Report on the audit of the financial statements

Opinion

In our opinion:

- **the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 January 2018 and of the group's profit for the year then ended;**
- **the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements of Next Fifteen Communications Group plc (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 30 and Parent Company notes 1 to 12.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • impairment of acquired goodwill • valuation of acquired intangibles • valuation of acquisition-related liabilities
Materiality	The materiality that we used for the group financial statements was £1.47m which was determined based on a blended measure and represents 5.0% of adjusted profit before tax. Profit before tax is adjusted for exceptional costs and acquisition-related costs as disclosed in note 5 to the financial statements.
Scoping	Our scoping is based on both a qualitative and quantitative assessment of the individual brands. 72% of Group revenue was subject to full audit scope and a further 13% was subject to specified audit procedures performed by the Group auditor.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of acquired goodwill

Key audit matter description

As at 31 January 2018 the Group had recognised goodwill of £65.9m (2017: £57.4m). The valuation of goodwill in relation to Twogether (£9.2m) and Agent3 (£1.1m) is a key judgement as these businesses have limited headroom which is highly sensitive to Management's growth assumptions including new wins and retention of existing customers.

For further details, see notes 1 and 11.

How the scope of our audit responded to the key audit matter

In order to address this key audit matter, our audit work included:

- evaluating the design and implementation of key controls around the impairment review process and the budgeting process;
- considering historical forecasting accuracy;
- benchmarking the forecast growth and retention rates against other Group companies and available industry data;
- involving valuation specialists to benchmark the discount rate;
- reviewing the disclosure in the financial statements to assess whether it is compliant with IAS 36 Impairment of Assets; and
- performing sensitivity analysis of the critical assumptions to assess whether a reasonable change would trigger an impairment which would require additional disclosure.

Key observations

Based on the evidence received, we concluded that the valuation of goodwill for the businesses above and the disclosures under IAS 36 in the Group financial statements are appropriate.

Valuation of acquired intangibles

Key audit matter description

The Group acquired Velocity, Elvis, Circle and Charterhouse in the year for a total of £26.6m, resulting in the recognition of £12.7m of intangible assets and £11.2m of goodwill. Given the value of acquisitions in the year, there is a risk that the identification and valuation of separately identifiable intangible assets are not in accordance with IFRS 3 Business Combinations, or that Management use inappropriate assumptions such as the discount rates and future cash flows of the acquired businesses in their valuation models, leading to material errors in the valuation of goodwill and intangible assets.

For further details, see notes 1 and 26.

How the scope of our audit responded to the key audit matter

In order to address the risk relating to identification and valuation of intangible assets, our audit work included:

- evaluating the design and implementation of controls around acquisition accounting, as well as Group review of the compliance of the calculation with IFRS 3 Business Combinations;
- reviewing the Share Purchase Agreement (SPA) and holding discussions with management to understand the nature of the businesses acquired in order to assess whether all intangible assets have been identified;
- reviewing the appropriateness of Management's valuation models;
- challenging the assumptions against historical data, comparable external data and performance in other Group companies, and reviewing the application of these to the SPA terms; and
- challenging the individual discount rates used including benchmarking against the year-end Group Weighted Average Cost of Capital, reviewing the risk adjustments made in either the discount rate or cash flows and benchmarking against discount rates used for similar brands acquired across the Group.

Key observations

We are satisfied the valuation models applied to identify and value the separately identifiable intangible assets is appropriate and consistent with prior periods.

Valuation of acquisition-related liabilities

Key audit matter description

As at 31 January 2018 the Group had £25.6m of acquisition related liabilities (2017: £18.3m) which consist mainly of contingent consideration that are payable based on a share of the average profit of the businesses acquired. The value of these liabilities can be highly judgemental as they are based on forecast future performance of specific brands, customer attrition rates and the growth assumptions. There is a risk that these liabilities are inappropriately valued as they are based on inappropriate assumptions.

For further details, see notes 1 and 17.

How the scope of our audit responded to the key audit matter

Our audit work relating to acquisition-related liabilities included:

- evaluating the design and implementation of controls around the recognition and calculation of the acquisition related liabilities, including appropriate review of the forecasts used and assumptions made by the respective brand management teams;
- reviewing terms of the SPAs of all new acquisitions in the year to assess whether any acquisition related liabilities are included at year-end and that the liabilities are calculated in accordance with the terms;
- challenging the forecasts used to calculate the liability by considering pipeline work and historic performance;
- involving valuation specialists to benchmark the discount rates applied;
- benchmarking the forecasts against other Group companies and available industry data; and
- performing sensitivity analysis of the assumptions to assess a reasonable alternative scenario.

Key observations	We are satisfied that the assumptions used by management and the valuation of the acquisition-related liabilities are appropriate.

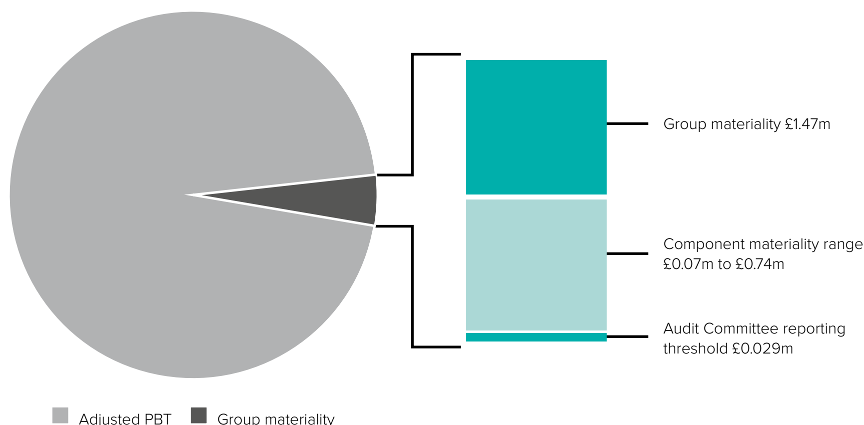
Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£1.47m	£1.39m
Basis for determining materiality	We have considered the adjusted profit before tax and revenue measures in determining materiality. Profit before tax is adjusted for exceptional costs and acquisition-related costs as disclosed in note 5 to the financial statements. Materiality equates to 5.0% of the adjusted profit before tax figure of £29.3m and 0.7% of the revenue figure of £196.8m.	Parent company materiality represents 1.8% of net assets which is capped at 95% of Group materiality.
Rationale for the benchmark applied	We considered a number of relevant benchmarks in our determination of materiality. Adjusted profit before tax is the main measure used in reporting the results for Next Fifteen Communications Group plc as this is the key performance indicator for the users of the financial statements of the group. In addition, we incorporated revenue as an additional benchmark as it reflects the growth of the group.	The Parent company is a holding company, and net assets is indicative of the company's ability to support its subsidiaries.

Adjusted PBT £29.3m



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.029m for the group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

As a result of the disaggregated nature of the Group, a significant portion of audit planning time is spent so that the scope of our work is appropriate to address the Group's identified risks of material misstatement. In selecting the components that are in scope each year, we obtained an understanding of the Group and its environment, including an understanding of the Group's system of internal controls, and assessing the risks of material misstatement at the Group level. The components were also selected to provide an appropriate basis on which to undertake audit work to address the identified risks of material misstatement.

Such audit work represents a combination of procedures, all of which are designed to target the Group's identified risks of material misstatement in the most effective manner possible. Based on our assessment, we focused our audit work on 22 components, 15 of which were subject to full audit scope and 7 were subject to specified audit procedures. Our audit of these 22 components provided coverage of 85% of the Group's consolidated revenue, 76% of the Group's profit before tax within the Group's profitable components and 69% of the loss before tax within the Group's loss-making components.

Our audit work at the components, excluding the parent company, is executed at levels of materiality appropriate for such components, which in all instances are capped at 50% of Group materiality.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and or the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records	*We have nothing to report in respect of these matters.*

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.	*We have nothing to report in respect of these matters.*

Andrew Evans (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
United Kingdom
12 April 2018

CONSOLIDATED INCOME STATEMENT

for the year ended 31 January 2018 and the year ended 31 January 2017

	Note	**Year ended 31 January 2018 £'000**	**Year ended 31 January 2018 £'000**	Year ended 31 January 2017 £'000	Year ended 31 January 2017 £'000
Billings			**243,485**		200,745
Revenue	2		**196,811**		171,013
Staff costs	3	**136,346**		126,756	
Depreciation	4,12	**3,985**		3,482	
Amortisation	4,11	**7,413**		6,017	
Other operating charges		**31,842**		26,844	
Total operating charges			**(179,586)**		(163,099)
Operating profit	2,5		**17,225**		7,914
Finance expense	6		**(5,833)**		(5,607)
Finance income	7		**1,878**		865
Net finance expense			**(3,955)**		(4,742)
Share of profit/(loss) from associate			**26**		(272)
Profit before income tax	5		**13,296**		2,900
Income tax expense	8		**(4,000)**		(1,232)
Profit for the year			**9,296**		1,668
Attributable to:					
Owners of the Parent			**8,632**		1,138
Non-controlling interests			**664**		530
			9,296		1,668
Earnings per share					
Basic (pence)	10		**11.6**		1.6
Diluted (pence)	10		**10.5**		1.5

The accompanying notes are an integral part of this Consolidated Income Statement.

All results relate to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 January 2018 and the year ended 31 January 2017

	Note	**Year ended 31 January 2018 £'000**	Year ended 31 January 2017 £'000
Profit for the year		**9,296**	1,668
Other comprehensive (expense)/income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(5,427)**	5,128
Gain/(Loss) on net investment hedges	19	**1,190**	(1,378)
Total other comprehensive (expense)/income for the year		**(4,237)**	3,750
Total comprehensive income for the year		**5,059**	5,418
Total comprehensive income attributable to:			
Owners of the Parent		**4,395**	4,888
Non-controlling interests		**664**	530
		5,059	5,418

The accompanying notes are an integral part of this Consolidated Statement of Comprehensive Income.

All results relate to continuing operations.

CONSOLIDATED BALANCE SHEET

As at 31 January 2018 and 31 January 2017

	Note	31 January 2018 £'000	31 January 2018 £'000	31 January 2017 £'000	31 January 2017 £'000
Assets					
Property, plant and equipment	12	**13,567**		15,764	
Intangible assets	11	**94,843**		79,979	
Investment in equity-accounted associate		**132**		120	
Trade investment		**1,211**		743	
Deferred tax assets	18	**9,794**		9,987	
Other receivables	13,19	**535**		817	
Total non-current assets			**120,082**		107,410
Trade and other receivables	13,19	**49,538**		42,143	
Cash and cash equivalents	19	**24,283**		22,072	
Corporation tax asset		**784**		601	
Total current assets			**74,605**		64,816
Total assets			**194,687**		172,226
Liabilities					
Loans and borrowings	19	**34,465**		31,869	
Deferred tax liabilities	18	**3,869**		2,692	
Other payables	14,19	**4,290**		5,537	
Provisions	15,19	**141**		54	
Deferred consideration	17,19	**1,784**		–	
Contingent consideration	17,19	**13,271**		10,971	
Share purchase obligation	17,19	**955**		3,033	
Total non-current liabilities			**(58,775)**		(54,156)
Loans and borrowings	19	**1,406**		1,589	
Trade and other payables	14,19	**45,003**		39,409	
Provisions	15,19	**1,405**		2,647	
Corporation tax liability		**2,154**		1,594	
Deferred consideration	17,19	**4,255**		–	
Contingent consideration	17,19	**5,368**		3,934	
Share purchase obligation	17,19	**–**		400	
Total current liabilities			**(59,591)**		(49,573)
Total liabilities			**(118,366)**		(103,729)
Total net assets			**76,321**		68,497
Equity					
Share capital		**1,892**		1,834	
Share premium reserve		**28,611**		25,681	
Share purchase reserve		**(2,673)**		(2,673)	
Foreign currency translation reserve		**4,811**		10,238	
Other reserves	24	**1,719**		529	
Retained earnings		**42,604**		31,962	
Total equity attributable to owners of the Parent			**76,964**		67,571
Non-controlling interests			**(643)**		926
Total equity			**76,321**		68,497

The accompanying notes are an integral part of this Consolidated Balance Sheet.

These financial statements were approved and authorised by the Board on 12 April 2018.

Peter Harris
Chief Financial Officer

Company number 01579589

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 January 2018 and the year ended 31 January 2017

	Note	Share capital £'000	Share premium reserve £'000	Share purchase reserve £'000	Foreign currency translation reserve £'000	Other reserves[1] £'000	Retained earnings £'000	Equity attributable to owners of the Parent £'000	Non-controlling interests £'000	Total equity £'000
At 31 January 2017		1,834	25,681	(2,673)	10,238	529	31,962	67,571	926	68,497
Profit for the year		–	–	–	–	–	8,632	8,632	664	9,296
Other comprehensive (expense)/income for the year		–	–	–	(5,427)	1,190	–	(4,237)	–	(4,237)
Total comprehensive (expense)/income for the year		–	–	–	(5,427)	1,190	8,632	4,395	664	5,059
Shares issued on satisfaction of vested performance shares	20	40	–	–	–	–	(77)	(37)	–	(37)
Shares issued on acquisitions	20,26	18	2,930	–	–	–	–	2,948	–	2,948
Movement in relation to share-based payments		–	–	–	–	–	4,284	4,284	–	4,284
Tax on share-based payments	8	–	–	–	–	–	1,240	1,240	–	1,240
Dividends to owners of the Parent	9	–	–	–	–	–	(4,121)	(4,121)	–	(4,121)
Movement due to ESOP share purchases		–	–	–	–	(39)	–	(39)	–	(39)
Movement due to ESOP share option exercises		–	–	–	–	39	–	39	–	39
Movement on reserves for non-controlling interests		–	–	–	–	–	684	684	(684)	–
Non-controlling dividend		–	–	–	–	–	–	–	(1,549)	(1,549)
At 31 January 2018		**1,892**	**28,611**	**(2,673)**	**4,811**	**1,719**	**42,604**	**76,964**	**(643)**	**76,321**

1 Other reserves include the ESOP reserve, the treasury reserve, the merger reserve and the hedging reserve; see note 24.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CONTINUED

for the year ended 31 January 2018 and the year ended 31 January 2017

	Note	Share capital £'000	Share premium reserve £'000	Share purchase reserve £'000	Foreign currency translation reserve £'000	Other reserves[1] £'000	Retained earnings £'000	Equity attributable to owners of the Parent £'000	Non-controlling interests £'000	Total equity £'000
At 31 January 2016		1,763	21,523	(2,673)	5,110	1,907	24,418	52,048	743	52,791
Profit for the year		–	–	–	–	–	1,138	1,138	530	1,668
Other comprehensive income/(expense) for the year		–	–	–	5,128	(1,378)	–	3,750	–	3,750
Total comprehensive income/(expense) for the year		–	–	–	5,128	(1,378)	1,138	4,888	530	5,418
Shares issued on satisfaction of vested share options	20	27	–	–	–	–	(265)	(238)	–	(238)
Shares issued on acquisitions	20,26	44	4,158	–	–	–	–	4,202	–	4,202
Movement in relation to share-based payments		–	–	–	–	–	8,974	8,974	–	8,974
Tax on share-based payments	8	–	–	–	–	–	1,239	1,239	–	1,239
Dividends to owners of the Parent	9	–	–	–	–	–	(3,264)	(3,264)	–	(3,264)
Movement due to ESOP share purchases		–	–	–	–	(25)	–	(25)	–	(25)
Movement due to ESOP share option exercises		–	–	–	–	25	–	25	–	25
Movement on reserves for non-controlling interests		–	–	–	–	–	(292)	(292)	292	–
Share options issued on acquisition of subsidiary		–	–	–	–	–	14	14	–	14
Non-controlling interest arising on acquisition		–	–	–	–	–	–	–	436	436
Non-controlling dividend		–	–	–	–	–	–	–	(1,075)	(1,075)
At 31 January 2017		1,834	25,681	(2,673)	10,238	529	31,962	67,571	926	68,497

1 Other reserves include the ESOP reserve, the treasury reserve, the merger reserve and the hedging reserve; see note 24.

