability in the coming years.

On behalf of the Board, I would like to thank our Chair Derek Mapp for his leadership in guiding us all through the restructure of Huntsworth to where we are today. His contribution through a period of significant change can be seen in these results and we are delighted that he will stay with us until a new Chair has been appointed.

Performance overview

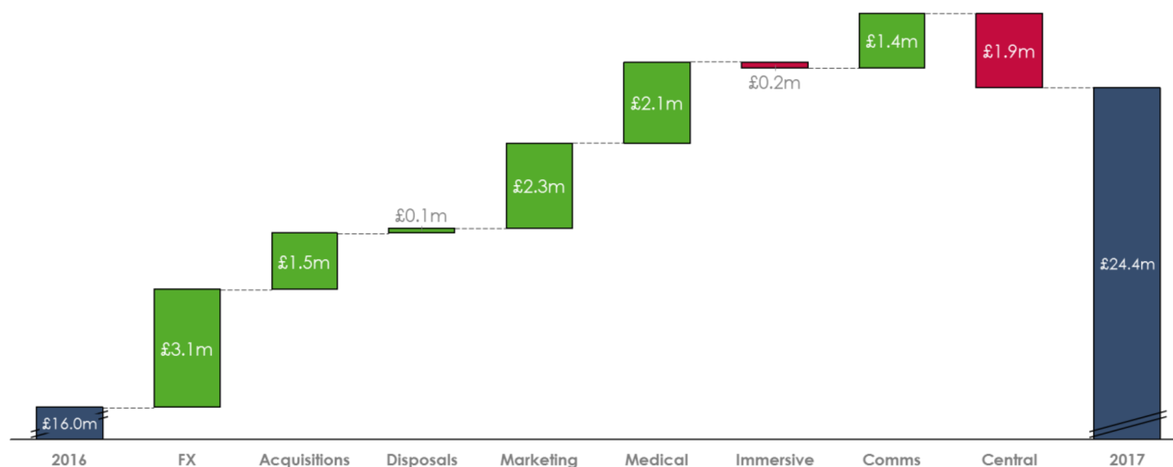
Group performance overview

	2017 £m	Like-for-like growth %	2016 £m	
Revenue				
Marketing	73.6	13.2%	62.5	
Medical	30.9	17.7%	25.3	
Immersive	14.9	n/a	3.0	
Communications	77.6	(6.5)%	89.3	
Total operations	197.0	4.1%	180.1	

Operating profit	**2017 £m**	**Operating margin %**	**2016 £m**	**Operating margin %**
Marketing	15.5	21.1%	12.3	19.8%
Medical	8.3	26.9%	6.0	23.5%
Immersive	1.9	12.4%	-	-
Communications	7.0	9.0%	5.5	6.2%
Total operations	32.7	16.6%	23.8	13.2%
Central costs and associates	(6.3)		(5.8)	
Operating profit before highlighted items	26.4	13.4%	18.0	10.0%
Operating highlighted items	(1.5)		(32.5)	
Reported operating profit	24.9	12.6%	(14.5)	(8.1)%
Adjusted diluted EPS	5.8p		4.0p	
Reported diluted EPS	4.7p		(5.6)p	

Performance overview

The Group's performance this year primarily reflects a combination of strong growth from the three Healthcare divisions, the impact of a favourable move in exchange rates and Grayling's return to profitability. The following bridge shows the key movements in headline profits in 2017:



A weaker sterling in 2017 compared to 2016 has generated a translational gain of £1.1 million, with a further £2.0 million incremental gain on hedging instruments. The acquisition of TCEG added £1.5 million to profits, net of interest. Reduced losses on operations disposed of in either 2016 or 2017 added a further £0.1 million to profits. After adjusting for these factors, like-for-like profits were up 20% reflecting strong organic growth.

Revenues were £197.0 million in 2017 (2016: £180.1 million), with favourable currency movements contributing £7.1 million. On a like-for-like basis, revenues grew by 4%, reflecting strong organic growth from the Healthcare divisions, offset by decreases in revenues from the Communications division as we eliminated loss making agencies and clients.

Performance overview

Headline profit before tax was £24.4 million (2016: 16.0 million), an increase of 52% or 20% on a like-for-like basis. Operating profits were £24.9 million (2016: loss of £14.5 million), with much of the improvement attributable to a lower goodwill impairment charge. The following table reconciles statutory to headline profits:

£'m	**2017**	**2016**
Operating profit	24.9	(14.5)
Goodwill impairment	-	30.5
Restructuring costs	-	2.0
Amortisation	1.4	0.9
Other highlighted items	0.1	(0.9)
Operating profit before highlighted items	26.4	18.0
Margin	*13.4%*	*10.0%*
Interest	(2.0)	(2.0)
Headline profit before tax	24.4	16.0

The Group's effective tax rate has increased to 21% (2016: 18%) principally as a result of the increase in profits. Adjusted diluted earnings per share were 5.8p (2016: 4.0p), an increase of 45%. Looking forward we expect the recently announced tax reforms in the US to have a moderately positive effect on the Groups tax rate.

Currency

Changes in exchange rates versus 2016 increased revenues by £7.1 million and operating profits by £3.1 million.

