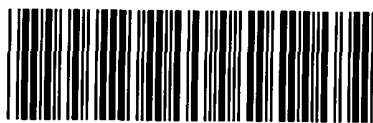


Registered number: 04248841

LINGUAMATICS LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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LINGUAMATICS LIMITED

COMPANY INFORMATION

Directors	Dr R W S Hale Dr D R Milward Dr P J Hastings J M Brimacombe
Company secretary	Dr R W S Hale
Registered number	04248841
Registered office	324 Science Park Milton Road Cambridge CB4 0WG
Independent auditor	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor 101 Cambridge Science Park Milton Road Cambridge Cambridgeshire CB4 0FY
Bankers	HSBC Bank Plc 63-64 St Andrews Street City Office Cambridge CB2 3HZ

LINGUAMATICS LIMITED

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LINGUAMATICS LIMITED

GROUP STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Introduction

Linguamatics Limited is a global leader in the application of Natural Language Processing technology to high value knowledge discovery problems across multiple market segments – in particular Pharmaceuticals; Healthcare & Government. The group's flagship technology platform is the I2E text mining platform which is both licensed for in-house installation by enterprise customers and combined with a broad range of content resources in a fully hosted alternative. The company has deep scientific and technical resources and uses these to leverage the value of its platform by providing ancillary consulting services.

Business review

The group demonstrated steady performance in 2017 with 12.47% year-on-year Turnover growth and sustained Profit after Tax. The Pharmaceutical segment saw initial adoption of new programmatic solutions which bode well for 2018. The Healthcare market segment encountered some headwinds due to the uncertainty around the patient funding model in the USA but still secured some attractive multi-year licenses.

Principal risks and uncertainties

The group's market position continues to be based on its ability to maintain a performance edge over competitor offerings in its main platform and there is a risk that unexpected technical hurdles are encountered or that new competitors enter the market. To maintain and grow its business the group needs to recruit highly qualified technical staff and there is a risk that this will become a constraint on growth. Finally the group has significant exposure to foreign exchange volatility which is minimised by the purchase of appropriate financial instruments.

Financial key performance indicators

The KPI's viewed most critical by the Board are Turnover (2017: £9.1m), annualised Turnover Growth (2017: 12.47%) and Current Assets (2017: £7.94m).

Other key performance indicators

Other key performance indicators are net annual increase in employee numbers (2017: 9) and number of major software platform releases (2017: 2).

This report was approved by the board on 9 March 2018 and signed on its behalf.



Dr R W S Hale
Director

LINGUAMATICS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Some information that was previously disclosed in the Directors' Report is now included in the Group Strategic Report.

The directors present their report and the financial statements for the year ended 31 December 2017.

Results and dividends

The profit for the year, after taxation, amounted to £491,161 (2016 - £276,556).

Directors

The directors who served during the year were:

Dr R W S Hale
Dr D R Milward
Dr P J Hastings
J M Brimacombe

Directors' responsibilities statement

The directors are responsible for preparing the Group Strategic Report, the Directors' Report and the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and applicable law, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the of the Company and Group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently for the Group's financial statements;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and other information included in Directors' Reports may differ from legislation in other jurisdictions.

LINGUAMATICS LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017**

Disclosure of information to auditor

The directors confirm that:

- so far as the director is aware, there is no relevant audit information of which the Company and the Group's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditor is aware of that information.

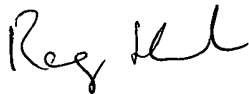
Post balance sheet events

There have been no significant events affecting the Group since the year end.

Auditor

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 9 March 2018 and signed on its behalf.



Dr R W S Hale
Director



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LINGUAMATICS LIMITED

Opinion

We have audited the financial statements of Linguamatics Limited (the 'parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2017, which comprise the consolidated Statement of comprehensive income, the consolidated and company Statement of financial positions, the consolidated and company Statement of changes in equity, the consolidated Statement of cash flows and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

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 December 2017 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, 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.

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the 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.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LINGUAMATICS LIMITED (CONTINUED)

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 this regard.

Opinion 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 Group 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 Group Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by the Companies Act 2006

In the light of the knowledge and understanding of the Group and the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Group Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LINGUAMATICS LIMITED (CONTINUED)

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement on page 2, 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.