The accompanying notes are an integral part of this Consolidated Statement of Changes in Equity.

CONSOLIDATED STATEMENT OF CASH FLOW

for the year ended 31 January 2018 and the year ended 31 January 2017

	Note	**Year ended 31 January 2018 £'000**	**Year ended 31 January 2018 £'000**	Year ended 31 January 2017 £'000	Year ended 31 January 2017 £'000
Cash flows from operating activities					
Profit for the year		**9,296**		1,668	
Adjustments for:					
Depreciation	4,12	**3,985**		3,482	
Amortisation	4,11	**7,413**		6,017	
Finance expense	6	**5,833**		5,607	
Finance income	7	**(1,878)**		(865)	
Share of (profit)/loss from equity-accounted associate		**(26)**		272	
Loss on sale of property, plant and equipment	4	**147**		110	
Income tax expense	8	**4,000**		1,232	
Share-based payment charge		**4,284**		8,989	
Net cash inflow from operating activities before changes in working capital			**33,054**		26,512
Change in trade and other receivables		**(5,860)**		8,430	
Change in trade and other payables		**2,143**		(2,861)	
Movement in provisions		**(472)**		763	
Change in working capital			**(4,189)**		6,332
Net cash generated from operations			**28,865**		32,844
Income taxes paid			**(4,284)**		(1,978)
Net cash from operating activities			**24,581**		30,866
Cash flows from investing activities					
Acquisition of subsidiaries trade and assets, net of cash acquired		**(9,824)**		(14,546)	
Payment of contingent consideration		**(5,062)**		(6,622)	
Acquisition of investments and associates		**(464)**		(777)	
Proceeds on disposal of associates		**–**		330	
Acquisition of property, plant and equipment		**(2,974)**		(8,284)	
Proceeds on disposal of property, plant and equipment		**7**		7	
Acquisition of intangible assets		**(1,193)**		(612)	
Net movement in long-term cash deposits		**(6)**		(292)	
Interest received	7	**117**		204	
Net cash outflow from investing activities			**(19,399)**		(30,592)
Net cash from operating and investing activities			**5,182**		274

CONSOLIDATED STATEMENT OF CASH FLOW CONTINUED
for the year ended 31 January 2018 and the year ended 31 January 2017

	Note	**Year ended 31 January 2018 £'000**	**Year ended 31 January 2018 £'000**	Year ended 31 January 2017 £'000	Year ended 31 January 2017 £'000
Net cash from operating and investing activities			**5,182**		274
Cash flows from financing activities					
Capital element of finance lease rental repayment		**(17)**		(55)	
Increase in bank borrowings and overdrafts		**8,000**		11,589	
Repayment of bank borrowings and overdrafts		**(3,516)**		–	
Interest paid	6	**(831)**		(695)	
Dividend and profit share paid to non-controlling interest partners	9	**(1,549)**		(1,075)	
Dividend paid to shareholders of the Parent	9	**(4,121)**		(3,264)	
Net cash (outflow)/inflow from financing activities			**(2,034)**		6,500
Net increase in cash and cash equivalents			**3,148**		6,774
Cash and cash equivalents at beginning of the year			**22,072**		14,132
Exchange (loss)/gain on cash held			**(937)**		1,166
Cash and cash equivalents at end of the year	19		**24,283**		22,072

The accompanying notes are an integral part of this Consolidated Statement of Cash Flow.

1 Accounting policies

Next Fifteen Communications Group plc (the 'Company') is a public limited company incorporated in the United Kingdom ('UK') and registered in England and Wales. The consolidated financial statements include the Company and its subsidiaries (together, the 'Group') and its interests in associates.

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

A. Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations adopted by the European Union ('Adopted IFRSs') and the parts of the Companies Act 2006 applicable to companies reporting under Adopted IFRSs. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

The consolidated financial statements have been prepared on a going concern basis (as set out in the Report of the Directors) and on a historical cost basis, except for the remeasurement to fair value of certain financial assets and liabilities as described in the accounting policies below.

B. New and amended standards adopted by the Group

The Group has adopted the new accounting pronouncements which became effective this year, none of which had a material impact on the Group's results or financial position.

C. Basis of consolidation

The Group's financial statements consolidate the results of Next Fifteen Communications Group plc and all of its subsidiary undertakings, and its interests in associates.

Subsidiaries are all entities over which the Group has control. Control is achieved where the Company has existing rights that give it the ability to direct the activities that affect the Company's returns and exposure or rights to variable returns from the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

In the Consolidated Balance Sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated Income Statement from the date on which control is obtained.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Parent's ownership interests in them. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. Each of these approaches has been used by the Group. Non-controlling interests are subsequently measured as the amount of those non-controlling interests at the date of the original combination and the non-controlling interest's share of changes in equity since the date of the combination.

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Associates are accounted for under the equity method of accounting. The Consolidated Income Statement reflects the share of the results of the operations of the associate after tax.

When a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in the Consolidated Income Statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to the Consolidated Income Statement, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete.

Intercompany transactions, balances and unrealised gains on transactions between Group companies (Next Fifteen Communications Group plc and its subsidiaries) are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies for subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

D. Merger reserve (included in other reserves)

Where the conditions set out in section 612 of the Companies Act 2006 or equivalent sections of previous Companies Acts are met, shares issued as part of the consideration in a business combination are measured at their fair value in the Consolidated Balance Sheet, and the difference between the nominal value and fair value of the shares issued is recognised in the merger reserve.

1 Accounting policies continued

E. Revenue and other income

Billings represent amounts receivable from clients, exclusive of VAT, sales taxes and trade discounts in respect of charges for fees, commission and rechargeable expenses incurred on behalf of clients.

Revenue is billings less amounts payable on behalf of clients to external suppliers where they are retained to perform part of a specific client project or service, and represents fees, commissions and mark-ups on rechargeable expenses. Revenue is recognised on the following bases:

- retainer and other non-retainer fees are recognised as the services are performed, in accordance with the terms of the contractual arrangement;
- project fees are recognised on a percentage-of-completion basis as contract activity progresses, if the final outcome can be assessed with reasonable certainty. The stage of completion is generally measured on the basis of the services performed to date as a percentage of the total services to be performed, usually with reference to completion of determined milestones and/or time incurred as a percentage of total time expected to be incurred; and
- expenses are recharged to clients at cost plus an agreed mark-up when the services are performed.

Finance income

Finance income primarily relates to changes in estimate in the Group's contingent consideration and share purchase obligation liabilities; refer to section T.

F. Intangible assets

Goodwill

Goodwill represents the excess of the fair value of consideration payable, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of the identifiable net assets acquired. The fair value of consideration payable includes assets transferred, liabilities assumed and equity instruments issued. The amount relating to the non-controlling interest is measured on a transaction-by-transaction basis, at either fair value or the non-controlling interest's proportionate share of net assets acquired. Both approaches have been used by the Group. Goodwill is capitalised as an intangible asset, not amortised but reviewed annually for impairment or in any period in which events or changes in circumstances indicate the carrying value may not be recoverable. Any impairment in carrying value is charged to the Consolidated Income Statement.

Software

Licences for software that are not integral to the functioning of a computer are capitalised as intangible assets. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development and employee costs. Amortisation is provided on software at rates calculated to write off the cost of each asset evenly over its expected useful life of between two and seven years. Costs associated with maintaining computer software programs are recognised as an expense as they are incurred. No amortisation is charged on assets in the course of construction until they are available for operational use in the business.

Software acquired as part of a business combination is recognised at fair value at the acquisition date. Software has a finite useful life and is amortised using the straight-line method over its estimated useful life of three years.

Trade names

Trade names acquired in a business combination are recognised at fair value at the acquisition date. Trade names have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trade names over their estimated useful lives of two to twenty years.

Customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship of three to six years.

Non-compete

Certain acquisition agreements contain non-compete arrangements restricting the vendor's ability to compete with the acquiring business during an earn-out period. The non-compete arrangements have a finite useful life equivalent to the length of the earn-out period and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the length of the arrangement.

The amortisation of acquired intangibles is added back for the Group's adjusted performance measures in order to better represent the underlying trading from business operations and to enhance comparability of the Group's profitability year on year.

1 Accounting policies continued

G. Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation. Depreciation is provided on all property, plant and equipment at annual rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows:

Short leasehold improvements	– Over the term of the lease
Office equipment	– 20% to 50% per annum straight-line basis
Office furniture	– 20% per annum straight-line basis
Motor vehicles	– 25% per annum straight-line basis

H. Impairment

Impairment tests on goodwill are undertaken annually at the financial year end. Other non-financial assets (excluding deferred tax) are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Where the carrying value of an asset exceeds its recoverable amount, which is measured as the higher of value in use and fair value less costs to sell, the asset is impaired accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, defined as the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. Goodwill is allocated on initial recognition to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill. The cash-generating units represent the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Impairment charges are included within the amortisation and impairment line of the Consolidated Income Statement unless they reverse gains previously recognised in other comprehensive income. An impairment loss recognised for goodwill is not reversed.

I. Foreign currency

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their 'functional currency') are recorded at the exchange rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the exchange rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the Consolidated Income Statement. In the consolidated financial statements, foreign exchange movements on intercompany loans with indefinite terms, for which there is no expectation of a demand for repayment, are recognised directly in equity within a separate foreign currency translation reserve.

On consolidation, the results of overseas operations are translated into sterling at the average exchange rates for the accounting period.

All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the exchange rates ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rates and the results of overseas operations at average rates are recognised directly in the foreign currency translation reserve within equity. The effective portion arising on the retranslation of foreign currency borrowings which are designated as a qualifying hedge is recognised within equity. See note 19 for more detail on hedging activities.

On disposal of a foreign operation, the cumulative translation differences recognised in the foreign currency translation reserve relating to that operation up to the date of disposal are transferred to the Consolidated Income Statement as part of the profit or loss on disposal.

On a reduction of ownership interest in a subsidiary that does not affect control, the cumulative retranslation difference is only allocated to the non-controlling interests ('NCI') and not recycled through the Consolidated Income Statement.

J. Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

1 Accounting policies continued

K. Financial instruments

Financial assets and liabilities are recognised on the Group's Consolidated Balance Sheet when the Group becomes party to the contractual provisions of the asset or liability. The Group's accounting policies for different types of financial asset and liability are described below.

Trade receivables

Trade receivables are initially recognised at fair value and will subsequently be measured at amortised cost less allowances for impairment. An allowance for impairment of trade receivables is established when there is objective evidence (such as significant financial difficulties on the part of the counterparty, or default or significant delay in payment) that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows associated with the impaired receivable.

Such provisions are recorded in a separate allowance account, with the loss being recognised as an expense in the other operating charges line in the Consolidated Income Statement. On confirmation that the trade receivable will not be collectable, the gross carrying value is written off against the associated allowance.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and short-term call deposits held with banks. Bank overdrafts are shown within loans and borrowings in current liabilities on the Consolidated Balance Sheet, except where there is a pooling arrangement with a bank that allows them to be offset against cash balances. In such cases the net cash balance will be shown within cash and cash equivalents in the Consolidated Balance Sheet.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value at the contract date and continue to be stated at fair value at the balance sheet date, with gains and losses on revaluation being recognised immediately in the Consolidated Income Statement. The fair value of derivative financial instruments is determined by reference to third-party market valuations.

Hedging activities

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk-management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Where a foreign currency loan is designated as a qualifying hedge of the foreign exchange exposure arising on retranslation of the net assets of a foreign operation, any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income in a separate hedging reserve included within other reserves. This offsets the foreign exchange differences arising on the retranslation of the foreign operation's net assets, which are recognised in the separate foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Income Statement within finance income/expense.

Gains and losses accumulated in equity on retranslation of the foreign currency loans are recycled through the Consolidated Income Statement when the foreign operation is sold or is partially disposed of so that there is a loss of control. At this point the cumulative foreign exchange differences arising on the retranslation of the net assets of the foreign operation are similarly recycled through the Consolidated Income Statement. Where the hedging relationship ceases to qualify for hedge accounting, the cumulative gains and losses remain within the foreign currency translation reserve until control of the foreign operation is lost; subsequent gains and losses on the hedging instrument are recognised in the Consolidated Income Statement.

Where there is a change in the ownership interest without effecting control, the exchange differences are adjusted within reserves.

Bank borrowing

Interest-bearing bank loans and overdrafts are recognised at their fair value, net of direct issue costs and, thereafter, at amortised cost. Finance costs are charged to the Consolidated Income Statement over the term of the debt so that the amount charged is at a constant rate on the carrying amount. Finance costs include issue costs that are initially recognised as a reduction in the proceeds of the associated capital instrument.

Deal costs

Costs associated with business combinations are recognised in the Consolidated Income Statement within the 'other operating charges' line in the year in which they are incurred. Those costs which are directly attributable to the business combination are considered exceptional to the extent they would not have been incurred had the business combination not occurred. They do not relate to the underlying trading of the Group and are added back in the adjusted performance measures to aid comparability of the Group's profitability year on year.

1 Accounting policies continued

K. Financial instruments continued

Contingent consideration

On initial recognition, the liability for contingent consideration relating to acquisitions is measured at fair value. The liability is calculated based on the present value of the ultimate expected payment with the corresponding debit included within goodwill. Subsequent movements in the present value of the ultimate expected payment are recognised in the Consolidated Income Statement.

The Group has a portion of contingent consideration which is payable subject to continuing employment of the previous owner within the Group. The expected liability is recognised within operating costs evenly over the required employment term of the seller.

Share purchase obligation

Put-option agreements that allow the non-controlling interest shareholders in the Group's subsidiary undertakings to require the Group to purchase the non-controlling interest are recorded in the Consolidated Balance Sheet as liabilities. On initial recognition, the liability is measured at fair value and is calculated based on the present value of the ultimate expected payment with the corresponding debit included in the share purchase reserve. Subsequent movements in the present value of the ultimate expected payment are recognised in the Consolidated Income Statement.

The Group adjusts for the remeasurement of the acquisition related liabilities within the adjusted performance measures in order to aid comparability of the Group's results year on year as the charge/credit can vary significantly depending on the underlying brand's performance.

Trade payables

Trade payables are initially recognised at fair value and thereafter at amortised cost.

L. Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation, and are discounted to present value where the effect is material. Provisions are created for vacant or sublet properties when the Group has a legal obligation for future expenditure in relation to onerous leases. The provision is measured at the present value of the Group's best estimate of the expenditure required to settle the present obligation at the balance sheet date.

M. Retirement benefits

Pension costs which relate to payments made by the Group to employees' own defined contribution pension plans are charged to the Consolidated Income Statement as incurred.

N. Share-based payments

The Group issues equity-settled share-based payments to certain employees via the Group's Long-Term Incentive Plan. The share-based payments are measured at fair value at the date of the grant and expensed on a straight-line basis over the vesting period. The cumulative expense is adjusted for failure to achieve non-market performance vesting conditions.

Fair value is measured by use of the Black-Scholes model on the grounds that there are no market-related vesting conditions. The expected life used in the model has been adjusted, based on the Board's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group grants brand equity appreciation rights to key individuals in the form of LLC units or restricted Ordinary Shares in the relevant subsidiary. The LLC units or restricted Ordinary Shares give the individuals a right to a percentage of the future appreciation in their particular brand's equity. Appreciation is measured based on a multiple of the brand's operating earnings in subsequent year(s), over the base line value determined at the date of grant. Since any brand appreciation payments are to be settled in Group equity, they are accounted for as equity-settled share-based payments. The Group fair values the LLC units or restricted Ordinary Shares at the date of grant and expenses them fully at that point. The Group determines that these brand appreciation rights (or growth shares) are exceptional in nature as they are the continuation of acquisition-related payments used to incentivise key management to grow their business and are one-off in nature as expensed to the Income Statement in full in the year of grant, the value of which can vary greatly depending on the nature of the scheme. Therefore adjusting for these within the Group's adjusted performance measures gives a better reflection of the Group's profitability and enhances comparability year on year.