The strengthening of Sterling against the Dollar between 31 December 2016 and 31 December 2017 has also resulted in a £8.2 million debit to Other Comprehensive Income and Expense due to the retranslation of the Group's overseas assets.

Highlighted items

Operating highlighted items of £1.5 million comprise the following:

	£'m
Acquisition related costs	0.4
Disposal related credit	(0.3)
Amortisation of intangible assets	1.4
	1.5

Acquisition costs relate to the acquisition of The Creative Engagement Group ('TCEG') on 1 July 2017. The disposal related credit relates to adjustments in respect of deferred consideration receivable on Whiteboard Advisors together with the recycling of exchange gains held in reserves on the disposal of Audacity.

Cash Flow and Net debt

Cash conversion of operating profit into operating cash flows before highlighted items was 113% (2016: 87%).

Operating cash flow before highlighted items was £29.8 million (2016: £15.6 million). Free cash flow (after interest, tax and capital expenditure) was £20.7 million (2016: £2.9 million). Dividend payments were £4.9 million (2016: £5.6 million), which is down slightly on prior year despite an increased interim dividend as a result of a greater scrip take up. Net expenditure on acquisitions and disposals was £20.3 million, primarily relating to the acquisition of TCEG.

The resulting net debt at year-end was £36.3 million, up from £31.6 million at 31 December 2016 despite spending £25.0 million on the acquisition of TCEG. This represents a gearing ratio of 1.2x EBITDA, or 1.1x on a pro-rata basis, comfortably within our covenant terms of 3.0x EBITDA.

Financial covenants based on the Group's facility agreements continue to be comfortably met. After the year end the Group amended and extended its existing facility, as a result of which the Group has total committed facilities of £75 million available until September 2021, with a further accordion option of £40 million and an uncommitted overdraft of £5 million.

Dividends

At the forthcoming AGM, the Board will propose a final dividend of 1.45 pence, bringing the total dividend for 2017 to 2.0 pence, up 14% from 1.75 pence in 2016 and reflecting the strong growth in earnings. Subject to shareholder approval, the final dividend will be paid on 5 July 2018 to all shareholders on the register at 25 May 2018. The shares will trade ex-dividend on 24 May 2018. A scrip dividend alternative will be available. The dividend payout ratio for 2017 is 34% (2016: 44%).

Tax

The total tax charge of £7.3 million (2016: £1.8 million) comprises an underlying tax expense of £5.1 million (2016: £2.9 million) together with a charge of £2.2 million on highlighted items (2016: credit of £1.1 million). The full year underlying tax rate is 21% (2016: 18%). The highlighted tax charge of £2.2 million relates primarily to deferred tax on intangible assets and the sale of Whiteboard.

For the periods ended 31 December 2017 and 31 December 2016 the Group has reclassified the deferred tax expense on US intangible assets from profit before tax and highlighted items into highlighted items. This is on the basis that the deferred tax expense would only ever crystallise on a sale of the relevant businesses, which is not anticipated at the current time, and such a sale would be a highlighted item.

Net corporation tax paid in the year was £3.3 million (2016: £2.1 million).

Earnings per share

Profits attributable to ordinary shareholders before highlighted items were £19.3 million (2016: £13.1 million). Profits after highlighted items attributable to ordinary shareholders are £15.7 million (2016: loss of £18.3 million).

Before highlighted items, basic earnings per share for 2017 is 5.9p (2016: 4.0p) and diluted earnings per share is 5.8p (2016: 4.0p). The comparatives have been adjusted for the disclosure change on deferred tax.

After highlighted items, basic earnings per share is 4.8p (2016: loss of 5.6p) and diluted earnings per share is 4.7p (2016: loss of 5.6p).

Performance overview

Divisional performance overview

Marketing

Marketing is led by US-based Evoke, the Group's largest agency, which primarily specialises in the marketing of prescription drugs directly to patients. It also incorporates specialist Healthcare PR agency Tonic and Healthcare professional marketing agencies First Hand and Nitrogen. During the year the division continued to make good progress in Healthcare Professional Marketing (HCP) and the growing area of Payer Marketing. Clients are increasingly looking for a single agency solution as healthcare marketing becomes more integrated, digital and seeks to reach multiple stakeholders. In this context, the combining of marketing agencies under one management team will create additional growth opportunities in 2018. Overall, the division continued to experience very strong growth this year, increasing revenue by 18% (13% on a like-for-like basis) to £73.6 million with operating profit increasing by 26% (16% on a like-for-like basis) to £15.5 million.

Medical

Medical is led by UK and US based Apothecom, which specialises in medical communications strategy, underpinned by data and analytics. The Group has been transformed over the past two years by strong leadership and an increased focus on consultancy led services which has resulted in record revenue growth and improved operating margins. The division grew revenue by 22% (18% on a like-for-like basis) to £30.9 million with operating profit increasing by 40% (34% on a like-for-like basis) to £8.3 million.