Auditors' 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. The description forms part of our Auditor's Report.



Paul Brown (Senior Statutory Auditor)
for and on behalf of
Grant Thornton UK LLP
Chartered Accountants
Statutory Auditor
Cambridge

13 March 2018

LINGUAMATICS LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 £	2016 £
Turnover	4	9,108,624	8,098,700
Gross profit		9,108,624	8,098,700
Administrative expenses		(9,707,281)	(8,224,637)
Fair value movement on forward contracts		352,569	(184,727)
Other operating income	5	1,135	164,561
Operating loss	6	(244,953)	(146,103)
Interest receivable and similar income	11	18,123	24,568
Loss before taxation		(226,830)	(121,535)
Taxation on loss on ordinary activities	12	717,991	398,091
Profit and total comprehensive income for the year		491,161	276,556
Profit for the financial year attributable to:			
Owners of the parent Company		491,161	276,556

The notes on pages 15 to 33 form part of these financial statements.

LINGUAMATICS LIMITED
REGISTERED NUMBER:04248841

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	2017 £	2016 £
Fixed assets			
Tangible assets	13	1,091,909	388,060
		<u>1,091,909</u>	<u>388,060</u>
Current assets			
Debtors: amounts falling due within one year	15	5,322,027	5,960,693
Current asset investments	16	-	298,683
Cash at bank and in hand	17	2,709,516	3,471,685
		<u>8,031,543</u>	<u>9,731,061</u>
Creditors: amounts falling due within one year	18	(6,408,716)	(7,860,199)
Net current assets		<u>1,622,827</u>	<u>1,870,862</u>
Deferred taxation	20	(22,669)	(19,697)
		<u>(22,669)</u>	<u>(19,697)</u>
Net assets		<u><u>2,692,067</u></u>	<u><u>2,239,225</u></u>
Capital and reserves			
Called up share capital	22	589	585
Share premium account	21	26,893	23,841
Capital redemption reserve	21	4	4
Foreign exchange reserve	21	89,440	145,540
Other reserves	21	40,587	25,862
Profit and loss account	21	2,534,554	2,043,393
Equity attributable to owners of the parent Company		<u><u>2,692,067</u></u>	<u><u>2,239,225</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 9 March 2018.



Dr R W S Hale
Director

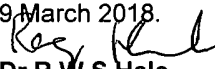
The notes on pages 15 to 33 form part of these financial statements.

LINGUAMATICS LIMITED
REGISTERED NUMBER:04248841

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	2017 £	2016 £
Fixed assets			
Tangible assets	13	338,010	238,024
Investments	14	5,136	5,136
		<u>343,146</u>	<u>243,160</u>
Current assets			
Debtors: amounts falling due within one year	15	1,492,893	881,282
Current asset investments	16	-	298,683
Cash at bank and in hand	17	1,591,125	1,562,759
		<u>3,084,018</u>	<u>2,742,724</u>
Creditors: amounts falling due within one year	18	(1,792,093)	(1,626,416)
Net current assets		<u>1,291,925</u>	<u>1,116,308</u>
Deferred taxation	20	(8,631)	-
		<u>(8,631)</u>	<u>-</u>
Net assets		<u><u>1,626,440</u></u>	<u><u>1,359,468</u></u>
Capital and reserves			
Called up share capital	22	589	585
Share premium account	21	26,893	23,841
Capital redemption reserve	21	4	4
Other reserves	21	40,587	25,862
Profit and loss account brought forward		1,309,176	1,174,491
Profit for the year		249,191	176,561
Purchase of own shares		-	(41,876)
		<u>1,558,367</u>	<u>1,309,176</u>
Profit and loss account carried forward		<u><u>1,626,440</u></u>	<u><u>1,359,468</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 9 March 2018.


Dr R W S Hale
 Director

The notes on pages 15 to 33 form part of these financial statements.

The company has taken the exemption under section 408 of the Companies Act 2006 to present a full income statement, but the profit for the year for the company was £249,183 (2016: £176,561).