O. Leased assets

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an 'operating lease'), the total rentals payable under the lease are charged to the Consolidated Income Statement on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction to the rental expense over the lease term on a straight-line basis.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

Where Group assets are leased out under operating leases with the Group acting as lessor, the asset is included in the Consolidated Balance Sheet and lease income is recognised over the term of the lease on a straight-line basis.

1 Accounting policies continued

P. Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Consolidated Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Q. Deferred tax

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the Consolidated Balance Sheet differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the asset can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable Group company; or
- different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle.

the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Where a temporary difference arises between the tax base of employee share options and their carrying value, a deferred tax asset should arise. To the extent that the future tax deduction exceeds the related cumulative IFRS 2 'Share-Based Payment' ('IFRS 2') expense, the excess of the associated deferred tax balance is recognised directly in equity. To the extent that the future tax deduction matches the cumulative IFRS 2 expense, the associated deferred tax balance is recognised in the Consolidated Income Statement.

R. Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an Annual General Meeting.

S. Employee Share Ownership Plan ('ESOP')

As the Group is deemed to have control of its ESOP trust, the trust is treated as a subsidiary and is consolidated for the purposes of the Group accounts. The ESOP's assets (other than investments in the Company's shares), liabilities, income and expenses are included on a line-by-line basis in the Group financial statements. The ESOP's investment in the Group's shares is deducted from equity in the Consolidated Balance Sheet as if they were treasury shares and presented in the ESOP reserve.

T. Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

I. Share-based payments

The Group grants brand equity appreciation rights which are fully settled in Company shares and are accounted as equity-settled share-based payments. These are valued using a model to determine a probability weighted average forecast value of the brand appreciation rights on settlement with Company shares. This involves making judgements of the future revenue growth and profit margins of the brands over a number of years, as well as making assumptions on timing of the exercise of the put option by employees.

II. Identification and valuation of acquired intangible assets

As part of the acquisition accounting under IFRS 3, the Group must identify and value the intangibles it has acquired. This involves judgements of the fair value of the acquired intangibles which can include assumptions of the longevity of acquired customer relationships, customer churn, cash flows and comparable brand royalty rates.

1 Accounting policies continued

T. Critical accounting judgements and key sources of estimation uncertainty continued

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

I. Impairment of goodwill

In line with IAS 36 'Impairment of Assets', the Group is required to test the carrying value of goodwill, at least annually, for impairment. As part of this review process the recoverable amount of the goodwill is determined using value-in-use calculations, which requires estimates of future cash flows and as such is subject to estimates and assumptions around revenue and cost growth rates from the Board-approved budget and discount rates applied. Further details are contained in note 11.

The Group has performed sensitivity analysis on the assumptions used in the value-in-use calculations for the purposes of the goodwill impairment review. The Group performed two scenarios. Firstly, with all other variables unchanged, if revenue and costs do not grow past the FY19 budget, and there is no growth in perpetuity then this would indicate an impairment of £2.9m. Secondly, with all other variables unchanged, if the discount rate increased by 2% to 14.7% then this would indicate an impairment of £3.1m.

II. Contingent consideration, share purchase obligation and valuation of put options

Contingent consideration and share purchase obligations relating to acquisitions have been included based on discounted management estimates of the most likely outcome. The difference between the fair value of the liabilities and the actual amounts payable is charged to the Consolidated Income Statement as notional finance costs over the life of the associated liability. Changes in the estimates of contingent consideration payable and the share purchase obligation are recognised in finance income/expense. These require judgements around future revenue growth, profit margins and discount rates, which if incorrect, could result in a material adjustment to the value of these liabilities within the next financial year. Further details, including sensitivity analysis, are contained in note 17.

U. New standards and amendments not applied

The Group has not yet adopted certain new standards, amendments and interpretations to existing standards which have been published but are only effective for our accounting periods beginning on or after 1 February 2018 or later periods. These new pronouncements are listed below:

- IFRS 15 'Revenue from Contracts with Customers' (effective periods beginning on or after 1 January 2018);
- IFRS 9 'Financial Instruments' (effective periods beginning on or after 1 January 2018); and
- IFRS 16 'Leases' (effective periods beginning on or after 1 January 2019).

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods except as follows:

- IFRS 15 may impact the timing of revenue recognition for the Group, particularly for revenue earned through project work where revenue recognition may now need to be deferred until a performance obligation has been completed rather than revenue recognition by reference to stage of completion. Across the Group we do not expect the impact of this to be material.
- IFRS 15 may also impact whether the Group is viewed as principal or agent for third party costs which are billed onto our clients. We expect that Next Fifteen will become principal for a proportion of our reimbursable third party costs, leading to an increase in revenue of between 7% and 14% and a corresponding increase in costs. The operating profit will remain the same; however, our operating profit margin will reduce. These changes are effective for the Group's year ending 31 January 2019.
- IFRS 9 is not expected to have a material impact on the Group's bad debt provision. Several of the Group's unquoted equity investments which are currently held at cost will need to be revalued to an approximate fair value. The Group is planning to designate these financial assets as fair value through other comprehensive income. These changes are effective for the Group's year ending 31 January 2019.
- IFRS 16 requires the recognition of all lease assets and liabilities by lessees on the balance sheet and is effective for the Group's year ending 31 January 2020. The Group is currently evaluating the impact of the adoption of this standard on its financial position and operating results. The profile of the Group's principal leases is shown in note 25.

2 Segment information

Reportable segments

The Board of Directors has identified the operating segments based on the reports it reviews as the chief operating decision-maker ("CODM") to make strategic decisions, assess performance and allocate resources. These are deemed to be regional segments.

The Group's business is separated into a number of brands which are considered to be the underlying cash-generating units ('CGUs'). These brands are organised into regional segments based on their geographical location; within these reportable segments the Group operates a number of separate competing businesses in order to offer services to clients in a confidential manner where otherwise there may be issues of conflict.

Measurement of operating segment profit

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted operating profit before intercompany recharges, which reflects the internal reporting measure used by the Board of Directors. This measurement basis excludes the effects of certain fair value accounting charges, amortisation of acquired intangibles and other costs not associated with the underlying business. Other information provided to them is measured in a manner consistent with that in the financial statements. Head Office costs relate to Group costs before allocation of intercompany charges to the operating segments. Inter-segment transactions have not been separately disclosed as they are not material. The Board of Directors does not review the assets and liabilities of the Group on a segmental basis and therefore this is not separately disclosed.

	UK £'000	EMEA £'000	US £'000	Asia Pacific £'000	Head Office £'000	Total £'000
Year ended 31 January 2018						
Revenue	**58,329**	**7,851**	**115,941**	**14,690**	**–**	**196,811**
Segment adjusted operating profit/(loss)	**12,984**	**752**	**23,181**	**2,002**	**(8,893)**	**30,026**
Operating profit margin	**22.3%**	**9.6%**	**20.0%**	**13.6%**	**–**	**15.3%**
Organic revenue growth	**7.6%**	**3.4%**	**5.1%**	**(0.7%)**	**–**	**5.2%**
Year ended 31 January 2017						
Revenue	42,638	7,166	107,008	14,201	–	171,013
Segment adjusted operating profit/(loss)	8,042	647	22,347	2,162	(8,228)	24,970
Operating profit margin	18.9%	9.0%	20.9%	15.2%	–	14.6%
Organic revenue growth	3.7%	5.7%	12.6%	6.4%	–	9.9%

A reconciliation of segment adjusted operating profit to statutory operating profit is provided as follows:

	Year ended 31 January 2018 £'000	Year ended 31 January 2017 £'000
Segment adjusted operating profit	**30,026**	24,970
Share-based payment charge and charges associated with equity transactions accounted for as share-based payments[1]	**(3,050)**	(10,507)
Deal costs	**(490)**	(368)
Costs associated with restructuring[2]	**(1,700)**	(676)
Charge associated with office moves[3]	**(525)**	–
Total exceptional costs in operating profit excluding amortisation	**(5,765)**	(11,551)
Amortisation of acquired intangibles	**(7,036)**	(5,505)
Total exceptional costs in operating profit	**(12,801)**	(17,056)
Total operating profit	**17,225**	7,914

1 This charge relates to transactions whereby a restricted grant of brand equity was given to key management in Text 100 LLC, Encore Digital Media Limited, Bite Communications LLC and The OutCast Agency LLC (2017: Agent3 Limited, BYND Limited, MIG Global Limited, The Lexis Agency Limited, Twogether Creative Limited, BYND LLC, Vrge Strategies LLC and M Booth LLC) at nil cost which holds value in the form of access to future profit distributions as well as any future sale value under the performance-related mechanism set out in the share sale agreement. This value is recognised as a one-off share-based payment in the income statement in the year of grant. It also includes charges associated with equity transactions accounted for as share-based payments.

2 In the current period the Group has incurred exceptional redundancy costs in relation to Story Worldwide LLC and BiteDA Limited, which have now been merged with M Booth LLC and Twogether Creative Limited respectively. In the prior period the costs were in relation to the restructuring of the Story Worldwide LLC business and finalisation of the restructure in the EMEA region. These costs are adjusted in order to aid comparability of the Group's underlying ongoing trading performance year on year.

3 In the current year the Group has incurred double rent relating to property moves in New York and the UK. The Group has adjusted for the cost of the onerous property leases as the duplicate rent cost does not relate to the underlying trading of the business and the adjustment enhances comparability of the results year on year.

3 Employee information

Staff costs for all employees, including Directors, consist of:

	Year ended 31 January 2018 £'000	Year ended 31 January 2017 £'000
Wages and salaries	**120,541**	105,622
Social security costs	**8,906**	7,629
Pension costs	**2,544**	2,159
Share-based payment charge (note 21)	**4,355**	11,346
	136,346	126,756

The average monthly number of employees during the period, by geographical location, was as follows:

	Year ended 31 January 2018 £'000	Year ended 31 January 2017 £'000
UK	**599**	424
Europe and Africa	**89**	81
US	**710**	716
Asia Pacific	**332**	314
Head Office	**47**	45
	1,777	1,580

Key management personnel are considered to be the Board of Directors as set out on pages 22 and 23.

Directors' remuneration consists of:

	Year ended 31 January 2018 £'000	Year ended 31 January 2017 £'000
Short-term employee benefits	**1,300**	1,388
Pension costs	**106**	105
Share-based payment charge	**885**	325
	2,291	1,818

The highest paid Director received total emoluments of £1,063,000 (2017: £1,072,000).

4 Operating profit

This is arrived at after charging/(crediting):

	Year ended 31 January 2018 £'000	Year ended 31 January 2017 £'000
Depreciation of owned property, plant and equipment	**3,983**	3,354
Depreciation of assets held under finance leases	**2**	128
Amortisation of intangible assets	**7,413**	6,017
Loss on sale of property, plant and equipment	**147**	110
Share-based payment charge	**1,305**	839
Share-based payment charge – exceptional (note 2)	**3,050**	10,507
Operating lease income	**(640)**	(223)
Operating lease rentals – property	**8,298**	7,603
– plant and machinery	**90**	61
Foreign exchange loss/(gain)	**1,043**	(824)

4 Operating profit continued

Auditors' remuneration

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor and their associates:

	Year ended 31 January 2018 £'000	Year ended 31 January 2017 £'000
Fees payable to the Company's auditor for the statutory audit of the Company accounts and consolidated annual statements	**205**	195
The auditing of financial statements of the subsidiaries pursuant to legislation	**174**	148
Non-audit services:		
Tax advisory services	**13**	71
Other assurance services	**5**	30
	397	444

5 Reconciliation of pro forma financial measures

The following reconciliations of pro forma financial measures have been presented to provide additional information which will be useful to the users of the financial statements in understanding the underlying performance of the Group.

The adjusted measures are also used for the performance calculation of the adjusted earnings per share used for the vesting of employee share options (note 10), banking covenants and cash flow analysis.

Adjusted profit before income tax and earnings to ordinary shareholders

	Year ended 31 January 2018 £'000	Year ended 31 January 2017 £'000
Profit before income tax	**13,296**	2,900
Unwinding of discount on contingent and deferred consideration (note 17)	**2,255**	1,787
Unwinding of discount on share purchase obligation (note 17)	**255**	395
Total exceptional costs in operating profit (note 2)	**12,801**	17,056
Change in estimate of future contingent consideration payable (note 17)	**1,140**	1,606
Change in estimate of future share purchase obligation (note 17)	**(409)**	456
Adjusted profit before income tax	**29,338**	24,200

Adjusted EBITDA

	Year ended 31 January 2018 £'000	Year ended 31 January 2017 £'000
Operating profit	**17,225**	7,914
Depreciation of owned property, plant and equipment (note 12)	**3,983**	3,354
Depreciation of assets held under finance leases (note 12)	**2**	128
Amortisation of intangible assets (note 11)	**7,413**	6,017
EBITDA	**28,623**	17,413
Total exceptional costs in operating profit excluding amortisation (note 2)	**5,765**	11,551
Adjusted EBITDA	**34,388**	28,964

5 Reconciliation of pro forma financial measures continued

Adjusted staff costs

	Year ended 31 January 2018 £'000	Year ended 31 January 2017 £'000
Staff costs	**136,346**	126,756
Reorganisation costs	**(1,344)**	(593)
Charges associated with equity transactions accounted for as share-based payments (note 2)	**(3,050)**	(10,507)
Adjusted staff costs	**131,952**	115,656

6 Finance expense

	Year ended 31 January 2018 £'000	Year ended 31 January 2017 £'000
Financial liabilities at amortised cost		
Bank interest payable	**831**	685
Financial liabilities at fair value through profit and loss		
Unwinding of discount on share purchase obligation (note 17)	**255**	395
Change in estimate of future share purchase obligation (note 17)	**–**	858
Unwinding of discount on contingent and deferred consideration (note 17)	**2,255**	1,787
Change in estimate of future contingent consideration payable (note 17)	**2,492**	1,865
Other		
Finance lease interest	**–**	7
Other interest payable	**–**	10
Finance expense	**5,833**	5,607

7 Finance income

	Year ended 31 January 2018 £'000	Year ended 31 January 2017 £'000
Financial assets at amortised cost		
Bank interest receivable	**98**	40
Financial liabilities at fair value through profit and loss		
Change in estimate of future share purchase obligation (note 17)	**409**	402
Change in estimate of future contingent consideration (note 17)	**1,352**	259
Other		
Other interest receivable	**19**	164
Finance income	**1,878**	865

8 Taxation

The major components of income tax expense/(credit) for the year ended 31 January 2018 and year ended 31 January 2017 are:

	Year ended 31 January 2018 £'000	Year ended 31 January 2017 £'000
Consolidated Income Statement		
Current income tax		
Current income tax expense	**5,770**	4,232
Adjustments in respect of current income tax in prior years	**(498)**	(106)
Deferred income tax		
Relating to the origination and reversal of temporary differences	**(1,459)**	(3,025)
Adjustments in respect of deferred tax for prior years	**187**	131
Income tax expense reported in the Consolidated Income Statement	**4,000**	1,232
Consolidated Statement of Changes in Equity		
Tax credit relating to share-based remuneration	**(1,240)**	(1,239)
Income tax benefit reported in equity	**(1,240)**	(1,239)
Factors affecting the tax charge for the year		
The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 19.17% (2017: 20%). The difference is explained below:		
Profit before income tax	**13,296**	2,900
Corporation tax expense at 19.17% (2017: 20%)	**2,549**	580
Effects of:		
Disallowed expenses	**1,688**	1,338
Recognition of previously unrecognised tax losses	**(396)**	(19)
Non-utilisation of tax losses	**2**	18
Higher rates of tax on overseas earnings	**1,183**	836
Deduction for overseas taxes	**(715)**	(1,546)
Adjustments in respect of prior years	**(311)**	25
	4,000	1,232
Reconciliation of tax expense in the Consolidated Income Statement to adjusted tax expense:		
Income tax expense reported in the Consolidated Income Statement	**4,000**	1,232
Add back:		
Tax on adjusting items		
Costs associated with the current period restructure and office moves (note 2)	**630**	197
Unwinding of discount on and change in estimates of contingent and deferred consideration (note 17)	**(25)**	146
Share-based payment charge (note 2)	**552**	2,431
Amortisation of acquired intangibles	**1,530**	1,318
Impact of US tax reform	**(817)**	–
Adjusted tax expense	**5,870**	5,324
Adjusted profit before income tax (note 5)	**29,338**	24,200
Adjusted effective tax rate	**20%**	22%

The Group presents the adjusted effective tax rate to help users of this report better understand its tax charge. In arriving at this rate, the Group removes the tax effect of items which are adjusted for in arriving at the adjusted profit before income tax disclosed in note 5. The Group considers that the resulting adjusted effective tax rate is more representative of its tax payable position.