Immersive

Immersive is led by The Creative Engagement Group which joined Huntsworth in July 2017. The Creative Engagement Group, through its agencies, WRG, The Moment and Just, is focused on providing deeply immersive experiences in exhibitions, events, training and internal communications, mostly for healthcare clients. This division has great potential to grow in the US and expand its offering in internal communications and mixed media. The division delivered revenues of £14.9 million and operating profits of £1.9 million.

Communications

The Communications division is comprised of Grayling, Red and specialist financial agency Citigate Dewe Rogerson (CDR). The division achieved revenues of £77.6 million (2016: £89.3 million), a decline of 7% on a like-for like basis, and operating profit of £7.0 million (2016: £5.5 million), an improvement of 24% on a like-for like basis. Declining revenues were largely the result of closing loss-making agencies in Grayling in both 2016 and 2017.

During the year, Grayling has responded well to the prior year restructuring and has returned to profitability. This was led by the UK business which saw a particularly strong rebound in performance. Overall, Grayling reported revenues of £40.5 million, lower by 11% on a like-for-like basis, with operating profit of £1.1 million against a prior year loss of £0.8 million. Red had a good year, with revenue growth of 3% and operating profit growth of 4% despite a difficult marketplace and client churn largely driven by procurement-led tenders. The agency won a number of significant new mandates, and we anticipate little net effect on trading in 2018. Citigate Dewe Rogerson performed solidly with revenues of £22.2 million (2016: £22.1 million) and operating profit of £3.5 million (2016: £3.6 million). The results reflect a mixed performance across the agency, with a strong performance in the Netherlands offset by a weaker UK performance. A quieter Asian market impacted the Greater China business early in the year, however, all CDR operations benefited from an improving market towards the end of the year.

Performance overview

Group Outlook

Despite increasing FX headwinds, the Group remains well positioned for further growth. Our Marketing, Medical and Immersive divisions are continuing to grow on the back of multiple client wins, and the Communications division continues to make progress. Our focus is to better serve our Healthcare clients by developing and adding capability to the Group, and with a strengthening balance sheet we are well placed to continue to do so. Overall, we are well positioned for future growth and look forward to reporting further progress in 2018.

Key risks and uncertainties

The Risk Committee, on behalf of the Board, undertakes a robust assessment of the principal risks facing the Group. During the year the Group's principal risks and internal controls have been reassessed and the outcome of this reassessment is shown on pages 11 to 14. Our risk management approach is designed to identify risks to the Group using both a bottom-up and top-down approach. The Group considers macro, strategic and operational risks, which includes all operational, IT and financial risks.

The likelihood and impact of each risk is determined using a risk scoring system. Appetite is set for each risk and indicators established to determine whether the Group is operating within the risk appetite set by the Board. The Group obtains various forms of ongoing assurance over the controls in place to mitigate each of the risks identified. All risks are documented in the Group's risk register which is reviewed at least six monthly or more frequently as required.

Risk and Impact	Mitigating factors
MACRO	
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. Subdued global financial markets can result in reductions to the level of transactional activity, reducing client mandates. 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.	The Group has a wide spread of clients both across geography and industry sector, reducing reliance on any one 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 closely reports and monitors aged debts, and ensures local management have action plans in place to minimise the risk of any loss.
Political instability	
Political instability or change in our countries of operation may impact on our ability to operate, for example through licensing or regulatory changes. The political environment can also have an impact on the wider economic conditions, either through the direct impact of government policies in our countries of operation, or through the impact on business confidence.	The Group operates primarily within low-risk jurisdictions, with 91% of revenues coming from the US, UK and western Europe. Although the Health sector is regulated, our agencies have extensive experience in navigating the regulatory environment and in providing compliant solutions to clients. In addition, the underlying sector fundamentals are strong and give protection against the possibility of material adverse regulatory change.

Key risks and uncertainties

Risk and Impact	Mitigating factors
MACRO	
Currency risk	
A substantial proportion of the Group operates outside of the UK, with significant operations in the US and Europe. As a result, the Group's reported profits and asset values are impacted by any fluctuation of Sterling relative to other currencies, particularly the US Dollar and Euro. The Group may also suffer restrictions on the ability to repatriate cash. The proportion of the Group's profits made in the US is increasing which increases the level of risk when exchange rates fluctuate. Exchange rates have also continued to prove volatile, particularly in light of the ongoing uncertainty over Brexit.	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.
STRATEGIC	
Overreliance on Health sector	
One of the Group's strategic aims is to strengthen its focus on the Healthcare sector. In doing so, the Group's exposure to a single sector increases. Given the strength of the Healthcare sector in the US, and the fact that consumer marketing of prescription drugs is largely confined to the US, an increased focus on Healthcare is also likely to lead to an increased exposure to the US economy. By increasing the Group's exposure to a single sector and single geography, there is a risk that the Group will be more materially affected by a downturn in these markets.	The fundamentals of the Healthcare sector are strong, as a result of ageing populations and increasing prevalence of chronic diseases, particularly in the US. This leads to growing end-user demand which is relatively unaffected by economic cycles, thereby mitigating against the risk of a downturn. In addition, the Healthcare marketing services sector is fragmented, which means there would be continued opportunity for growth even if the overall sector were to enter a downturn. The Group is also expanding its suite of services, both organically and through acquisition, which increases the diversity of its offering within the Healthcare sector.
Service offering fails to evolve to 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.