LINGUAMATICS LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Called up share capital	Share premium account	Capital redemption reserve	Foreign exchange reserve	Other reserves	Profit and loss account	Total equity
	£	£	£	£	£	£	£
At 1 January 2017	585	23,841	4	145,540	25,862	2,043,393	2,239,225
Comprehensive income for the year							
Profit for the year	-	-	-	-	-	491,161	491,161
Foreign exchange differences	-	-	-	(56,100)	-	-	(56,100)
Contributions by and distributions to owners							
Shares issued during the year	4	3,052	-	-	-	-	3,056
Share based payments	-	-	-	-	14,725	-	14,725
At 31 December 2017	589	26,893	4	89,440	40,587	2,534,554	2,692,067

LINGUAMATICS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Called up share capital	Share premium account	Capital redemption reserve	Foreign exchange reserve	Other reserves	Profit and loss account	Total equity
	£	£	£	£	£	£	£
At 1 January 2016	581	10,713	-	30,742	22,542	1,808,713	1,873,291
Comprehensive income for the year							
Profit for the year	-	-	-	-	-	276,556	276,556
Currency translation differences	-	-	-	114,798	-	-	114,798
Contributions by and distributions to owners							
Shares issued during the year	8	13,128	-	-	-	-	13,136
Share based payments	-	-	-	-	3,320	-	3,320
Purchase of own shares	(4)	-	4	-	-	(41,876)	(41,876)
At 31 December 2016	585	23,841	4	145,540	25,862	2,043,393	2,239,225

The notes on pages 15 to 33 form part of these financial statements.

LINGUAMATICS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Called up share capital	Share premium account	Capital redemption reserve	Other reserves	Profit and loss account	Total equity
	£	£	£	£	£	£
At 1 January 2017	585	23,841	4	25,862	1,309,176	1,359,468
Comprehensive income for the year						
Profit for the year	-	-	-	-	249,191	249,191
Shares issued during the year	4	3,052	-	-	-	3,056
Share based payments	-	-	-	14,725	-	14,725
At 31 December 2017	589	26,893	4	40,587	1,558,367	1,626,440

LINGUAMATICS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Called up share capital	Share premium account	Capital redemption reserve	Other reserves	Profit and loss account	Total equity
	£	£	£	£	£	£
At 1 January 2016	581	10,713	-	22,542	1,174,491	1,208,327
Comprehensive income for the year						
Profit for the year	-	-	-	-	176,561	176,561
Shares issued during the year	8	13,128	-	-	-	13,136
Share based payments	-	-	-	3,320	-	3,320
Purchase of own shares	(4)	-	4	-	(41,876)	(41,876)
At 31 December 2016	585	23,841	4	25,862	1,309,176	1,359,468

The notes on pages 15 to 33 form part of these financial statements.

LINGUAMATICS LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

	2017 £	2016 £
Cash flows from operating activities		
Profit for the financial year	491,161	276,556
Adjustments for:		
Depreciation of tangible assets	225,470	128,684
Government grants	-	(118,299)
Interest received	(18,123)	(24,568)
Taxation charge	(717,991)	(398,091)
Decrease/(increase) in debtors	971,181	(497,744)
(Decrease)/increase in creditors	(1,275,415)	1,391,446
Corporation tax received	545,510	318,259
Share based payments	14,725	3,320
Forex	(56,100)	106,912
Fair value movement	(352,569)	184,727
Net cash generated from operating activities	(172,151)	1,371,202
Cash flows from investing activities		
Purchase of tangible fixed assets	(929,319)	(245,453)
Government grants received	-	118,299
Interest received	18,123	24,568
Movement in current asset investments	298,683	(5,672)
Net cash from investing activities	(612,513)	(108,258)
Cash flows from financing activities		
Issue of ordinary shares	3,056	13,136
Purchase of ordinary shares	-	(41,876)
New loans	50,000	-
Repayment of loans	(30,284)	-
Interest paid	(277)	-
Net cash used in financing activities	22,495	(28,740)
Net (decrease)/increase in cash and cash equivalents	(762,169)	1,234,204
Cash and cash equivalents at beginning of year	3,471,685	2,237,481
Cash at bank and in hand	2,709,516	3,471,685

The notes on pages 15 to 33 form part of these financial statements.

LINGUAMATICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. General information

Linguamatics Limited is a limited liability company incorporated in England and Wales. Its registered head office is located at 324 Science Park, Milton Road, Cambridge, Cambridgeshire, CB4 0WG.

The principal activity of Linguamatics Limited is of the business and domestic software development and Information technology consultancy activities

2. Accounting policies

2.1 Basis of preparation and consolidation

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

Fair value accounting has also been used for certain financial instruments as applicable.

The consolidated financial statements present the results of the company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

2.2 Going concern

After reviewing the financial forecasts and projections, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future - being a period of at least 12 months. The group therefore continues to adopt the going concern basis in preparing its financial statements.

The group had signed contracts for £2,256,861 as at the end of the year (2016: £1,812,650), which were unbilled and therefore have not been included in the financial statements.

2.3 Revenue

Turnover comprises revenue recognised by the company in respect of services supplied during the year, exclusive of Value Added Tax.

Licence revenues and consultancy income under the rental model are recognised over the period to which the rental fee relates but only after practical acceptance of the software has been received.

2.4 Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation.

LINGUAMATICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. General information (continued)

2.4 Tangible fixed assets (continued)

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Leasehold Property	- 6 years
Fixtures & fittings	- 4 years
Office equipment	- 4 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Consolidated Statement of Comprehensive Income.

2.5 Operating leases: the Group as lessee

Rentals paid under operating leases are charged to the Consolidated Statement of Comprehensive Income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.6 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.7 Debtors

Short term debtors are measured at transaction price, less any impairment.

2.8 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on the notice of between 24 hours and six months. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Cash held in deposit accounts with notice periods longer than six months are classified as current asset investments.

LINGUAMATICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. General information (continued)

2.9 Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

2.10 Creditors

Short term creditors are measured at the transaction price.

2.11 Government grants

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to the Consolidated Statement of Comprehensive Income at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the Consolidated Statement of Comprehensive Income in the same period as the related expenditure.

2.12 Foreign currency translation

The group's functional currency is GBP.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the Income statement.

Foreign subsidiaries are translated into the group's functional currency by using the average exchange rate for the Statement of Comprehensive Income and the closing exchange rate for the Statement of Financial Position. Any foreign currency differences on consolidation are posted to the foreign exchange reserve within equity.

LINGUAMATICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. General information (continued)

2.13 Pensions

Defined contribution pension plan

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations.

The contributions are recognised as an expense in the Consolidated Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Group in independently administered funds.

2.14 Disclosure exemptions

Linguamatics Limited as an entity is a qualifying entity which is consolidated into another set of publically available group accounts, the disclosure exemption from preparing a cash flow and disclosing related party transactions with other members of the group has been taken (FRS 102 1.12).

2.15 Interest income

Interest income is recognised in the Consolidated Statement of Comprehensive Income using the effective interest method.

2.16 Borrowing costs

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

2.17 Provisions for liabilities

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Consolidated Statement of Comprehensive Income in the year that the Group becomes aware of the obligation, and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of Financial Position.

LINGUAMATICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. General information (continued)

2.18 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Consolidated Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company and the Group operate and generate income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.19 Related party transactions

Related parties include Directors and entities with common directorships.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

Preparation of the financial statements requires management to make judgements and estimates. The items in the financial statements where these judgements and estimates have been made include the rate of depreciation of tangible fixed assets and the revenue recognition on sales contracts that span multiple accounting periods.

LINGUAMATICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

4. Turnover

An analysis of turnover by class of business is as follows:

	2017 £	2016 £
Licencing sales	8,169,363	6,894,874
Consultancy sales	850,820	1,155,245
Royalties	88,441	48,581
	<u>9,108,624</u>	<u>8,098,700</u>

Analysis of turnover by country of destination:

	2017 £	2016 £
United Kingdom	212,197	255,975
Europe	1,727,814	1,827,834
North America	7,168,613	6,014,891
	<u>9,108,624</u>	<u>8,098,700</u>

5. Other operating income

	2017 £	2016 £
R&D expenditure credit	1,135	46,262
Government grants receivable	-	118,299
	<u>1,135</u>	<u>164,561</u>

LINGUAMATICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

6. Operating loss

The operating loss is stated after charging/(crediting):

	2017 £	2016 £
Depreciation of tangible fixed assets	225,470	128,684
Operating lease costs	286,297	211,146
Exchange differences	360,965	(170,561)
Pension costs	226,856	182,441
Government grants	-	(118,299)
	<u> </u>	<u> </u>

7. Auditor's remuneration

	2017 £	2016 £
Fees payable to the Group's auditor and its associates for the audit of the Group's annual financial statements	4,400	6,400
	<u> </u>	<u> </u>
Fees payable to the Group's auditor and its associates in respect of:		
Audit of subsidiaries	9,500	10,600
Preparation of financial statements	3,150	3,000
Tax	5,550	5,100
iXBRL tagging services	840	800
	<u> </u>	<u> </u>
	<u>19,040</u>	<u>19,500</u>

LINGUAMATICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

8. Group employees

Staff costs, including directors' remuneration, were as follows:

	2017 £	2016 £
Wages and salaries	5,876,342	5,213,533
Social security costs	532,157	412,941
Pension costs	226,856	182,441
	<u>6,635,355</u>	<u>5,808,915</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2017 No.	2016 No.
	<u>94</u>	<u>85</u>

9. Company employees

	2017 £	2016 £
Wages and salaries	3,655,684	3,268,280
Social security costs	375,285	335,054
Pension costs	192,904	168,897
	<u>4,223,873</u>	<u>3,772,231</u>

The average monthly number of employees for the company, including directors was 74 (2016: 65).

LINGUAMATICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

10. Directors' remuneration

	2017 £	2016 £
Directors' emoluments	475,759	531,101
Company contributions to defined contribution pension schemes	29,327	35,115
	<u>505,086</u>	<u>566,216</u>

During the year retirement benefits were accruing to 3 directors (2016 - 4) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £157,988 (2016 - £218,866).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £5,847 (2016 - £5,718).

11. Interest receivable

	2017 £	2016 £
Other interest receivable	<u>18,123</u>	<u>24,568</u>

12. Taxation

	2017 £	2016 £
Corporation tax		
Current tax on profits for the year	(671,644)	(463,841)
Adjustments in respect of previous periods	(49,319)	9,612
	<u>(720,963)</u>	<u>(454,229)</u>
Total current tax	<u>(720,963)</u>	<u>(454,229)</u>
Deferred tax		
Origination and reversal of timing differences	2,972	56,138
Total deferred tax	<u>2,972</u>	<u>56,138</u>
Taxation on loss on ordinary activities	<u>(717,991)</u>	<u>(398,091)</u>

LINGUAMATICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

12. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2016 - *lower than*) the standard rate of corporation tax in the UK of 20% (2016 - 20%). The differences are explained below:

	2017 £	2016 £
Loss on ordinary activities before tax	<u>(226,830)</u>	<u>(121,535)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	(43,657)	(24,307)
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	11,637	37,870
Capital allowances for year in excess of depreciation	(16,082)	1,137
Other permanent differences	(3,000)	(2,751)
Deduction for R&D relief	(824,880)	(621,503)
Surrender of losses for R&D tax credit	221,424	195,118
Adjustments to tax charge in respect of prior periods	(49,319)	9,612
Adjustment for opening/ closing deferred tax rate	(1,994)	(8,811)
Deferred tax not recognised	(12,120)	15,544
Total tax charge for the year	<u><u>(717,991)</u></u>	<u><u>(398,091)</u></u>

Factors that may affect future tax charges

There were no factors that may affect future tax charges.

LINGUAMATICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

13. Tangible fixed assets

Group

	L/Term Leasehold Property £	Fixtures & fittings £	Office equipment £	Total £
Cost				
At 1 January 2017	-	245,862	632,183	878,045
Additions	558,809	110,003	260,507	929,319
Transfers between classes	31,111	(31,111)	-	-
At 31 December 2017	<u>589,920</u>	<u>324,754</u>	<u>892,690</u>	<u>1,807,364</u>
Depreciation				
At 1 January 2017	-	202,039	287,946	489,985
Charge for the year on owned assets	46,463	22,238	156,769	225,470
Transfers between classes	6,481	(6,481)	-	-
At 31 December 2017	<u>52,944</u>	<u>217,796</u>	<u>444,715</u>	<u>715,455</u>
Net book value				
At 31 December 2017	<u>536,976</u>	<u>106,958</u>	<u>447,975</u>	<u>1,091,909</u>
At 31 December 2016	<u>-</u>	<u>43,823</u>	<u>344,237</u>	<u>388,060</u>

LINGUAMATICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

13. Tangible fixed assets (continued)

Company

	L/Term Leasehold Property £	Fixtures & fittings £	Office equipment £	Total £
Cost				
At 1 January 2017	-	245,862	409,403	655,265
Additions	-	2,642	223,920	226,562
Transfers between classes	31,111	(31,111)	-	-
At 31 December 2017	<u>31,111</u>	<u>217,393</u>	<u>633,323</u>	<u>881,827</u>
Depreciation				
At 1 January 2017	-	202,039	215,202	417,241
Charge for the year on owned assets	7,778	8,844	109,954	126,576
Transfers between classes	6,481	(6,481)	-	-
At 31 December 2017	<u>14,259</u>	<u>204,402</u>	<u>325,156</u>	<u>543,817</u>
Net book value				
At 31 December 2017	<u>16,852</u>	<u>12,991</u>	<u>308,167</u>	<u>338,010</u>
At 31 December 2016	<u>-</u>	<u>43,823</u>	<u>194,201</u>	<u>238,024</u>

LINGUAMATICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

14. Fixed asset investments

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding	Principal activity
Linguamatics Solution Limited	Ordinary	100 %	Trading subsidiary
Linguamatics Solutions Incorporated	Common	100 %	Trading subsidiary

Name	Registered office
Linguamatics Solutions Limited	324 Science Park, Milton Road, Cambridge, CB4 0WG, UK

Linguamatics Solutions Incorporated	500 Nickerson Rd, Suite 125, Marlborough, MA 01752, USA
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Company

	Investments in subsidiary companies £
Cost	
At 1 January 2017	5,135
At 31 December 2017	<u>5,135</u>
Net book value	
At 31 December 2017	<u>5,135</u>
At 31 December 2016	<u>5,135</u>

LINGUAMATICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

15. Debtors

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Trade debtors	3,647,449	4,570,671	-	-
Amounts owed by group undertakings	-	-	326,066	24,571
Other debtors	234,887	94,163	62,135	82,682
Prepayments and accrued income	652,460	746,963	317,461	225,133
Tax recoverable	724,349	548,896	724,349	548,896
Financial instruments	62,882	-	62,882	-
	<u>5,322,027</u>	<u>5,960,693</u>	<u>1,492,893</u>	<u>881,282</u>

No provision for doubtful debts was made for 31 December 2017 or 31 December 2016.

16. Current asset investments

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Amounts held on deposit with the bank	-	298,683	-	298,683

17. Cash and cash equivalents

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Cash at bank and in hand	2,709,516	3,471,685	1,591,125	1,562,759

LINGUAMATICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

18. Creditors: Amounts falling due within one year

	Group 2017 £	<i>Group 2016 £</i>	Company 2017 £	<i>Company 2016 £</i>
Bank loans	19,439	-	19,439	-
Trade creditors	118,112	78,552	79,737	40,009
Amounts owed to group undertakings	-	-	1,207,970	816,296
Other taxation and social security	126,875	182,830	18,954	56,077
Other creditors	11,080	1,082	2,128	1,081
Accruals and deferred income	6,133,210	7,308,048	463,865	423,266
Financial instruments	-	289,687	-	289,687
	<u>6,408,716</u>	<u>7,860,199</u>	<u>1,792,093</u>	<u>1,626,416</u>

19. Financial instruments

	Group 2017 £	<i>Group 2016 £</i>	Company 2017 £	<i>Company 2016 £</i>
Financial assets				
Financial assets measured at amortised cost	6,543,076	8,435,205	1,979,326	1,968,698
Derivative financial instruments held at fair value through profit or loss	62,882	-	62,882	-
	<u>6,605,958</u>	<u>8,435,205</u>	<u>2,042,208</u>	<u>1,968,698</u>
Financial liabilities				
Derivative financial instruments held at fair value through profit or loss	-	(289,687)	-	(289,687)
Financial liabilities measured at amortised cost	(1,039,579)	(1,127,527)	(1,751,259)	(1,028,178)
	<u>(1,039,579)</u>	<u>(1,417,214)</u>	<u>(1,751,259)</u>	<u>(1,317,865)</u>

Financial assets measured at amortised cost comprise cash, trade debtors, other receivables, but excluding prepayments.