8 Taxation continued

The income tax expense for the year is based on the UK effective statutory rate of corporation tax of 19.17% (2017: 20%). Overseas tax is calculated at the rates prevailing in the respective jurisdictions.

The Group welcomed the enactment of the U.S. Tax Cuts and Jobs Act on 22 December 2017 which permanently reduced the US Federal corporation tax rate from 35% to 21% from 1 January 2018. As the Group realises a large proportion of its profits in the US the rate reduction is expected to have a favourable long-term impact on the Group's earnings. The Group's U.S. deferred tax assets and liabilities have been re-measured to 25% (the Group's combined US Federal and State tax rate going forward), giving rise to a non-cash charge in the current year income statement of £0.8m which has been excluded from the Group's adjusted tax expense.

Net corporation tax paid during the year totalled £4.3m (2017: £2.0m).

9 Dividend

	Year ended 31 January 2018 £'000	Year ended 31 January 2017 £'000
Dividends paid during the year		
Final dividend paid for prior year of 3.75p per Ordinary Share (2017: 3.00p)	**2,760**	2,164
Interim dividend paid of 1.80p per Ordinary Share (2017: 1.50p)	**1,361**	1,100
	4,121	3,264
Non-controlling interest dividend[1]	**1,549**	1,075

1 During the year, a profit share was paid to the holders of the non-controlling interest of Vrge of £35,031 (2017: £13,440), Blueshirt of £152,284 (2017: £187,895), OutCast of £313,729 (2017: £396,248), M Booth of £166,687 (2017: £123,300), Beyond of £687,724 (2017: £170,879), Bite US of £27,847 (2017: £9,046), Connections Media of £142,956 (2017: £173,756), Story of £2,305 (2017: £Nil) and Text 100 of £22,058 (2017: £Nil).

The ESOP waived its right to dividends in the financial years ended 31 January 2018 and 2017.

A final dividend of 4.5p per share (2017: 3.75p) has been proposed, which is a total amount of £3,405,841 (2017: £2,750,708). This has not been accrued. This makes the total dividend for the year 6.3p per share (2017: 5.25p). The final dividend, if approved at the AGM on 22 June 2018, will be paid on 3 August 2018 to all shareholders on the Register of Members as at 29 June 2018. The ex-dividend date for the shares is 28 June 2018.

10 Earnings per share

Adjusted and diluted adjusted earnings per share have been presented to provide additional useful information. The adjusted earnings per share is the performance measure used for the vesting of employee share options and performance shares. The only difference between the adjusting items in this note and the figures in notes 2 and 5 is the tax effect of those adjusting items.

	Year ended 31 January 2018 £'000	Year ended 31 January 2017 £'000
Earnings attributable to ordinary shareholders	**8,632**	1,138
Unwinding of discount on contingent and deferred consideration	**2,245**	1,683
Unwinding of discount on share purchase obligation	**200**	345
Change in estimate of future contingent consideration payable	**1,131**	1,500
Change in estimate of share purchase obligation	**(309)**	570
Costs associated with the current period restructure (note 2)	**1,241**	511
Share-based payment charge (note 2)	**2,498**	8,075
Charge associated with office moves (note 2)	**354**	–
Deal costs (note 2)	**489**	337
US tax rate change	**817**	–
Amortisation of acquired intangibles	**5,506**	4,187
Adjusted earnings attributable to ordinary shareholders	**22,804**	18,346

10 Earnings per share continued

	Number	Number
Weighted average number of Ordinary Shares	**74,344,883**	72,306,063
Dilutive LTIP shares	**1,297,444**	2,103,789
Dilutive growth deal shares[1]	**5,336,533**	2,905,385
Other potentially issuable shares	**1,099,352**	973,882
Diluted weighted average number of Ordinary Shares	**82,078,212**	78,289,119
Basic earnings per share	**11.6p**	1.6p
Diluted earnings per share	**10.5p**	1.5p
Adjusted earnings per share	**30.7p**	25.4p
Diluted adjusted earnings per share	**27.8p**	23.4p

1 This relates to the brand equity appreciation rights as discussed in note 1.

11 Intangible assets

	Software £'000	Trade name £'000	Customer relationships £'000	Non-compete £'000	Goodwill £'000	Total £'000
Cost						
At 31 January 2016	6,533	4,095	13,464	781	52,313	77,186
Additions	259	–	–	–	–	259
Capitalised internal development	353	–	–	–	–	353
Acquired through business combinations	495	2,010	11,952	1,513	12,900	28,870
Disposals	(282)	–	–	–	–	(282)
Exchange differences	104	439	764	2	2,946	4,255
At 31 January 2017	7,462	6,544	26,180	2,296	68,159	110,641
Additions	365	–	–	–	–	365
Capitalised internal development	828	–	–	–	–	828
Acquired through business combinations[1]	22	3,020	8,642	1,014	11,159	23,857
Disposals	(113)	–	–	–	–	(113)
Exchange differences	(86)	(447)	(667)	(2)	(2,744)	(3,946)
At 31 January 2018	**8,478**	**9,117**	**34,155**	**3,308**	**76,574**	**131,632**
Amortisation and impairment						
At 31 January 2016	4,034	1,066	7,592	508	10,431	23,631
Charge for the year	1,308	932	3,336	441	–	6,017
Disposals	(284)	–	–	–	–	(284)
Exchange differences	99	172	667	3	357	1,298
At 31 January 2017	5,157	2,170	11,595	952	10,788	30,662
Charge for the year[2]	1,145	1,029	4,628	611	–	7,413
Disposals	(113)	–	–	–	–	(113)
Exchange differences	(179)	(259)	(626)	(2)	(107)	(1,173)
At 31 January 2018	**6,010**	**2,940**	**15,597**	**1,561**	**10,681**	**36,789**
Net book value at 31 January 2018	**2,468**	**6,177**	**18,558**	**1,747**	**65,893**	**94,843**
Net book value at 31 January 2017	2,305	4,374	14,585	1,344	57,371	79,979

1 During the year, the Group acquired Circle, Charterhouse, Velocity, and Elvis (note 26). The Group recognised software intangibles of £22,000 through the acquisitions of Velocity and Elvis.

2 Amortisation charge for the period includes acquired intangibles of £611,000 for non-compete agreements, £4,628,000 for customer relationships, £1,029,000 for trade names and £768,000 relating to software.

11 Intangible assets continued

Impairment testing for cash-generating units containing goodwill

Goodwill acquired through business combinations is allocated to cash-generating units ('CGUs') for impairment testing as follows:

	2018 £'000	2017 £'000
Text 100 (UK)	**5,189**	5,189
OutCast (US)	**7,435**	8,399
M Booth (US)[1]	**6,607**	5,390
Blueshirt (US)	**4,820**	5,445
MIG[2]	**5,877**	2,623
ODD	**2,458**	2,458
Publitek	**8,884**	8,884
Twogether[3]	**9,226**	3,594
Velocity (note 26)	**5,726**	–
Elvis (note 26)	**2,179**	–
Other[4]	**7,492**	15,389
	65,893	57,371

1 The goodwill in M Booth has increased due to the transfer of the Story CGU into the existing M Booth CGU.

2 The goodwill in MIG (formerly known as Morar) has increased in the year due to the acquisitions of Circle and Charterhouse.

3 The goodwill in Twogether has increased due to the transfer of the Bourne CGU into the existing Twogether CGU.

4 Other goodwill represents goodwill on a number of CGUs, none of which is individually significant in comparison to the total carrying value of goodwill.

Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from the synergies of the combination giving rise to the goodwill. The CGUs represent the lowest level within the entity at which the goodwill is monitored for internal management purposes. This is a lower level than the operating segments disclosed in note 2; the CGUs are allocated to operating segments based on their geographical location.

The Group performs an impairment testing process by considering:

Stage 1) The performance of the brands during the previous financial year and the value in use of the brands at 31 January 2018. The value in use is calculated by taking the present value of expected future cash flows based on minimum expected standard growth rates applied to the Board-approved FY19 budget.

Stage 2) The value in use of the brands, calculated by taking the present value of expected future cash flows based on management's best estimate of brand-specific growth rates for the following four years applied to the Board-approved FY19 budget.

Note that the long-term perpetuity growth rate in stages 1 and 2 applied for years five onwards is 1.5% (2017: 2.5%), and the growth rate applied for years two to five is 2.5% (2017: 2.5%). Stage 2 is only performed if impairment is indicated at stage 1.

Cash flow projections

The recoverable amounts of all CGUs have been determined from value-in-use calculations based on the pre-tax operating profits before non-cash transactions including amortisation and depreciation taken from the most recent financial budgets approved by management for the next financial year. The Board-approved budgets are based on assumptions of client wins and losses, rate card changes and cost inflation as well as any other one-off items expected in the year for that particular CGU. The cash flow forecasts extrapolate the FY19 budgeted cash flows for the following four years based on estimated growth rates of 2.5% (2017: 2.5%) applied to revenue and costs. This rate does not exceed the average long-term growth rate for the relevant markets. The value in use is compared with the combined total of goodwill, intangible assets and tangible fixed assets. A growth rate of 1.5% (2017: 2.5%) is then applied into perpetuity after five years.

11 Intangible assets continued

Pre-tax discount rate

A pre-tax rate, being the Board's estimate of the discount rate of 12.7% (2017: 12.7%), has been used in discounting all projected cash flows. The Board considers a pre-tax discount rate of 12.7% to be appropriate as this is already in the higher end of the spectrum amongst its peers, and views the rate as accurately reflecting the return expected by a market participant. The Board has considered whether to risk affect the discount rate used for the different brands. Given the nature of each business, that they operate in well-developed territories and are largely similar digital media communication businesses dependent on the mature economies in which they operate, the Board has considered no risk adjustment to the individual discount rates is required. Further, a scenario run using a higher discount rate reflective of US expected market returns indicated no goodwill impairment. Instead, the CGU forecast cash flows have been risk adjusted to reflect the economies in which they operate.

Change to CGUs

In the current year, as part of a strategic decision, the Bourne CGU has been transferred into the existing Twogether CGU, and the Story CGU has been transferred into the existing M Booth CGU. This is due to Twogether and M Booth being the lowest level at which goodwill is monitored for internal management purposes for those respective businesses. The previous Bourne and Twogether businesses, and the M Booth and Story businesses, now respectively operate as one and are managed as such. It is believed that there are both revenue and cost synergies to be realised immediately now that these agencies are respectively managed together.

Sensitivity to changes in assumptions

While the Twogether CGU did not indicate an impairment at stage 1, it was identified as particularly sensitive to the assumptions.

Financial year	Brand	Key assumptions	Reasonably possible change
Year to January 2018	Twogether	In stage one analysis, the value in use of Twogether exceeds its goodwill, intangible assets and tangible fixed assets. However the headroom is 6% of the goodwill; or £0.5m. On 1 February 2018 the trade and assets of Bourne have been transferred into Twogether, and therefore Twogether and Bourne's goodwill is being assessed together against the cash-flows of the Twogether CGU. Next year, the business has budgeted to continue making solid operating profit, with 16% budgeted for the full-year margin and organic revenue growth of 8% budgeted. Twogether is also investing in growing its US business, with additional costs included in H1 FY19 for this purpose. It is deemed that these models are appropriate given the current growth rates in the Company and it is expected that they will be met. As such, no impairment has been proposed, although management will continue to monitor the position closely.	In order for the carrying amount to exceed the recoverable amount, the revenue growth would need to drop below 2.3% per year from FY20 to FY23 with cost growth of 2.5% per year for an impairment to be required. Alternatively the discount rate would need to increase by 0.5% to 13.2%. These changes are not deemed reasonably possible by management. The budget includes certain one-off costs which are at management's discretion in the forthcoming year. The removal of these costs from FY20 increases headroom to £1.3m or 14% of the goodwill.

12 Property, plant and equipment

	Short leasehold improvements £'000	Office equipment £'000	Office furniture £'000	Motor vehicles £'000	Total £'000
Cost					
At 31 January 2016	9,822	5,990	1,907	76	17,795
Exchange differences	1,280	303	358	6	1,947
Additions	5,754	1,425	1,098	7	8,284
Acquired through business combinations	52	349	63	–	464
Disposals	(1,496)	(1,011)	(877)	(87)	(3,471)
At 31 January 2017	15,412	7,056	2,549	2	25,019
Exchange differences	(1,471)	(593)	(334)	–	(2,398)
Additions	1,236	1,467	271	–	2,974
Acquired through business combinations	127	158	26	–	311
Disposals	(628)	(558)	(107)	–	(1,293)
At 31 January 2018	**14,676**	**7,530**	**2,405**	**2**	**24,613**
Accumulated depreciation					
At 31 January 2016	3,320	3,881	579	27	7,807
Exchange differences	374	474	173	2	1,023
Charge for the year	1,544	1,372	554	12	3,482
Acquired through business combinations	29	239	36	–	304
Disposals	(1,507)	(1,034)	(779)	(41)	(3,361)
At 31 January 2017	3,760	4,932	563	–	9,255
Exchange differences	(436)	(442)	(177)	–	(1,055)
Charge for the year	1,795	1,577	611	2	3,985
Disposals	(610)	(480)	(49)	–	(1,139)
At 31 January 2018	**4,509**	**5,587**	**948**	**2**	**11,046**
Net book value at 31 January 2018	**10,167**	**1,943**	**1,457**	**–**	**13,567**
Net book value at 31 January 2017	11,652	2,124	1,986	2	15,764

The net book value of property, plant and equipment for the Group includes assets held under finance lease contracts as follows: £2,000 of office equipment and furniture (2017: £32,000). Depreciation charged in the year in respect of finance leases was £2,000 (2017: £128,000). The Group has contractual commitments for short leasehold improvements of £Nil (2017: £Nil).

13 Trade and other receivables

	2018 £'000	2017 £'000
Current		
Trade receivables	**35,676**	31,919
Less: provision for impairment of trade receivables	**(492)**	(1,067)
Trade receivables – net	**35,184**	30,852
Balance owing from associate	**–**	130
Other receivables	**2,509**	1,958
Prepayments	**3,491**	2,948
Accrued income	**8,354**	6,255
	49,538	42,143
Non-current		
Rent deposits	**535**	817

13 Trade and other receivables continued

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

As of 31 January 2018, trade receivables of £492,000 (2017: £1,067,000) were impaired. Movements in the provision were as follows:

	2018 £'000	2017 £'000
At start of period	**1,067**	697
Provision for receivables impairment	**126**	432
Receivables written off during the year as uncollectable	**(226)**	(120)
Unused amounts reversed	**(442)**	(24)
Foreign exchange movements	**(33)**	82
At end of period	**492**	1,067

The provision for receivables impairment has been determined by considering specific doubtful balances and by reference to historical default rates. Owing to the immaterial level of the provision for impairment of receivables, no further disclosure is made. The Group considers there to be no material difference between the fair value of trade and other receivables and their carrying amount in the balance sheet.