Key risks and uncertainties

Risk and Impact	Mitigating factors
STRATEGIC	
Acquisitions or investments 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.
OPERATIONAL	
Client dissatisfaction and 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. 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.
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.
Poor profitability	
Overservicing or underpricing may lead to poor profitability on client contracts, which could mean static or reduced returns to shareholders even if revenues are increasing.	The Group monitors the profitability of its operations, at both a business and a contract level. Poor profitability is quickly highlighted and remedial action – such as removing costs, or improving pricing discipline – is taken where appropriate.

Key risks and uncertainties

Risk and Impact	Mitigating factors
OPERATIONAL	
Information systems access and security	
Any information systems failure could negatively impact the Group's business operations, including delays to client work.	Business and IT disaster recovery plans have been implemented to minimise any disruption in the event of an IT failure.
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.	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.
Unethical business practices	
Both reputational and operational damage may arise if the Group engages in actual or perceived unethical client work. Ethical matters that are not identified or managed appropriately could cause reputational damage to the Group.	The Group strives to foster a culture of openness, responsibility and ethical behaviour and has an externally managed whistleblowing process for the reporting of any unethical conduct. The Group's Code of Ethics is provided to every employee and they are expected to read and formally acknowledge the content and act accordingly. Referral processes, including divisional committees, are in place to manage all perceived ethical and conflict issues.
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 £75 million of multi-currency loan facilities with a syndicate of banks maturing in 2021, with an accordion option for a further £40 million as well as a £5 million uncommitted overdraft. 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.	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 2017

	Notes	2017	2016
Turnover		259,797	216,145
Revenue	4	196,976	180,137
Operating expenses		(172,237)	(194,723)
Share of profit from associate		167	57
Operating profit / (loss)	4	24,906	(14,529)
Finance income	6	5	9
Finance costs	6	(1,977)	(1,982)
Profit / (Loss) before tax		22,934	(16,502)
Comprising:			
Profit before tax and highlighted items	5	24,401	16,005
Highlighted items	5	(1,467)	(32,507)
		22,934	(16,502)
Taxation expense	7	(7,269)	(1,759)
Profit / (Loss) for the year attributable to Parent Company's equity shareholders		15,665	(18,261)

	Note	2017	2016
Earnings / (Loss) per share			
Basic	9	4.8	(5.6)
Diluted	9	4.7	(5.6)

Consolidated Statement of Comprehensive Income and Expense

for the year ended 31 December 2017

	2017	2016
Profit / (Loss) for the year	15,665	(18,261)
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	248	231
Movement in valuation of interest rate swaps	56	(664)
Tax (expense)/credit on interest rate swaps	(57)	82
Currency translation differences	(8,242)	20,095
Tax credit on currency translation differences	418	–
Total items that may be reclassified subsequently to profit or loss	(7,577)	19,744
Other comprehensive income and expense for the year	(7,577)	19,744
Total comprehensive income and expense for the year attributable to Parent Company’s equity shareholders	8,088	1,483

Consolidated Balance Sheet

as at 31 December 2017

	Notes	**2017**	2016
Non-current assets			
Intangible assets	10	181,228	159,797
Property, plant and equipment		10,180	11,832
Investment in associate		212	182
Other receivables		2,339	188
Deferred tax assets		32	926
		193,991	172,925
Current assets			
Work in progress		9,327	5,396
Trade and other receivables		66,372	56,087
Current tax receivable		613	1,504
Cash and short-term deposits		10,054	14,978
Assets of disposal group classified as held for sale		–	3,319
		86,366	81,284
Current liabilities			
Obligations under finance leases		(2)	(2)
Bank overdraft		(399)	(495)
Trade and other payables		(67,565)	(47,920)
Current tax payable		(1,508)	(756)
Derivative financial liabilities	11	(170)	(609)
Provisions	12	(559)	(1,979)
		(70,203)	(51,761)
Non-current liabilities			
Bank loans and overdrafts		(45,686)	(45,412)
Obligations under finance leases		(2)	(4)
Trade and other payables		(2,978)	(2,892)
Derivative financial liabilities	11	(51)	(70)
Deferred tax liabilities		(2,691)	(202)
Provisions	12	(1,345)	(1,553)
		(52,753)	(50,133)
Net assets		157,401	152,315
Equity			
Called up share capital		107,203	107,188
Share premium account		63,843	62,926
Merger reserve		29,468	29,468
Foreign currency translation reserve		35,762	44,004
Hedging reserve		(221)	(525)
Treasury shares		(1,166)	(1,166)
Investment in own shares held in Employee Benefit Trusts		(1,658)	(1,764)
Retained earnings		(75,830)	(87,816)
Equity attributable to equity holders of the parent		157,401	152,315

The financial statements were approved by the Directors on 05 March 2018 and signed on their behalf by: Neil Jones (Director)