As at 31 January, the analysis of trade receivables that were not impaired is as follows:

	2018 £'000	2017 £'000
Not past due	**23,233**	19,813
Up to 30 days	**7,825**	6,223
31 to 60 days	**2,410**	2,495
Greater than 61 days	**1,716**	2,321
At end of period	**35,184**	30,852

14 Trade and other payables

	2018 £'000	2017 £'000
Current		
Trade creditors	**9,591**	5,195
Finance lease obligation	**5**	14
Other taxation and social security	**2,876**	2,608
Short-term compensated absences	**1,625**	2,192
Other creditors	**4,161**	2,415
Accruals	**12,030**	15,187
Deferred income	**14,715**	11,798
	45,003	39,409
Non-current		
Finance lease obligation	**–**	10
Rental lease liabilities	**4,290**	5,527
	4,290	5,537

The Group considers that the carrying amount of trade and other payables approximates their fair value with the exception of obligations under finance leases; refer to note 19.

15 Provisions

	Onerous lease £'000	Property £'000	Other[1] £'000	Total £'000
At 31 January 2016	52	335	1,052	1,439
Additions	–	92	1,467	1,559
On acquisition of subsidiary	192	101	57	350
Used during the year	(55)	(79)	(579)	(713)
Exchange differences	3	15	48	66
At 31 January 2017	192	464	2,045	2,701
Additions	446	62	162	670
On acquisition of subsidiary	–	122	653	775
Used during the year	(362)	(133)	(2,082)	(2,577)
Exchange differences	(20)	(2)	(1)	(23)
At 31 January 2018	**256**	**513**	**777**	**1,546**
Current	**256**	**372**	**777**	**1,405**
Non-current	**–**	**141**	**–**	**141**

1 Other includes provisions for potential tax liabilities and redundancy provisions. In the prior year it included provisions for employment related acquisition liabilities which were settled during the current year.

16 Amounts due under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Amounts payable:				
Within one year	**5**	16	**5**	14
In two to five years	**–**	10	**–**	10
	5	26	**5**	24
Less: finance charges allocated to future periods	**–**	(2)	**–**	–
Present value of lease obligations	**5**	24	**5**	24

17 Other financial liabilities

	Deferred consideration £'000	Contingent consideration[1] £'000	Share purchase obligation £'000	Total £'000
At 31 January 2016	–	8,344	3,734	12,078
Arising during the period	–	7,936	400	8,336
Changes in assumptions[2]	–	1,606	456	2,062
Exchange differences	–	312	144	456
Utilised	–	(5,080)	(1,509)	(6,589)
Written off as sold	–	–	(187)	(187)
Unwinding of discount	–	1,787	395	2,182
At 31 January 2017	–	14,905	3,433	18,338
Arising during the year[1]	500	8,286	–	8,786
Changes in assumptions[2]	–	1,140	(409)	731
Exchange differences	–	(105)	(127)	(232)
Utilised[3]	(360)	(3,719)	(400)	(4,479)
Written off	–	(21)	–	(21)
Reclassification[4]	5,586	(3,789)	(1,797)	–
Unwinding of discount	313	1,942	255	2,510
At 31 January 2018	**6,039**	**18,639**	**955**	**25,633**
Current	**4,255**	**5,368**	**–**	**9,623**
Non-current	**1,784**	**13,271**	**955**	**16,010**

1 Contingent consideration on acquisitions – during the year, the Group acquired a controlling stake in Elvis, Velocity, Circle and Charterhouse (2017: HPI, Pinnacle, Publitek and Twogether). See note 26 for additional information on these acquisitions.

2 Gross movements in changes in assumptions are disclosed in notes 6 and 7.

3 The amounts utilised were settled £3.4m in cash and £1.1m in shares. The difference to the cash flow statement is due to employment dependent acquisition payments made in cash of £1.7m which were recognised as provisions over the required employment term.

4 The contingent consideration and share purchase obligation in relation to Encore were reclassified to the deferred consideration due to a fixing of the amounts due on amendment of their deal to purchase the remaining 25% non-controlling interest in September 2017.

The estimates around contingent consideration and share purchase obligations are considered by management to be an area of significant judgement, with any changes in assumptions and forecasts creating volatility in the income statement. Management estimates the fair value of these liabilities taking into account expectations of future payments. The expectation of future payments is based on an analysis of the approved FY19 budget with further consideration being given to current and forecast wider market conditions. An assumed medium-term growth expectation is then applied which is specific to each individual entity over the course of the earn-out period and discounted back to present value using a pre-tax discount rate.

Sensitivity analysis

A 5 percentage point increase or decrease in the estimated future revenue growth rate, estimated future profit margin, and the discount rate used would increase or decrease the combined liabilities due to earn-out agreements by approximately £955,000, £2,193,000, and £1,513,000, respectively. There is also sensitivity around the timing of certain earn-out payments; the effect of deferred timing on the earn-out agreements would have approximately a £288,000 impact on the liabilities. An increase in the liability would result in a reduction in the revaluation of financial instruments, while a decrease would result in a further gain.

18 Deferred taxation

Temporary differences between the carrying value of assets and liabilities in the balance sheet and their relevant value for tax purposes result in the following deferred tax assets and liabilities:

	Accelerated capital allowances £'000	Short-term compensated absences £'000	Share-based remuneration £'000	Provision for impairment of trade receivables £'000	Excess book basis over tax basis of intangible assets £'000	Other temporary differences £'000	Tax losses £'000	Total £'000
At 31 January 2016	(233)	564	2,090	89	392	3,095	488	6,485
(Charge)/credit to income	(253)	(59)	2,463	3	990	(152)	(98)	2,894
Exchange differences	(68)	64	–	11	291	402	39	739
Acquisition of subsidiaries	(16)	–	–	–	(2,999)	(67)	62	(3,020)
Taken to equity	–	–	197	–	–	–	–	197
At 31 January 2017	(570)	569	4,750	103	(1,326)	3,278	491	7,295
Credit/(charge) to income	159	(276)	376	1	1,023	(564)	553	1,272
Exchange differences	145	(4)	–	(12)	(353)	(513)	(38)	(775)
Acquisition of subsidiaries	20	–	–	–	(2,287)	184	–	(2,083)
Taken to equity	–	–	216	–	–	–	–	216
At 31 January 2018	**(246)**	**289**	**5,342**	**92**	**(2,943)**	**2,385**	**1,006**	**5,925**

After netting off balances, the following are the deferred tax assets and liabilities recognised in the Consolidated Balance Sheet:

	2018 £'000	2017 £'000
Net deferred tax balance		
Deferred tax assets	**9,794**	9,987
Deferred tax liabilities	**(3,869)**	(2,692)
Net deferred tax asset	**5,925**	7,295

Deferred tax has been calculated using the anticipated rates that will apply when the assets and liabilities are expected to reverse based on tax rates enacted or substantively enacted by the balance sheet date. The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned.

The estimated value of the deferred tax asset not recognised in respect of tax losses available to carry forward is £0.9m (2017: £1.9m).

At the balance sheet date, the aggregate amount of the temporary differences in relation to the investment in subsidiaries for which deferred tax liabilities have not been recognised was £6m (2017: £6m). No liability has been recognised in respect of these differences as the Group is in a position to control the timing of the reversal of the temporary differences and the Group considers that it is probable that such differences will not reverse in the foreseeable future.

19 Financial instruments

Financial risk management, policies and strategies

The Group's principal financial instruments comprise bank loans, finance leases, cash and short-term deposits. The main purpose of these financial instruments is to provide finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and payables, which arise directly from operations.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign exchange risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Group's profit before tax at 31 January 2018, based on period-end balances and rates.

The sensitivity analyses provided are hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Group's actual exposure to market rates changes as the Group's portfolio of debt and cash changes. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Group. The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses.

	Movement in basis points	**2018 £'000**	2017 £'000
Group	+200	**(717)**	(669)

Liquidity risk

The Group manages its risk to a shortage of funds with a mixture of long and short-term committed facilities. On 5 July 2017 the Group extended its revolving loan credit facility agreement ("RCF") with HSBC Bank available in multiple currencies to be available for five years and up to £40m (previously four years and £30m). The interest rate is variable dependent on the net debt: EBITDA ratio and the facility is available until 5 July 2022. The Group also has a $7m facility available in the US.

At 31 January 2018 the Group had an undrawn amount of £4,968,341 (2017: £443,099) on the RCF in the UK and $2,029,557 available on the $7m US facility (this allows for the letters of credit in place).

The following table summarises the maturity profile based on the remaining period between the balance sheet date and the contractual maturity date of the Group's financial liabilities at 31 January 2018 and 31 January 2017, based on contractual undiscounted payments:

	Within one year £'000	Between two and five years £'000	More than five years £'000	Total £'000
As at 31 January 2018				
Financial liabilities	**39,846**	**56,812**	**3,968**	**100,626**
As at 31 January 2017				
Financial liabilities	49,657	59,899	–	109,556

19 Financial instruments continued

Currency risk

As a result of significant global operations, the Group's balance sheet can be affected significantly by movements in the foreign exchange rates against sterling. This is largely through the translation of balances denominated in a currency other than the functional currency of an entity. The Group has transactional currency exposures in the US, Europe and the Asia Pacific region, including foreign currency bank accounts and intercompany recharges. The Group considers the use of currency derivatives to protect significant US dollar and euro currency exposures against changes in exchange rates; however, the Group has not held derivative financial instruments at the end of either period.

The following table demonstrates the sensitivity to reasonably possible changes in exchange rates, with all other variables held constant, of the Group's profit before tax based on period-end balances, year average and period-end rates.

	Weakening against sterling	**2018 £'000**	2017 £'000
US dollar	20%	**(2,428)**	(2,078)
Euro	20%	**(393)**	(497)
Australian dollar	20%	**(387)**	(441)
Indian rupee	20%	**(123)**	(126)

The following table demonstrates the sensitivity to reasonable possible changes in exchange rates, with all other variables held constant, of the Group's net assets on period-end balances and rates.

	Weakening against sterling	**2018 £'000**	2017 £'000
US dollar	20%	**(5,371)**	(4,499)
Euro	20%	**(701)**	(726)
Australian dollar	20%	**(634)**	(580)
Indian rupee	20%	**(411)**	(378)

Credit risk

The Group's principal financial assets are bank balances, cash and trade and other receivables which represent the Group's maximum exposure to credit risk in relation to financial assets. The Group trades only with recognised, creditworthy third parties. It is the Group's policy that customers who wish to trade on credit terms be subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts has not been significant. The amounts presented in the balance sheet are net of provisions for impairment of trade receivables, estimated by the Group's management based on investigation into the facts surrounding overdue debts, historic experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because the counterparties are reputable banks with high credit ratings assigned by international credit-rating agencies, although the Board recognises that in the current economic climate these indicators cannot be relied upon exclusively.

Maximum exposure to credit risk

	2018 £'000	2017 £'000
Total trade and other receivables	**49,538**	42,143
Cash and cash equivalents	**24,283**	22,072

19 Financial instruments continued

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Total capital of the Group is calculated as total equity as shown in the Consolidated Balance Sheet, plus net debt. Net debt is calculated as total borrowings and finance leases, less cash and cash equivalents. This measure of net debt excludes any acquisition-related contingent liabilities or share purchase obligations. The quantum of these obligations is dependent on estimations of forecast profitability. Settlement dates are variable and range from 2018 to 2022.

	2018 £'000	2017 £'000
Total loans and borrowings[1]	**35,871**	33,458
Obligations under finance leases	**5**	26
Less: cash and cash equivalents	**(24,283)**	(22,072)
Net debt	**11,593**	11,412
Total equity	**76,321**	68,497
Total capital	**87,914**	79,909

1 Total loans and borrowings is made up of current obligations (£34,465,000) and non-current obligations (£1,406,000).

	2018 £'000	2017 £'000
Net debt	**11,593**	11,412
Share purchase obligation	**955**	3,433
Contingent consideration	**18,639**	14,905
Deferred consideration	**6,039**	–
	37,226	29,750

The movement in net debt is as follows:

	At 1 February 2016 £'000	Cash flow from operations £'000	Acquisitions and contingent consideration £'000	Foreign exchange, fair value and non-cash movements £'000	At 1 February 2017 £'000	Cash flow from operations £'000	Acquisitions and contingent consideration £'000	Foreign exchange, fair value and non-cash movements £'000	**At 1 February 2018 £'000**
Total loans and borrowings	20,683	–	11,589	1,186	33,458	–	4,484	(2,071)	**35,871**
Obligations under finance leases	72	(55)	–	9	26	(17)	–	(4)	**5**
Less: cash and cash equivalents	(14,132)	(28,719)	21,945	(1,166)	(22,072)	(18,498)	15,350	937	**(24,283)**
Net debt	6,623	(28,774)	33,534	29	11,412	(18,515)	19,834	(1,138)	**11,593**

Externally imposed capital requirement

Under the terms of the Group's banking covenants the Group must meet certain criteria based on the ratio of net debt to adjusted EBITDA; net debt plus earn-out liabilities (note 17) to adjusted EBITDA; and adjusted net finance charges to adjusted EBITDA. The Group maintains long-term cash forecasts which incorporate forecast covenant positions as part of the Group's capital and cash management. There have been no breaches of the banking covenants in the current or prior period.

Fair values of financial assets and liabilities

Fair value is the amount at which a financial instrument can be exchanged in an arm's-length transaction between informed and willing parties, other than a forced or liquidation sale.

The book value of the Group's financial assets and liabilities equals the fair value of such items as at 31 January 2018, with the exception of obligations under finance leases. The book value of obligations under finance leases is £5,000 (2017: £24,000) and the fair value is £5,000 (2017: £26,000). The fair value of obligations under finance lease is estimated by discounting future cash flows to net present value and is Level 3 within the fair value hierarchy.

19 Financial instruments continued

Financial instruments – detailed disclosures

Financial instruments recognised in the balance sheet

The IAS 39 categories of financial assets and liabilities included in the balance sheet and the line in which they are included are as follows:

As at 31 January 2018	At fair value through profit or loss £'000	Financial liabilities at mortised cost £'000	Loans and receivables £'000	Total £'000
Non-current financial assets				
Other receivables	–	–	535	535
	–	–	535	535
Current financial assets				
Cash and cash equivalents	–	–	24,283	24,283
Trade and other receivables	–	–	46,047	46,047
	–	–	70,330	70,330
Current financial liabilities				
Loans and borrowings	–	1,406	–	1,406
Trade and other payables	–	27,412	–	27,412
Provisions	–	1,405	–	1,405
Contingent consideration[1]	5,368	–	–	5,368
Deferred consideration[1]	–	4,255	–	4,255
	5,368	34,478	–	39,846
Non-current financial liabilities				
Loans and borrowings	–	34,465	–	34,465
Provisions	–	141	–	141
Other payables	–	4,290	–	4,290
Contingent consideration[1]	13,271	–	–	13,271
Share purchase obligation[1]	955	–	–	955
Deferred consideration[1]	–	1,784	–	1,784
	14,226	40,680	–	54,906

1 See note 17.

The Group has no fair value Level 1 or 2 instruments (2017: none). All instruments at fair value through profit of loss were Level 3 instruments as per the table above in the current year and were as per the table overleaf in the prior year.

Level 3 financial instruments are valued using the discounted cash flow method to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration or share purchase obligation. Unrealised gains or losses are recognised within finance income/expense; see notes 6 and 7. They are not based on observable market data.

19 Financial instruments continued

Financial instruments – detailed disclosures continued

Financial instruments recognised in the balance sheet continued

As at 31 January 2017	At fair value through profit or loss £'000	Financial liabilities at mortised cost £'000	Loans and receivables £'000	Total £'000
Non-current financial assets				
Other receivables	–	–	817	817
	–	–	817	817
Current financial assets				
Cash and cash equivalents	–	–	22,072	22,072
Trade and other receivables	–	–	39,195	39,195
	–	–	61,267	61,267
Current financial liabilities				
Loans and borrowings	–	1,589	–	1,589
Trade and other payables	–	25,003	–	25,003
Provisions	–	2,647	–	2,647
Share purchase obligation[1]	400	–	–	400
Contingent consideration[1]	3,934	–	–	3,934
	4,334	29,239	–	33,573
Non-current financial liabilities				
Loans and borrowings	–	31,869	–	31,869
Provisions	–	54	–	54
Other payables	–	5,537	–	5,537
Contingent consideration[1]	10,971	–	–	10,971
Share purchase obligation[1]	3,033	–	–	3,033
	14,004	37,460	–	51,464

1 See note 17.

Interest-bearing loans and borrowings

The table below provides a summary of the Group's loans and borrowing as at 31 January 2018:

	Effective interest rate	**2018 £'000**	2017 £'000
Current			
Variable rate bank loan	3.56%	**1,406**	1,589
Obligations under finance leases	8.00%	**5**	14
Non-current			
Variable rate bank loan	HSBC Bank base rate + 1.50%	**34,465**	31,869
Obligations under finance leases	8.00%	**–**	10

Hedge of net investment in foreign entity

A proportion of the Group's US dollar-denominated borrowings amounting to US$6,100,000 is designated as a hedge of the net investment in the Group's US subsidiary M Booth LLC. An additional US$4,300,000 has been designated as a hedge of the net investment in the Group's US subsidiary Text 100 LLC.

The fair value of the borrowings at 31 January 2018 is US$10,400,000 (£7,313,000) (2017: US$15,400,000 (£12,233,000)). The foreign exchange gain of £1,190,000 (2017: loss of £1,378,000) on translation of the borrowing to functional currency at the end of the reporting period is recognised in a hedging reserve in shareholders' equity. As a result of ineffectiveness, £Nil was transferred during the period from the hedging reserve to the income statement (2017: £Nil).

20 Share capital

Called up share capital

Ordinary Shares of 2.5p each:

	2018 Number	2017 Number
Authorised, allotted, called up and fully paid		
At start of period	**73,352,214**	70,525,701
Issued in the year in respect of contingent and deferred consideration and share purchase obligations	**726,081**	1,765,751
Issued in the year in satisfaction of vested LTIPs (note 21)	**1,366,792**	1,027,932
Issued in the year in respect of growth share sales	**240,263**	32,830
At end of period	**75,685,350**	73,352,214

Fully paid Ordinary Shares carry one vote per share and the right to dividends.

21 Share-based payments

The Group uses the Black-Scholes model to calculate the fair value of options on grant date for new issues and modifications for LTIPs. At each period end the cumulative expense is adjusted to take into account any changes in the estimate of the likely number of shares expected to vest. Details of the relevant LTIP schemes are given in the following note. All the share-based payment plans are subject to non-market performance conditions such as adjusted earnings per share targets and continued employment. All schemes are equity settled. The Group uses a weighted average probability model to value the brand appreciation rights as permitted under IFRS 2.

In the period ended 31 January 2018 the Group recognised a charge of £4,355,000 (2017: £11,346,000) made up of £1,305,000 (2017: £839,000) in respect of employment-related LTIP shares; £3,050,000 (2017: £10,507,000) given in respect of the disposal of growth participating interests of 1% in OutCast LLC, 2% in Bite LLC, 11% in Text 100 LLC and 32% in Encore Digital Media Limited (2017: 2% in M Booth, 30% in Vrge, 2% in Agent3, 35% in Beyond Group, 49% in Morar, 13.5% in Lexis and 10% in Twogether).

Movement on options and performance shares granted (represented in Ordinary Shares):

	Outstanding 31 January 2017 Number ('000)	Granted Number ('000)	Lapsed Number ('000)	Exercised Number ('000)	**Outstanding 31 January 2018 Number ('000)**	**Exercisable 31 January 2018 Number ('000)**
Long-Term Incentive Plan – performance shares	2,167	388	(84)	(972)	**1,499**	**460**
Bourne Acquisition Grant	526	–	(132)	(394)	**–**	**–**
	2,693	388	(216)	(1,366)	**1,499**	**460**

The fair value of performance shares granted in the period calculated using the Black-Scholes model was as follows:

	May 2017	May 2017
Fair value of performance shares granted under the LTIP (p)	350	359
Share price at date of grant (p)	408	408
Risk-free rate (%)	1.94	1.94
Expected life (years)	5	3
Expected volatility (%)	26.9	26.9
Dividend yield (%)	1.29	1.29

Expected volatility was determined by calculating the historical volatility of the Company's share price, over a period equal to the expected life of the options.

Performance shares issued by the Company under the Next Fifteen Communications Group plc Long-Term Incentive Plan are granted at a nil exercise price. The weighted average share price at the date of exercise for share options exercised in the year was 400p (2017: 345p). For share options outstanding at the end of the year the weighted average remaining contractual life is one year (2017: two years).

22 Performance shares

The Company has issued options over its shares to employees that remain outstanding as follows:

Performance shares	Number of shares	Performance period start date	Performance period end date	Performance share grant date
Next Fifteen Communications Group plc				
Long-Term Incentive Plan	460,000	1 February 2014	31 January 2018	14 November 2014
	21,500	1 February 2015	31 January 2019	6 May 2015
	630,000	1 February 2016	31 January 2019	17 October 2016
	150,000	1 February 2017	31 January 2020	2 May 2017
	237,964	1 February 2017	31 January 2022	2 May 2017
	1,499,464			

During the period the Company issued 972,463 shares to satisfy the vesting under the Next 15 LTIPs and 394,329 shares to satisfy the Bourne acquisition grant. These were initially subscribed for by the ESOP. No shares are now held in treasury (see note 23).

For all awards granted under the 2005 LTIP (note that no awards have been granted under the 2005 LTIP since 30 June 2015), performance will be measured over a period of four consecutive financial years of the Group, commencing with the financial year in which the award was granted. The conditions are based upon two measures – an adjusted earnings per share ('EPS') measure and a budgeted profit measure. The level of vesting will be determined using the best three of the four years' performance for each performance measure. The growth of adjusted EPS of the Group must exceed the UK Consumer Price Index ('CPI') by an average of 10% or more per annum over the performance period for 50% of the award to vest. If the growth of adjusted EPS over CPI is between an average of 3% and 10% per annum over the performance period, between 10% and 50% of the award will vest on a straight-line basis. The remaining 50% of an award may vest if the profit of the particular business in which a participant is employed meets its budgeted profit targets over the performance period. To the extent that the budgeted profit targets are not met, for every 1% below budget, 5% of the award will lapse on a straight-line basis. Employees who work in Group roles will be measured by reference to whole Group performance, rather than any particular business unit.

The Company's current long-term incentive plan is the 2015 LTIP, which was approved by shareholders at the Company's 2015 AGM. Under the 2015 LTIP performance shares or share options may be awarded. The performance is measured over a period of either three or five consecutive financial years of the Group, commencing with the financial year in which the award was granted. The Committee has decided that, initially, there will be two performance conditions:

(a) an earnings per share ('EPS') target, which will determine 70% of the total vesting. EPS growth is calculated from the information published in the Group's accounts and is based on the adjusted EPS measure. If the annual growth in the Company's earnings per share in the performance period exceeds the growth in the CPI by at least 15% per annum, 100% of 70% of the total award will vest. If the compound growth in EPS in the performance period exceeds the growth in CPI between 5% and 15% then between 25% and 100% of 70% of the total award will vest on a straight-line basis. If EPS does not grow at an average of 5% or more over the growth in the CPI per annum over the performance period, the full award will lapse; and

(b) a key performance indicator ('KPI') target, which will determine 30% of the total vesting. Each participant will have a number of KPIs relating to his or her role. The Remuneration Committee will determine the extent to which the KPIs have been met over the performance period. 100% of 30% of the total award will vest if the KPIs have been met in full. A smaller percentage of 30% of the total award will vest if the Committee determines that the KPIs have been substantially met.

On 5 April 2012 the Group acquired the remaining 20% of the non-controlling interest in CMG Worldwide Limited ('Bourne'). As part of the settlement, three grants of performance shares were awarded. Two of these grants were closed out during previous years; the remaining grant of 525,773 performance shares contains a different performance condition based on a pure profit target to be achieved which is based on the average of the results for the 12 months to 31 July 2016 and 2017 which was settled during the year.

23 Investment in own shares

Employee share ownership plan ('ESOP')

The purpose of the ESOP is to enable the Company to offer participation in the ownership of its shares to Group employees, principally as a reward and incentive scheme. Arrangements for the distribution of benefits to employees, which may be the ownership of shares in the Company or the granting of options over shares in the Company held by the ESOP, are made at the ESOP's discretion in such manner as the ESOP considers appropriate. Administration costs of the ESOP are accounted for in the profit and loss account of the Company as they are incurred.

At 31 January 2018 the ESOP held Nil (2017: Nil) Ordinary Shares in the Company.

The ESOP subscribed for 1,578,271 newly issued shares which were allotted and immediately disposed of in order to satisfy LTIP vesting for £Nil consideration (2017: 985,402 shares for £Nil consideration). Nil shares were subscribed for, allotted and immediately disposed of in respect of satisfaction of a restricted stock arrangement for £Nil proceeds (2017: Nil shares for £Nil proceeds).

Treasury shares

At 31 January 2018, the Group held Nil treasury shares (2017: Nil) at a cost of £Nil (2017: £Nil).

24 Other reserves

	Merger reserve £'000	ESOP reserve[1] £'000	Hedging reserve £'000	Total other reserves £'000
At 31 January 2016	3,075	–	(1,168)	1,907
Total comprehensive income for the year	–	–	(1,378)	(1,378)
Purchase and take on of shares	–	(25)	–	(25)
Movement due to ESOP LTIP and growth shares exercises	–	25	–	25
At 31 January 2017	3,075	–	(2,546)	529
Total comprehensive income for the year	–	–	1,190	1,190
Purchase and take on of shares	–	(39)	–	(39)
Movement due to ESOP LTIP and growth shares exercises	–	39	–	39
At 31 January 2018	**3,075**	**–**	**(1,356)**	**1,719**

1 The ESOP Trust's investment in the Group's shares is deducted from equity in the Consolidated Balance Sheet as if they were treasury shares and presented in the ESOP reserve.

25 Commitments and contingent liabilities

Operating leases – Group as lessee

As at 31 January 2018, the Group's total future minimum lease rentals are as follows:

	2018		2017	
	Land and buildings £'000	**Other £'000**	Land and buildings £'000	Other £'000
In respect of operating leases which will be paid in the following periods:				
Within one year	**8,595**	**27**	8,680	81
In two to five years	**29,459**	**40**	29,135	43
After five years	**13,360**	**–**	17,401	–
	51,414	**67**	55,216	124

26 Acquisitions and equity transactions

During the year the following material transactions took place:

1. the acquisition of UK-based Velocity Partners Limited;
2. the acquisition of UK-based Circle Research Limited;
3. the acquisition of UK-based Elvis Communications Limited;
4. the acquisition of UK-based Charterhouse Research Limited; and
5. the purchase of the remaining non-controlling interest in Encore Digital Media Limited.

More details on each transaction are provided below.

1. Velocity Partners Limited

On 10 July 2017, Next 15 purchased the entire share capital of Velocity Partners Limited ('Velocity'), a B2B digital agency that services multi-national technology groups and adds more data-driven content marketing capabilities to the Group.

Goodwill of £5,726,000 arises from anticipated profitability and future operating synergies from the acquisition.

In the post-acquisition period Velocity has contributed £3,540,000 to revenue and £831,000 to profit before tax. If acquired on 1 February 2017 Velocity would have contributed revenue of £5,965,000 and profit before tax of £1,626,000 to the Group results. The following table sets out the estimated book values of the identifiable assets acquired and their fair value to the Group. The due diligence over the identifiable assets acquired is still in progress; therefore the fair value of the assets used below are provisional.

	Book value at acquisition £'000	Fair value adjustments £'000	Fair value to the Group £'000
Non-current assets			
Acquired intangible assets	–	5,577	5,577
Property, plant and equipment	109	–	109
Current assets			
Cash and cash equivalents	2,324	–	2,324
Other current assets[1]	1,339	–	1,339
Current liabilities	(1,834)	–	(1,834)
Deferred tax liability	–	(1,006)	(1,006)
Net assets acquired	1,938	4,571	6,509
Goodwill			5,726
			12,235
Consideration			
Initial consideration settled in cash[2]			4,886
Initial consideration settled in Ordinary Shares of the Parent			1,032
Total discounted contingent consideration			6,317
			12,235

1 The fair value of receivables acquired is £1,198,000.

2 This includes initial consideration paid for the business and cash paid for working capital.

None of the goodwill is expected to be deductible for tax purposes. Deal costs (included in other operating costs) amount to £47,000. Contingent consideration is payable based on a share of the average profit of Velocity in the year to 30 April 2018, and then based on the average EBITDA for FY19 and FY20, and then on the average EBITDA on FY21 and FY22, and a contractual multiple determined by average profit margin and average revenue growth.

26 Acquisitions and equity transactions continued

2. Circle Research Limited

On 11 July 2017, Next 15 purchased the entire share capital of Circle Research Limited ('Circle'), a B2B market research consultancy, broadening our data and insight capabilities as a Group.

Goodwill of £2,281,000 arises from anticipated profitability and future operating synergies from the acquisition.

In the post-acquisition period Circle has contributed £1,271,000 to revenue and £441,000 to profit before tax. If acquired on 1 February 2017 Circle would have contributed revenue of £2,338,000 and profit before tax of £848,000 to the Group results. The following table sets out the estimated book values of the identifiable assets acquired and their fair value to the Group.

	Book value at acquisition £'000	Fair value adjustments £'000	Fair value to the Group £'000
Non-current assets			
Acquired intangible assets	–	2,585	2,585
Property, plant and equipment	21	–	21
Current assets			
Cash and cash equivalents	2,446	–	2,446
Other current assets[1]	683	–	683
Current liabilities	(1,075)	–	(1,075)
Deferred tax liability	–	(467)	(467)
Net assets acquired	2,075	2,118	4,193
Goodwill			2,281
			6,474
Consideration			
Initial consideration settled in cash			4,938
Initial consideration settled in Ordinary Shares of the Parent			275
Total discounted contingent consideration			1,261
			6,474

1 The fair value of receivables acquired is £422,000.

None of the goodwill is expected to be deductible for tax purposes. Deal costs (included in operating costs) amount to £93,000. Contingent consideration is payable based on the profit of the business in FY19 and then FY20, and a contractual multiple determined by profit margin and revenue in the same financial years.

26 Acquisitions and equity transactions continued

3. Elvis Communications Limited

On 14 September 2017, Next 15 purchased the entire share capital of Elvis Communications Limited ('Elvis'), a digital agency focused on consumer brands which brings both creative and technology skills to the Group. Goodwill of £2,179,000 arises from anticipated profitability and future operating synergies from the acquisition.

In the post-acquisition period Elvis has contributed £2,269,000 to revenue and £264,000 to profit before tax. If acquired on 1 February 2017 Elvis would have contributed revenue of £5,522,000 and profit before tax of £706,000 to the Group results. The following table sets out the estimated book values of the identifiable assets acquired and their fair value to the Group.

	Book value at acquisition £'000	Fair value adjustments £'000	Fair value to the Group £'000
Non-current assets			
Acquired intangible assets	–	2,735	2,735
Property, plant and equipment	199	–	199
Current assets			
Cash and cash equivalents	570	–	570
Other current assets[1]	1,950	–	1,950
Current liabilities	(2,709)	–	(2,709)
Deferred tax liability	–	(492)	(492)
Net assets acquired	10	2,243	2,253
Goodwill			2,179
			4,432
Consideration			
Initial consideration settled in cash[2]			3,932
Total deferred consideration			500
			4,432

1 The fair value of receivables acquired is £1,641,000.

2 This includes initial consideration paid for the business and cash paid for working capital. £5m initial consideration was paid in total of which £1.1m went directly to Elvis to settle pre-existing liabilities and £3.9m to the sellers.