Consolidated Cash Flow Statement
for the year ended 31 December 2017

	Notes	**2017 £000**	2016 £000
Cash inflow from operating activities			
Cash inflow from operations	13(a)	27,497	12,640
Interest paid		(1,284)	(1,398)
Interest received		5	6
Cash flows from hedging activities		(248)	(231)
Net tax paid		(3,347)	(2,107)
Net cash inflow from operating activities		22,623	8,910
Cash outflow from investing activities			
Acquisition of subsidiary – cash paid	3	(24,978)	–
Cash acquired through acquisition	3	2,227	–
Proceeds from sale of businesses, net of cash disposed		2,413	462
Acquisition of intangible assets		–	(488)
Cost of internally developed intangible assets		(287)	(933)
Purchases of property, plant and equipment		(1,643)	(5,053)
Proceeds from sale of property, plant and equipment		16	27
Dividends received from associates		137	–
Net cash outflow from investing activities		(22,115)	(5,985)
Cash (outflow)/inflow from financing activities			
Proceeds from sale of own shares to settle share options		115	251
Repayment of finance lease liabilities		(2)	(24)
Net drawdown of borrowings		-	5,975
Dividends paid to equity holders of the parent		(4,946)	(5,562)
Net cash (outflow)/inflow from financing activities		(4,833)	640
(Decrease)/increase in cash and cash equivalents		(4,325)	3,565
Movements in cash and cash equivalents			
(Decrease)/increase in cash and cash equivalents		(4,325)	3,565
Effects of exchange rate fluctuations on cash held		(503)	2,000
Cash and cash equivalents at 1 January		14,483	8,918
Cash and cash equivalents at 31 December	13(c)	9,655	14,483

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

	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 2016	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
Profit for the year	–	–	–	–	–	–	–	15,665	15,665
Other comprehensive (expense)/income	–	–	–	(8,242)	304	–	–	361	(7,577)
Settlement of share options	–	–	–	–	–	–	106	9	115
Share issue costs	–	(16)	–	–	–	–	–	–	(16)
Charge for share-based payments	–	–	–	–	–	–	–	1,289	1,289
Tax on share-based payments	–	–	–	–	–	–	–	540	540
Scrip dividends	15	933	–	–	–	–	–	–	948
Equity dividends	–	–	–	–	–	–	–	(5,878)	(5,878)
At 31 December 2017	107,203	63,843	29,468	35,762	(221)	(1,166)	(1,658)	(75,830)	157,401

Notes to the Preliminary Consolidated Financial Statements
for the year ended 31 December 2017

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 5 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 2016 have been filed with the Registrar of Companies. The auditor's reports on the financial statements for the years ended 31 December 2017 and 31 December 2016 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 2017 is based on, and is consistent with, that in the Group's audited financial statements for the year ended 31 December 2017. 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 68 to 72 of the 2016 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 2017, but had no significant impact on the Group:

- IAS 7 (amendment) – Statement of cash flows
- IAS 12 (amendment) – Income taxes

Reclassification of prior period information
For the period ended 31 December 2016 the Group has reclassified the deferred tax expense on US intangible assets from profit before tax and highlighted items into highlighted items to be consistent with the presentation for the year ended 31 December 2017. This is on the basis that the deferred tax expense would only ever crystallise on a sale of the relevant businesses, which is not anticipated at the current time, and such a sale would be a highlighted item. There is no impact of the statutory results.

3. Acquisition of The Creative Engagement Group

On 1 July 2017, the Group acquired the entire issued share capital of The Creative Engagement Group Limited (TCEG). Acquisition accounting has been performed in accordance with IFRS 3 (revised) Business Combinations.

TCEG has contributed £12.2 million to revenue and £2.0 million to profit before tax for the period between the date of acquisition and the year end. If the acquisition of TCEG had been completed on the first day of the financial year, Group revenues post highlighted items for the period would have been £211.0 million and Group operating profit would have been £27.3 million.

The fair values of the net assets at the date of acquisition were as follows:

	Provisional Fair value recognised on acquisition £000
Customer relationships	8,601
Brands	1,466
Property, plant and equipment	735
Trade and other receivables	15,754
Cash and cash equivalents	2,227
Trade and other payables	(23,953)
Deferred tax liability	(2,059)
Provisions	(309)
Net assets acquired	2,462
Provisional goodwill arising on acquisition	18,757
	21,219
Discharged by:	
Cash consideration	21,219
Net cash outflow arising on acquisition:	
Cash consideration	21,219
Repayment of bank debt	3,759
Cash and cash equivalents acquired	(2,227)
	22,751

Goodwill comprises the value of expected synergies arising from the acquisition and other intangible assets that do not qualify for separate recognition.

Acquisition related costs of £395,000 were incurred and these are included within highlighted items in the Consolidated Income Statement. The Creative Engagement Group forms part of the Immersive Operating Segment.

4. Segmental analysis

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

During the year there was a reorganisation of the Group's operating segments. Huntsworth Health was split into 3 segments – Medical, Marketing and Immersive. Grayling, Citigate Dewe Rogerson ("CDR") and Red have been combined into one operating segment, Communications.

These revised segments 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.

Details of the types of services from which each segment derives its revenues are included within the Strategic Report. The accounting policies applied in preparing the management information for each of the reportable segments are the same as the Group's accounting policies described in Note 2.