None of the goodwill is expected to be deductible for tax purposes. Deal costs (included in operating costs) amount to £99,000.

Deferred consideration is payable in March 2018 and subject to any deductions for irrecoverable debtors and other liabilities which have arisen relating to the pre-acquisition period.

26 Acquisitions and equity transactions continued

4. Charterhouse Research Limited

On 26 September 2017, Next 15 purchased the entire share capital of Charterhouse Research Limited ('Charterhouse'), a specialist financial market research agency which broadens our data and insight offering as a Group. Goodwill of £973,000 arises from anticipated profitability and future operating synergies from the acquisition.

In the post-acquisition period Charterhouse has contributed £1,221,000 to revenue and £105,000 to profit before tax. If acquired on 1 February 2017 Charterhouse would have contributed revenue of £2,256,000 and profit before tax of £473,000 to the Group results. The following table sets out the estimated book values of the identifiable assets acquired and their fair value to the Group.

	Book value at acquisition £'000	Fair value adjustments £'000	Fair value to the Group £'000
Non-current assets			
Acquired intangible assets	–	1,779	1,779
Property, plant and equipment	6	–	6
Current assets			
Cash and cash equivalents	1,187	–	1,187
Other current assets[1]	568	–	568
Current liabilities	(729)	–	(729)
Deferred tax liability	–	(322)	(322)
Net assets acquired	1,032	1,457	2,489
Goodwill			973
			3,462
Consideration			
Initial consideration settled in cash[2]			2,578
Initial consideration settled in Ordinary Shares of the Parent			176
Total discounted contingent consideration			708
			3,462

1 The fair value of receivables acquired is £568,000.

2 This includes initial consideration paid for the business and cash paid for working capital.

None of the goodwill is expected to be deductible for tax purposes. Deal costs (included in operating costs) amount to £94,000.

Contingent consideration is payable based on the profit of the business in FY19 and then FY20, and a contractual multiple determined by profit margin and revenue in the same financial years.

5. Encore Digital Media Limited

On 27 September 2017, Next 15 acquired the remaining 25% minority interest in Encore Digital Media Limited ('Encore'), its B2B programmatic business, and agreed a final settlement amount for the remaining obligation for the original purchase of 75% of the issued share capital made on 27 April 2015. The aggregate consideration for the minority interest and remaining obligation is £6.55m of which £0.36m was paid in October 2017, £3.75m is payable in April 2018, £0.36m is payable in April 2019 and £2.07m is payable in April 2020.

27 Subsidiaries

The Group's subsidiaries at 31 January 2018 are listed below.

Name	Country of incorporation	Directly owned by the Company	Percentage voting rights held by Group	Address
Agent3 Limited	England	✓	54	75 Bermondsey Street, London SE1 3XF
Agent3 LLC	USA		54	CT Corp System, 818 West Seventh Street, Suite 930, Los Angeles, CA 90017
August One Communications International Limited	England	✓	100	75 Bermondsey Street, London SE1 3XF
Beijing Text 100 Consulting Services Limited	China		100	7F, Room 819, Tower 2, No. 22 Guanghua Road, Chaoyang District, Beijing, 100020 China
BYND Limited	England	✓	95	75 Bermondsey Street, London SE1 3XF
BYND LLC	USA		100	CT Corp System, 818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Bite Communications LLC	USA		100	The Corporation Trust Company, 1209 Orange Street – Corporation Trust Center, New Castle County, Wilmington, DE 19801
Bite Communications Group Limited	England	✓	100	75 Bermondsey Street, London SE1 3XF
Bite Communications Limited	England		100	75 Bermondsey Street, London SE1 3XF
Bite Communications Hong Kong Limited	Hong Kong		100	26F & 25F, 46 Lyndhurst Terrace, Central, Hong Kong
Bite Consulting GmbH	Germany		100	Nymphenburger Straße 168, 80634 München
BITEDA Limited	England		100	111 Bell Street, Glasgow G4 0TQ
The Blueshirt Group LLC	USA		89.3	CT Corp System, 818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Circle Research Limited	England		100	75 Bermondsey Street, London SE1 3XF
Charterhouse Research Limited	England		100	75 Bermondsey Street, London SE1 3XF
Connections Media LLC	USA		80	CT Corporation System, 1015 15th Street, NW, Suite 1000, Washington, DC 20005
Elvis Communications Limited	England	✓	100	75 Bermondsey Street, London SE1 3XF
Encore Digital Media Limited	Scotland	✓	76.2	1 Spiersbridge Way, Spiersbridge Business Park, Thornliebank, Glasgow G46 8NG
HPI Research Limited	England		100	75 Bermondsey Street, London SE1 3XF
Hypertext Communications Private Ltd	India		100	Unit 506, 5th Floor, Tower B, Millennium Plaza, Sector 27, Gurgaon – 122002, Haryana
Hypertext Pte Ltd	Singapore		100	36 Prinsep Street #05-01/02, Singapore 188 648
The Lexis Agency Limited	England	✓	100	75 Bermondsey Street, London SE1 3XF
M Booth & Associates, Inc.	USA		100	The Corporation Trust Company, 1209 Orange Street – Corporation Trust Center, New Castle County, Wilmington, DE 19801
MIG Global Limited	Scotland	✓	76.2	c/o BiteDA Ltd, 111 Bell Street, Glasgow G4 0TQ
Morar Consulting LLC	USA		100	CT Corp System, 818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Next Fifteen Communications Corporation	USA	✓	100	The Corporation Trust Company, 1209 Orange Street – Corporation Trust Center, New Castle County, Wilmington, DE 19801
Next Fifteen Communications (US Holdings) LLC	USA		100	The Corporation Trust Company, 1209 Orange Street – Corporation Trust Center, New Castle County, Wilmington, DE 19801
Next Fifteen Communications Hong Kong Limited	Hong Kong	✓	100	26F & 25F, 46 Lyndhurst Terrace, Central, Hong Kong
Next Fifteen Communications Limited	England		100	75 Bermondsey Street, London SE1 3XF

27 Subsidiaries continued

Name	Country of incorporation	Directly owned by the Company	Percentage voting rights held by Group	Address
Next Fifteen LLC	USA		100	The Corporation Trust Company, 1209 Orange Street – Corporation Trust Center, New Castle County, Wilmington, DE 19801
ODD Communications Limited	England	✓	100	75 Bermondsey Street, London SE1 3XF
ODD London Limited	England		100	75 Bermondsey Street, London SE1 3XF
The OutCast Agency LLC	USA		100	CT Corp System, 818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Partnermarketing.com Limited	England		100	75 Bermondsey Street, London SE1 3XF
PMC Investments Limited	England		100	75 Bermondsey Street, London SE1 3XF
Publitek Limited	England	✓	100	75 Bermondsey Street, London SE1 3XF
Pinnacle Marketing Communications Limited	England		100	75 Bermondsey Street, London SE1 3XF
Story Worldwide LLC	USA		100	The Corporation Trust Company, 1209 Orange Street – Corporation Trust Center, New Castle County, Wilmington, DE 19801
Test 100 (Proprietary) Limited	South Africa		100	13 Wellington Road, Parktown, 2193, (Private Bag x60500), Houghton, Johannesburg 2041
Text 100 AB	Sweden		100	Västmannagatan 4, 111 24 Stockholm
Text 100 BV	Netherlands		100	Silodam 1D, 1013 AL Amsterdam, Netherlands
Text 100 Communications Pty Ltd	Australia		100	Level 6, 77 Berry Street, North Sydney NSW 2060
Text 100 LLC	USA		100	The Corporation Trust Company, 1209 Orange Street – Corporation Trust Center, New Castle County, Wilmington, DE 19801
Text 100 GmbH	Germany		100	Nymphenburger Straße 168, 80634 München
Text 100 Holding GmbH	Germany		100	Nymphenburger Straße 168, 80634 München
Text 100 International Limited	England	✓	100	75 Bermondsey Street, London SE1 3XF
Text 100 Italy S.R.L	Italy		100	Piazzale Principessa Clotilde, 8 20121 Milano
Text 100 Limited	England		100	6th Floor, 110 High Holborn, London WC1V 6JS
Text 100 Malaysia SDN. BHD	Malaysia		100	Suite 21.01, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 KL, Malaysia
Text 100 Pte Limited	Singapore		100	36 Prinsep Street #05-01/02, Singapore 188 648
Text 100 Pty Limited	Australia		100	Level 17,383 Kent Street, Sydney NSW 2000
Text 100 SARL	France		100	17 rue de la Banque, 75002 Paris
Text 100 S.L	Spain		100	c/ Prim, 19 5ª Planta, Madrid 28004
Text Hundred India Private Limited	India		100	2nd Floor, TDI Centre, Plot No.7, Jasola, New Delhi – 110025
Twogether Creative Limited	England	✓	100	75 Bermondsey Street, London SE1 3XF
Twogether Creative LLC	USA		100	CT Corp System, 818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Velocity Partners Limited	England	✓	100	75 Bermondsey Street, London SE1 3XF
Velocity Partners US Inc	USA		100	CT Corporation System, 111 Eighth Avenue, New York, NY 10011
Viga Research LLC	USA		100	The Corporation Trust Company, 1209 Orange Street – Corporation Trust Center, New Castle County, Wilmington, DE, 19801
Vox Public Relations India Private Limited	India		100	2nd Floor, TDI Centre, Plot No.7, Jasola, New Delhi – 110025
Vrge Strategies LLC	USA		100	The Corporation Trust Company, 1209 Orange Street – Corporation Trust Center, New Castle County, Wilmington, DE 19801

27 Subsidiaries continued

All shares held are a class of Ordinary Shares with the exception of the US LLCs where LLC units are held.

The principal activity of the subsidiary undertakings is digital communications consultancy specialising predominantly in the technology and consumer sectors.

All subsidiary undertakings operate in the country in which they have been incorporated. All subsidiary undertakings listed are included in the consolidated results. None of the Group's subsidiaries have a non-controlling interest that is individually material to the Group. As a result the disclosure requirements for subsidiaries with a material non-controlling interest under IFRS 12 are not considered necessary.

The following companies are exempt from the requirements relating to the audit of individual accounts for the year/period ended 31 January 2018 by virtue of section 479A of the Companies Act 2006: Bite Communications Group Limited (04131879), BITEDA Limited (SC364548), HPI Research Limited (05816194), The Lexis Agency Limited (04404752), Next Fifteen Communications Limited (03938880), ODD Communications Limited (07861569), PMC Investments Limited (08782601), Pinnacle Marketing Communications Limited (03152867), Text 100 International Limited (02433862), August.One Communications International Limited (03224261) and Partnermarketing.com Limited (07545480).

28 Related-party transactions

The ultimate controlling party of the Group is Next Fifteen Communications Group plc (incorporated in the United Kingdom and registered in England and Wales). The Company has a related-party relationship with its subsidiaries (note 27) and with its Directors. Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. During the period to 31 January 2018 there were the following related-party transactions:

Brand	Services	Related party	**Income/ (expense) impact 2018 £'000**	**Asset/ (liability) at year end 2018 £'000**	Income/ (expense) impact 2017 £'000	Asset/ (liability) at year end 2017 £'000
Blueshirt	Consultancy	Blueshirt Capital Advisors is an associate of Next 15	**29**	**–**	(35)	121
Bite DA	Consultancy	Animl was an associate of Next 15 for part of the prior year	**–**	**–**	4	–

Dividends were paid to Directors of the Company during the year in proportion to their shareholdings in the Company. Tim Dyson, Peter Harris and Richard Eyre received dividends of £281,829, £4,152 and £10,125 respectively (2017: £228,510, £1,906 and £8,910). Key management personnel compensation is disclosed in note 3.

During the year, Beyond performed consumer experience work for Moneysupermarket.com, for which Genevieve Shore has a non-executive directorship. The total value of the transaction during FY18 was £427,000 (2017: £1,095,000) and the amount outstanding at the year end is £Nil (2017: £236,000).

29 Operating lease rental receivables

As at 31 January, the Group's total future minimum lease payments receivable under non-cancellable leases are as follows:

	2018 £'000	2017 £'000
In respect of operating leases which will be receivable in the period		
Within one year	**554**	27
In two to five years	**1,768**	–
	2,322	27

30 Events after the balance sheet date

HSBC Facility

On 5 February 2018 the Group extended its facilities agreement with HSBC to include a loan of £20m in addition to the RCF of £40m which is available until 5 July 2022. The £20m loan was drawn down on 9 February 2018 and is repayable in equal annual instalments. The last repayment is due in December 2021 and the loan bears interest at the same margin plus LIBOR as the RCF.

Brandwidth

On 6 February 2018 Next 15 purchased the entire issued share capital of Brandwidth Group Limited and its subsidiaries ('Brandwidth'), a UK-based innovation agency bringing significant digital skills to the Group, for initial consideration of £6.2m. Further consideration is payable based on the profit before interest and tax of Brandwidth for the year to 30 June 2018 of up to £3.3m in September 2018 and £0.8m in April 2020. We expect there to be goodwill arising as a result of this acquisition due to the anticipated profitability and operating synergies.

COMPANY BALANCE SHEET

as at 31 January 2018 and 31 January 2017

	Note	**2018 £'000**	**2018 £'000**	2017 £'000	2017 £'000
Non-current assets					
Intangible assets	2	**900**		905	
Tangible assets	3	**1,543**		1,327	
Investments in subsidiaries	4	**130,784**		114,117	
Trade investments		**1,142**		665	
Deferred tax assets	9	**–**		17	
			134,369		117,031
Current assets					
Trade and other receivables	5	**23,938**		15,554	
Current tax asset		**685**		96	
			24,623		15,650
Current liabilities					
Trade and other payables	6	**21,113**		16,860	
Provisions	8	**–**		1,812	
Contingent consideration		**3,899**		3,047	
Deferred consideration		**4,255**		–	
			(29,267)		(21,719)
Net current liabilities			**(4,644)**		(6,069)
Total assets less current liabilities			**129,725**		110,962
Non-current liabilities					
Borrowings	7	**34,465**		31,869	
Other financial liabilities	7	**13,941**		10,994	
Deferred tax liability	9	**3**		–	
			(48,409)		(42,863)
Net assets			**81,316**		68,099
Equity					
Share capital	10	**1,892**		1,834	
Share premium account		**28,611**		25,681	
Merger reserve		**3,075**		3,075	
Share-based payment reserve		**6,404**		5,174	
Other reserve		**27,571**		26,381	
Retained earnings		**13,763**		5,954	
Equity attributable to owners of the Company			**81,316**		68,099

The following notes are an integral part of this Company Balance Sheet.

The Company reported a profit for the financial year ended 31 January 2018 of £11,930,000 (2017: £6,817,000).

These financial statements were approved and authorised for issue by the Board on 12 April 2018.

Peter Harris
Chief Financial Officer

Company number 01579589

COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 January 2018 and 31 January 2017

	Note	Share capital £'000	Share premium account £'000	Merger reserve £'000	Share-based payment reserve £'000	ESOP reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 31 January 2016		1,763	21,523	3,075	4,571	–	27,759	2,401	61,092
Profit for the period		–	–	–	–	–	–	6,817	6,817
Dividends	10	–	–	–	–	–	–	(3,264)	(3,264)
Shares issued in satisfaction of vested share options and performance shares		27	–	–	(248)	–	–	–	(221)
Shares issued on acquisition		44	4,158	–	–	–	–	–	4,202
Movement in hedging reserve		–	–	–	–	–	(1,378)	–	(1,378)
Movement in relation to share-based payments		–	–	–	851	–	–	–	851
Movement due to ESOP share purchases		–	–	–	–	(25)	–	–	(25)
Movement due to ESOP share option exercises		–	–	–	–	25	–	–	25
At 31 January 2017		1,834	25,681	3,075	5,174	–	26,381	5,954	68,099
Profit for the period		–	–	–	–	–	–	11,930	11,930
Dividends	10	–	–	–	–	–	–	(4,121)	(4,121)
Shares issued in satisfaction of vested share options and performance shares		40	–	–	(75)	–	–	–	(35)
Shares issued on acquisition		18	2,930	–	–	–	–	–	2,948
Movement in hedging reserve		–	–	–	–	–	1,190	–	1,190
Movement in relation to share-based payments		–	–	–	1,305	–	–	–	1,305
Movement due to ESOP share purchases		–	–	–	–	(39)	–	–	(39)
Movement due to ESOP share option exercises		–	–	–	–	39	–	–	39
At 31 January 2018		**1,892**	**28,611**	**3,075**	**6,404**	**–**	**27,571**	**13,763**	**81,316**

The following notes are an integral part of this Statement of Changes in Equity.