Year ended 31 December 2017	**Marketing £000**	**Medical £000**	**Immersive £000**	**Communications £000**	**Total £000**
Segment revenue before highlighted items	73,540	30,875	14,949	77,612	196,976
Segment operating profit before highlighted items	15,509	8,315	1,853	7,006	32,683

Year ended 31 December 2016	Marketing £000	Medical £000	Immersive £000	Communications £000	Total £000
Segment revenue before highlighted items	62,545	25,274	3,020	89,298	180,137
Segment operating profit before highlighted items	12,334	5,951	15	5,543	23,843

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

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

	2017 £000	2016 £000
Segment operating profit before highlighted items	32,683	23,843
Unallocated costs	(6,477)	(5,922)
Share of profit from associate	167	57
Operating profit before highlighted items	26,373	17,978
Highlighted items	(1,467)	(32,507)
Operating profit / (loss)	24,906	(14,529)
Net finance costs	(1,972)	(1,973)
Profit / (Loss) before tax	22,934	(16,502)

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

5. Highlighted items

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

	Notes	2017 £000	2016 £000
Reported profit / (loss) before tax		22,934	(16,502)
Adjustments charged/(credited) to operating expenses:			
Amortisation of acquired intangible assets	10	1,393	840
Goodwill impairment	10	–	30,499
Impairment of software development costs	10	–	239
Restructuring costs		–	2,044
Acquisition and transaction related costs/(credit)		395	(679)
Disposal related credit		(321)	(436)
Total adjustments charged to operating expenses		1,467	32,507
Adjusted profit before tax and highlighted items		24,401	16,005

	Notes	2017 £000	2016 £000
Charged to profit before tax		1,467	32,507
Taxation expense/(credit) on highlighted items	7	2,146	(1,132)
Charged to profit for the year		3,613	31,375

Amortisation of acquired intangible assets

Intangible assets are amortised systematically over their estimated useful lives, which vary from two 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

No impairment was recognised in the year. Further disclosures are given in Note 10. Impairments totalling £30.5 million were recognised in 2016 relating to goodwill in the Grayling CGU. Impairment charges are individually disclosed and are excluded from adjusted results as they do not relate to underlying trading.

Impairment of software development costs

No impairment was recognised in the year. In 2016 the impairment related to significant adverse changes in the extent to which internally developed software is expected to be used. The recoverable amount is the value in use which was determined to be £nil. The charge was excluded from adjusted results as it does not relate to underlying trading.

Restructuring costs

No restructuring costs were incurred in 2017 as the restructure was completed. Restructuring costs in 2016 comprised of 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 were included. These costs, which were part of the new management team's strategic refocus of the business, were excluded from adjusted results as they do not relate to underlying trading.

Acquisition and transaction related costs/(credit)

In 2017 the costs relate to the acquisition of subsidiaries. These costs are excluded from adjusted results as they are one-off in nature. The credit in 2016 related to subsequent re-measurement of the fair value of deferred contingent consideration. These costs were excluded from adjusted results as they relate to historic business combinations rather than ongoing operations.

Disposal related credit

This represents profit on disposal of subsidiaries including adjustments for deferred consideration receivable and recycled foreign currency translation reserves. These credits have been excluded from adjusted results as they do not relate to ongoing operations.

Taxation

The tax related to highlighted items is the tax effect of the items above. The Group presents highlighted items charged to profit before tax by making adjustments for costs and credits which management believe to be significant by virtue of their size, nature or incidence or which have a distortive effect on current year earnings. The Group uses these adjusted measures to evaluate performance and as a method to provide shareholders with clear and consistent reporting.

6. Finance costs and income

	2017 £000	2016 £000
Bank interest payable	1,949	1,955
Imputed interest on long-term payables and provisions	28	27
Finance costs	1,977	1,982
Bank interest receivable	(3)	(2)
Other interest receivable	(2)	(7)
Finance income	(5)	(9)
Net finance costs	1,972	1,973

7. Taxation

The charge for the year can be reconciled to the profit per the income statement as follows:

	2017 £000	2016 £000
Profit/(loss) before tax	22,934	(16,502)
Notional income tax expense/(credit) at the effective UK statutory rate of 19.25% (2016: 20.0%) on profit/(loss) before tax	4,415	(3,300)
Permanent differences	1,285	4,068
Impact of share-based payments	(107)	58
Different tax rates on overseas profits	2,378	590
Impact of changes in statutory tax rates	(998)	(19)
Adjustments in respect of prior years	(224)	(475)
Utilisation and recognition of tax losses	207	(27)
Unrelieved current year losses	313	864
Income tax expense	7,269	1,759

	2017 £000	2016 £000
Comprising:		
Income tax charge on profit before tax and highlighted items	5,123	2,891
Income tax expense/(credit) on highlighted items	2,146	(1,132)
	7,269	1,759

The income tax expense for the year is based on the United Kingdom effective statutory rate of corporation tax of 19.25% (2016: 20.0%). Overseas tax is calculated at the rates prevailing in the respective jurisdictions.