1 Accounting policies

A. Basis of preparation

Next Fifteen Communications Group plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 101. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 1 to 21. The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. These financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council incorporating the amendments to FRS 101 issued by the FRC in July 2015 and July 2016.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments measured at fair value at the end of each reporting period, and are in accordance with applicable accounting standards in the United Kingdom. The principal accounting policies adopted are the same as those set out in note 1 to the consolidated financial statements except as noted below.

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account or statement of comprehensive income for the year. The profit attributable to the Company is disclosed in the footnote to the Company's balance sheet.

The auditor's remuneration for audit and other services is disclosed in note 4 to the consolidated financial statements.

The new standards and amendments which have not yet been adopted are disclosed in note 1, section U, to the consolidated financial statements.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related-party transactions. Where required, equivalent disclosures are given in the Group accounts of Next Fifteen Communications Group plc. The Group accounts of Next Fifteen Communications Group plc are available to the public and are at the beginning of this section.

B. Investments in subsidiaries

An investment in a subsidiary is recognised at cost less any provision for impairment.

C. Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report section of the annual report, which also describes the financial position of the Company; its cash flows, liquidity position and borrowing facilities; the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

D. Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Group's accounting policies

There are no critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

I. Impairment of investments in subsidiaries

Determining whether the Company's investments in subsidiaries have been impaired requires estimations of the investments' values in use. The value-in-use calculations require the entity to estimate the future cash flows expected to arise from the investments and suitable discount rates in order to calculate present values. The carrying amount of investments in subsidiaries at the balance sheet date was £131m.

II. Contingent consideration, share purchase obligation and valuation of put options

Contingent consideration and share purchase obligations relating to acquisitions have been included based on discounted management estimates of the most likely outcome. The difference between the fair value of the liabilities and the actual amounts payable is charged to the Consolidated Income Statement as notional finance costs over the life of the associated liability. Changes in the estimates of contingent consideration payable and the share purchase obligation are recognised in finance income/expense. These require judgements around future revenue growth, profit margins and discount rates, which, if inappropriate, would result in a material adjustment to the value of these liabilities within the next financial year. Further details are contained in note 17 in the Group financial statements and note 7 in the Company financial statements.

2 Intangible assets

	Computer software £'000
Cost	
At 1 February 2017	3,038
Additions	222
At 31 January 2018	**3,260**
Accumulated depreciation	
At 1 February 2017	2,133
Charge for the year	227
At 31 January 2018	**2,360**
Net book value	
At 31 January 2018	**900**
At 31 January 2017	905

3 Tangible assets

	Short leasehold improvements £'000	Office equipment £'000	Total £'000
Cost			
At 1 February 2017	1,395	487	1,882
Additions	400	148	548
At 31 January 2018	**1,795**	**635**	**2,430**
Accumulated depreciation			
At 1 February 2017	289	266	555
Charge for the year	211	121	332
At 31 January 2018	**500**	**387**	**887**
Net book value			
At 31 January 2018	**1,295**	**248**	**1,543**
At 31 January 2017	1,106	221	1,327

4 Investments

	Total £'000
Cost	
At 1 February 2017	114,117
Acquisitions[1]	16,717
Disposals[2]	(50)
At 31 January 2018	**130,784**

1 On 10 July 2017 the Company purchased 100% of the issued share capital of Velocity Partners Limited. On 14 September 2017, the Company purchased 100% of the issued share capital of Elvis Communications Limited. Refer to note 26 in the Group financial statements for further details of the acquisitions made in the year.

2 The disposal follows the strike off of Joe Public Relations Limited on 5 December 2017.

The Directors consider the value of investments in subsidiary undertakings to be not less than that stated in the balance sheet of the Company.

The Company's subsidiaries are those as listed in note 27 of the consolidated financial statements.

5 Trade and other receivables

	Company 2018 £'000	Company 2017 £'000
Amounts falling due within one year		
Amounts due from subsidiary undertakings	**21,477**	13,617
Other debtors	**1,954**	1,610
Prepayments and accrued income	**375**	317
Other taxation	**132**	10
Total trade and other receivables	**23,938**	15,554

6 Trade and other payables

	Company 2018 £'000	Company 2017 £'000
Overdraft	**3,977**	3,351
Trade creditors	**223**	139
Amounts owed to subsidiary undertakings	**14,678**	11,630
Other taxation and social security	**91**	78
Other creditors	**89**	11
Accruals and deferred income	**2,055**	1,651
Total trade and other payables	**21,113**	16,860

7 Non-current liabilities

	Company 2018 £'000	Company 2017 £'000
Bank loan[1]	**34,465**	31,869
Between one and two years	**–**	–
Between two and five years	**34,465**	31,869
After five years	**–**	–
Contingent consideration	**12,157**	9,160
Between one and two years	**2,989**	3,668
Between two and five years	**9,168**	5,492
After five years	**–**	–
Deferred consideration	**1,784**	–
Between one and two years	**360**	–
Between two and five years	**1,424**	–
After five years	**–**	–
Share purchase obligation	**–**	1,834
Between one and two years	**–**	–
Between two and five years	**–**	1,834
After five years	**–**	–
Total	**48,406**	42,863

1 The entire bank facility is secured on guarantees from the guarantor pool.

7 Non-current liabilities continued

The bank loans are valued at the net proceeds drawn down at the exchange rates prevailing at the time they are drawn. The foreign currency element of the loans is revalued at the prevailing rate at 31 January 2018.

The Company has no fair value Level 1 or 2 instruments (2017: none). All instruments at fair value through profit or loss are Level 3 instruments being the contingent consideration and share purchase obligation liabilities.

Level 3 financial instruments are valued using the discounted cash flow method to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration or share purchase obligation. They are not based on observable market data.

8 Provisions

	Employment dependent acquisition payments £'000	Total £'000
At 31 January 2017	1,812	1,812
Additions	–	–
Used during the year	(1,812)	(1,812)
At 31 January 2018	**–**	**–**

9 Deferred tax

Deferred tax is provided as follows:

	Accelerated capital allowances £'000	Tax losses £'000	Other £'000	Total £'000
At 31 January 2016	(30)	108	–	78
(Charge)/credit to income	(22)	(41)	2	(61)
At 31 January 2017	(52)	67	2	17
Credit/(charge) to income	46	(67)	1	(20)
At 31 January 2018	**(6)**	**–**	**3**	**(3)**

10 Share capital and reserves

	2018 £'000	2017 £'000
Authorised, allotted, called up and fully paid		
75,685,350 Ordinary Shares of 2.5p each	**1,892**	1,834

For details on changes to issued share capital in the year, please refer to note 20 in the Group financial statements. For details of the dividends declared and paid in the year, please refer to note 9 in the Group financial statements.

11 Operating leases

As at 31 January 2018, the Company's total future minimum lease rentals are as follows:

	2018		2017	
	Land and buildings £'000	**Other £'000**	Land and buildings £'000	Other £'000
In respect of operating leases which will be paid in the following periods:				
Within one year	**916**	**–**	757	–
In two to five years	**3,664**	**–**	3,737	–
After five years	**913**	**–**	1,877	–
	5,493	**–**	6,371	–

Operating leases relate to the rental of office space for the Group in the UK.

12 Related-party transactions

During the period the Company received the following amounts in respect of Head office costs and intercompany interest from undertakings which were not wholly owned at the balance sheet date:

	Intercompany interest		Recharges	
	Year ended 31 January 2018 £'000	Year ended 31 January 2017 £'000	**Year ended 31 January 2018 £'000**	Year ended 31 January 2017 £'000
Agent3 Limited	**–**	–	**623**	642
Blueshirt Group LLC	**–**	–	**191**	218
Connections Media LLC	**–**	–	**93**	104

At 31 January the Company had the following intercompany amounts receivable from/(payable to) the subsidiaries below:

	Year ended 31 January 2018 £'000	Year ended 31 January 2017 £'000
Agent3 Limited	**2,020**	1,688
Blueshirt Group LLC	**(14)**	(71)
Connections Media LLC	**51**	(34)

FIVE-YEAR FINANCIAL INFORMATION

for the 12-month period ended 31 January (unaudited)

	Year ended 2018 IFRS £'000	Year ended 2017 IFRS £'000	Year ended 2016 IFRS £'000	Year ended 2015 IFRS £'000	Year ended 2014 IFRS £'000
Profit and loss					
Billings	**243,485**	200,745	151,658	126,159	118,278
Revenue	**196,811**	171,013	129,757	109,194	98,749
Staff costs	**136,346**	126,756	92,721	77,108	68,988
Operating profit	**17,225**	7,914	8,429	(555)	4,705
Net finance expense	**(3,955)**	(4,742)	(2,846)	(2,577)	(1,382)
Profit before income tax	**13,296**	2,900	5,578	(2,864)	3,313
Income tax expense	**(4,000)**	(1,232)	(1,116)	1,486	(1,802)
Profit for the year	**9,296**	1,668	4,462	(1,378)	1,511
Non-controlling interests	**664**	530	470	589	475
Profit attributable to owners of the Parent	**8,632**	1,138	3,992	(1,967)	1,036
Balance sheet					
Non-current assets	**120,082**	107,410	71,430	57,458	49,868
Net current assets	**15,014**	15,243	16,159	8,893	(1,920)
Non-current liabilities	**(58,775)**	(54,156)	(34,798)	(29,149)	(8,048)
Total equity attributable to owners of the Parent	**76,964**	67,571	52,048	37,974	37,060
Non-controlling interests	**(643)**	926	743	(773)	2,840
Total equity	**76,321**	68,497	52,791	37,202	39,900
Cash flow					
Profit for the year	**9,296**	1,668	4,462	(1,378)	1,511
Non-cash adjustments and working capital movements	**19,569**	31,176	11,826	5,600	(1,493)
Net cash generated from operations	**28,865**	32,844	16,288	17,960	8,976
Income tax paid	**(4,284)**	(1,978)	(2,954)	(2,316)	(1,461)
Net cash from operating activities	**24,581**	30,866	13,334	15,644	7,515
Acquisition of subsidiaries net of cash acquired	**(9,824)**	(14,546)	(4,190)	(5,544)	(616)
Acquisition of property, plant and equipment	**(2,974)**	(8,284)	(6,411)	(3,225)	(1,052)
Net cash outflow from investing activities	**(19,399)**	(30,592)	(20,158)	(14,842)	(4,522)
Net cash movement in bank borrowings	**4,484**	11,589	2,871	6,300	(586)
Dividends paid to owners of the Parent	**(4,121)**	(3,264)	(2,441)	(3,006)	(1,409)
Net cash (outflow)/inflow from financing activities	**(2,034)**	6,500	11,459	2,042	(3,156)
Increase/(decrease) in cash for the year	**3,148**	6,774	4,635	2,844	(163)
Dividend per share (p)	**6.30**	5.25	4.2	3.50	2.63
Basic earnings per share (p)	**11.6**	1.6	6.0	(3.23)	1.73
Diluted earnings per share (p)	**10.5**	1.5	5.6	(2.91)	1.55
Key performance indicator and other non-statutory measures					
Headline staff costs as a % of revenue[1]	**67.0**	67.6	69.3	68.9	69.7
Headline EBITDA[2]	**34,388**	28,964	19,176	14,609	10,556
Headline profit before income tax[3]	**29,338**	24,200	16,092	12,535	8,271
Diluted headline earnings per share (p)[4]	**27.8**	23.4	16.9	13.2	7.4
Net debt[5]	**(11,593)**	(11,412)	(6,618)	(8,567)	(5,367)

1 Staff costs excluding restructuring costs and charges associated with equity transactions accounted for as share-based payments. See note 5 of the financial statements.

2 Operating profit before depreciation, amortisation, acquisition related consideration movements, the impact of fraudulent activity and other non-recurring items.

3 See note 5 of the financial statements.

4 See note 10 of the financial statements.

5 Net debt excludes contingent consideration and share purchase obligations. See note 19 of the financial statements.

Financial calendar

Preliminary results	
2018 full-year results announcement	April 2018

Final dividend	
Ex dividend date	28 June 2018
Record date	29 June 2018
Annual General Meeting	22 June 2018
Payment of 2018 final dividend	3 August 2018

Interim dividend	
Interim results announcement	September 2018
Ex-dividend date	October 2018
Record date	October 2018
Payment of 2019 interim dividend	November 2018

These dates are provisional and may be subject to change.

Annual General Meeting

The venue and timing of the Company's AGM is detailed in the notice convening the AGM, which will be available from the Company's website at www.next15.com.

Managing your shares and shareholder communications

The Company's shareholder register is maintained by its registrar, Link Asset Services. Information on how to manage your shareholdings can be found at www.signalshares.com. Shareholders can contact Link Asset Services in relation to all administrative enquiries relating to their shares, such as a change of personal details, the loss of a share certificate, out-of-date dividend cheques, change of dividend payment methods and to apply for the Dividend Reinvestment Plan. Shareholders who have not yet elected to receive shareholder documentation in electronic form can sign up by registering at www.signalshares.com. Should shareholders who have elected for electronic communications require a paper copy of any of the Company's shareholder documentation, or wish to change their instructions, they should contact Link Asset Services.

Registrar

Link Asset Services
The Registry34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone from the UK: 0871 664 0300

Calls cost 12p per minute plus your phone company's access charge. Lines are open Monday to Friday (9.00 a.m. – 5.30 p.m.)

Telephone from overseas: +44 371 664 0300 Calls outside the UK will be charged at the applicable international rate.

E-mail: enquiries@linkgroup.co.uk

Dividends

Dividends can be paid directly into your bank account. This is the easiest way for shareholders to receive dividend payments and avoids the risk of lost or out-of-date cheques. A dividend mandate form is available from Link Asset Services or at www.signalshares.com.

If you are a UK taxpayer, please note that the government has announced that from 6 April 2016 the Dividend Tax Credit has been replaced by a tax-free Dividend Allowance of £5,000. Any dividends received above this amount will be subject to taxation. Dividends paid on shares held within pensions and Individual Savings Accounts ('ISAs') will continue to be tax free. Further information can be found at www.gov.uk/tax-on-dividends. From 6 April, the 'Dividend Tax Voucher' has been replaced by a 'Dividend Confirmation'.

Link Asset Services is also able to pay dividends to shareholder bank accounts in many currencies worldwide through the International Payment Service. An administrative fee will be deducted from each dividend payment. Further details can be obtained from Link Asset Services or at http://ips.linkassetservices.com/.

Dividend Reinvestment Plan

The Company operates a Dividend Reinvestment Plan ('DRIP') which enables shareholders to buy the Company's shares on the London Stock Exchange with their cash dividend. Further information about the DRIP is available from Link Asset Services. If shareholders would like their final 2018 and future dividends to qualify for the DRIP, completed application forms must be returned to the registrar by Friday 13 July 2018.

Shareholder fraud

Fraud is on the increase and many shareholders are targeted every year. If you have any reason to believe that you may have been the target of fraud, or attempted fraud, in relation to your shareholding, please contact Link Asset Services immediately.

More detailed information can be found on the FCA website at: www.fsa.gov.uk/consumerinformation/scamsandswindles/investment_scams/boiler_room.