8. Dividends

	2017 £000	2016 £000
Equity dividends on ordinary shares:		
Final dividend for the year ended 2016: 1.25 pence (2015: 1.25 pence)	4,078	4,071
Interim dividend for the year ended 2017: 0.55 pence (2016: 0.5 pence)	1,800	1,631
Total dividend expense	5,878	5,702

The total dividend includes a cash element of £4.9 million (2016: £5.6 million) and a scrip element of £0.9 million (2016: £0.1 million). Shareholdings under the Group's Employee Benefit Trust of 2,379,181 shares waived their rights to both dividends (2015 final dividend and 2016 interim dividend: 2,591,344 and 2,507,643 shares respectively).

A 2017 final dividend of 1.45 pence per share has been proposed for approval at the Annual General Meeting in 2018.

9. Earnings per share

	2017	2016
Basic earnings per share – pence	4.8	(5.6)
Diluted earnings per share – pence	4.7	(5.6)
Adjusted basic earnings per share – pence	5.9	4.0
Adjusted diluted earnings per share – pence	5.8	4.0

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

	2017 Earnings £000	**2017 Weighted average number of shares 000s**	2016 (Loss)/earnings £000	2016 Weighted average number of shares 000s
Basic	15,665	326,827	(18,261)	325,245
Diluted	15,665	334,990	(18,261)	325,245[1]
Adjusted basic	19,278	326,827	13,114	325,245
Adjusted diluted	19,278	334,990	13,114	329,488

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

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

Diluted earnings/(loss) per share takes the basic earnings/(loss) 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.

	2017 £000	2016 £000
Earnings:		
Profit/(loss) for the year attributable to the Parent Company's shareholders	15,665	(18,261)
Highlighted items (net of tax) attributable to the Parent Company's shareholders	3,613	31,375
Adjusted earnings	19,278	13,114

	2017 £000	2016 £000
Number of shares:		
Weighted average number of ordinary shares – basic	326,827	325,245
Effect of share options in issue	8,163	4,243
Weighted average number of ordinary shares – diluted	334,990	329,488

10. Intangible assets

	Brands £000	Customer relationships £000	Goodwill £000	Intellectual property £000	Software development costs £000	Total £000
Cost						
At 1 January 2016	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	–	–	(125)	–	–	(125)
Exchange differences	2,518	3,887	28,792	267	335	35,799
At 31 December 2016	27,875	35,100	336,775	1,754	4,713	406,217
Acquisitions	1,466	8,601	18,757	–	–	28,824
Capitalised development costs	–	–	–	–	232	232
Disposals	(134)	(40)	–	–	–	(174)
Write-offs	–	–	–	(1,819)	–	(1,819)
Exchange differences	(821)	(1,848)	(9,964)	65	(183)	(12,751)
At 31 December 2017	28,386	41,813	345,568	–	4,762	420,529
Amortisation and impairment charges						
At 1 January 2016	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
Charge for the year	637	756	–	–	292	1,685
Disposals	(92)	(40)	–	–	–	(132)
Write-offs	–	–	–	(1,819)	–	(1,819)
Exchange differences	(797)	(1,782)	(4,262)	65	(77)	(6,853)
At 31 December 2017	23,758	33,703	179,060	–	2,780	239,301
Net book value at 31 December 2017	4,628	8,110	166,508	–	1,982	181,228
Net book value at 31 December 2016	3,865	331	153,453	–	2,148	159,797

No CGUs were considered impaired at 31 December 2017.

11. 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 2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial liabilities				
Interest rate swap	–	221	–	221
	–	221	–	221

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

Valuation techniques used to derive Level 2 fair values
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.

12. Provisions

	Deferred contingent consideration £000	Property £000	Reorganisation and other £000	Total £000
At 1 January 2016	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
Arising during the year	–	67	–	67
Provision on acquisition of subsidiary	–	309	–	309
Released during the year	–	(97)	(22)	(119)
Utilised	–	(1,347)	(476)	(1,823)
Foreign exchange movements	–	(96)	6	(90)
Unwind of discount	–	21	7	28
At 31 December 2017	–	1,787	117	1,904
Current	–	442	117	559
Non-current	–	1,345	–	1,345

At 31 December 2016	Deferred contingent consideration £000	Property £000	Reorganisation and other £000	Total £000
Current	–	1,413	566	1,979
Non-current	–	1,517	36	1,553
	–	2,930	602	3,532

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 prior year represented a change in the estimated future financial performance of the acquired company. Where deferred consideration was not contingent on the outcome of future events the amount was 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 sub-let 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.

13. Cash flow analysis

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

	2017 £000	2016 £000
Operating profit/(loss)	24,906	(14,529)
Share of profit from associate	(167)	(57)
Depreciation	2,992	2,737
Share option charge	1,289	234
(Profit)/loss on disposal of property, plant and equipment	(13)	72
Amortisation of intangible assets	1,685	1,046
Impairment of intangible assets	–	30,786
(Gain)/loss on financial instruments	(154)	154
Profit on disposal of subsidiaries and investments	(321)	(436)
Increase in work in progress	(1,438)	(1,712)
Increase in debtors	(830)	(6,125)
Increase in creditors	1,325	2,339
Decrease in provisions	(1,777)	(1,869)
Net cash inflow from operations	27,497	12,640

Net cash inflow from operations is analysed as follows:

	2017 £000	2016 £000
Before highlighted items	29,825	15,639
Highlighted items	(2,328)	(2,999)
Net cash inflow from operations	27,497	12,640

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

			Non-cash changes				
	2016 £000	Cashflow	New leases	Amortisation	Fair value changes	Foreign exchange	2017 £000
Cash and short-term deposits	14,978	(4,381)	–	–	–	(543)	10,054
Overdraft	(495)	56	–	–	–	40	(399)
Bank loans	(45,412)	–	–	(274)	–	–	(45,686)
Derivative financial liabilities	(679)	248	–	–	210	–	(221)
Finance leases	(6)	2	–	–	–	–	(4)
Net debt	(31,614)	(4,075)	–	(274)	210	(503)	(36,256)

			Non-cash changes				
	2015 £000	Cashflow	New leases	Amortisation	Fair value changes	Foreign exchange	2016 £000
Cash and short-term deposits	8,918	4,017	–	–	–	2,043	14,978
Overdraft	–	(452)	–	–	–	(43)	(495)
Bank loans	(39,172)	(5,975)	–	(265)	–	–	(45,412)
Derivative financial liabilities	(92)	231	–	–	(818)	–	(679)
Finance leases	(25)	24	(5)	–	–	–	(6)
Net debt	(30,371)	(2,155)	(5)	(265)	(818)	2,000	(31,614)

13. Cash flow analysis continued

(c) Analysis of net debt

	2017 £000	2016 £000
Cash and short-term deposits	10,054	14,978
Bank overdraft	(399)	(495)
Bank loans	(45,686)	(45,412)
Derivative financial liabilities	(221)	(679)
Obligations under finance leases	(4)	(6)
Net debt	(36,256)	(31,614)

At 31 December 2017 the Group had undrawn committed facilities of £32.9 million (2016: £24.0 million) available.

14. 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.

15. 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.

16. Post balance sheet events

After the year end, the Group completed an amend and extend of its banking facilities, as a result of which the Group has available a £75 million multi-currency revolving credit facility with a £40 million accordion option, committed until September 2021, together with a £5 million uncommitted overdraft.

On 22 February 2018 Huntsworth plc acquired 75% of the issued shares in AboveNation Media LLC for initial cash consideration of $1.75 million and two deferred payments due in 2019 and 2021, based on a multiple of EBITDA for the preceding years.

The financial effects of the above transaction have not been brought into account at 31 December 2017. The operating results and assets and liabilities of the company will be brought into account from 22 February 2018. The fair value calculation of assets and liabilities acquired is on-going.

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 – Non-IFRS measures

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, acquisition/transaction related costs and disposal related credits. In the prior year, goodwill impairment, impairment of software development costs and restructuring costs were 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 5.

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 9.

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 13.

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 13.

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 excluding the effect of acquisitions and disposals. 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 IFRS revenues and operating profit and like-for-like results are included in the table below:

Revenue

Year ended 31 December 2017	Marketing £000	Medical £000	Immersive £000	Communications £000	Total Group £000
Segmental revenue (Note 4)	73,540	30,875	14,949	77,612	196,976
Business closures	(1,388)	-	-	-	(1,388)
Acquisitions	-	-	(12,237)	-	(12,237)
Like-for-like revenue	72,152	30,875	2,712	77,612	183,351

Year ended 31 December 2016	Marketing £000	Medical £000	Immersive £000	Communications £000	Total Group £000
Segmental revenue (Note 4)	62,545	25,274	3,020	89,298	180,137
Constant exchange rates	2,888	953	152	3,082	7,075
Business closures	(1,699)	-	-	(9,400)	(11,099)
Like-for-like revenue	63,734	26,227	3,172	82,980	176,113

Appendix 1 – Non-IFRS measures (continued)

Like-for-like (continued)

Operating profit

Year ended 31 December 2017	Marketing £000	Medical £000	Immersive £000	Communications £000	Unallocated £'000	Total Group £000
Segmental operating profit (Note 4)	15,509	8,315	1,853	7,006	-	32,683
Unallocated costs	-	-	-	-	(6,477)	(6,477)
Share of profit from associate	-	-	-	-	167	167
Foreign exchange	-	-	-	-	(1,136)	(1,136)
Business closures	421	-	-	(8)	-	413
Acquisitions	-	-	(1,992)	-	-	(1,992)
Like-for-like operating profit	15,930	8,315	(139)	6,998	(7,446)	23,658

Year ended 31 December 2016	Marketing £000	Medical £000	Immersive £000	Communications £000	Unallocated £000	Total Group £000
Segmental operating profit (Note 4)	12,334	5,951	15	5,543	-	23,843
Unallocated costs	-	-	-	-	(5,922)	(5,922)
Share of profit from associate	-	-	-	-	57	57
Foreign exchange	-	-	-	-	877	877
Constant exchange rates	623	244	1	224	(8)	1,084
Business closures	720	-	-	(192)	-	528
Like-for-like operating profit	13,677	6,195	16	5,575	(4,996)	20,467