Derivative financial liabilities measured at fair value through profit or loss comprise forward currency contracts taken out to hedge the group's foreign exchange risk.

Financial liabilities measured at amortised cost comprise trade creditors and accruals.

LINGUAMATICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

20. Deferred taxation

Group

	2017 £	2016 £
At beginning of year	(19,697)	36,441
Charged to the profit or loss	(2,972)	(56,138)
At end of year	(22,669)	(19,697)

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Fixed asset timing differences	(54,194)	(20,970)	(40,156)	-
Short term timing differences	29,645	-	29,645	-
Losses and other deductions	1,880	1,273	1,880	-
	(22,669)	(19,697)	(8,631)	-

21. Reserves

Share premium account

Includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Capital redemption reserve

Is a non-distributable reserve representing the nominal value of paid up share capital that has been repaid.

Foreign exchange reserve

Comprises translation differences arising from the translation of financial statements of the Group's foreign entities into Sterling (£).

Other reserves

The other reserve is for share based payments, which are issued to employees. The fair value of these share options is recognised as an expense and credited to reserves over the vesting period of the options.

Profit & loss account

Includes all current and prior period retained profits and losses.

LINGUAMATICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

22. Share capital

	2017 £	2016 £
Shares classified as equity		
Allotted, called up and fully paid		
5,897,805 (2016 - 5,859,435) Ordinary shares shares of £0.0001 each	<u>589</u>	<u>585</u>

Share capital consists of the nominal value of paid up issued shares.

The company allotted 38,370 Ordinary shares during the year.

These had a nominal value of £4 and the value of the consideration received was £3,056.

The amount of the consideration in excess of the nominal value has been added to the share premium account.

LINGUAMATICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

23. Share based payments

Linguamatics Limited operates an equity-settled share based remuneration scheme for employees. All employees are eligible to participate in the long term incentive scheme. On the first anniversary of the employee's Start Date one quarter of the Option Shares granted will vest. Thereafter the Option Shares will vest such that one sixteenth of the total number of options granted will vest at the end of each subsequent three month period such that all Option Shares will have vested on the fourth anniversary of the Start Date.

	Weighted average exercise price (pence) 2017	Number 2017	<i>Weighted average exercise price (pence) 2016</i>	<i>Number 2016</i>
Outstanding at the beginning of the year	0.16621	284,360	0.11990	306,810
Granted during the year	0.51800	72,470	0.28550	66,100
Exercised during the year	0.05468	(38,370)	0.41260	(60,000)
Expired during the year	0.24159	(32,770)	0.17592	(28,550)
Outstanding at the end of the year	0.25090	285,690	<i>0.16621</i>	<i>284,360</i>

The exercise price of options outstanding at the end of the year ranged between 0.05468p and 0.51800p (2016: 0.0192p-0.2855p).

Of the total number of options outstanding at the end of the year, 113,370 (2016 - 111,750) had vested and were exercisable at the end of the year.

Since the company has no dividend history a revenue-based valuation was deemed appropriate, in accordance with HMRC Share Valuations Manual.

24. Commitments under operating leases

At 31 December 2017 the Group and the Company had future minimum lease payments under non-cancellable operating leases as follows:

	Group 2017 £	<i>Group 2016 £</i>	Company 2017 £	<i>Company 2016 £</i>
Not later than 1 year	271,563	198,719	161,480	127,080
Later than 1 year and not later than 5 years	1,204,560	512,420	622,039	21,180
Later than 5 years	-	716,392	-	-
	1,476,123	<i>1,427,531</i>	783,519	<i>148,260</i>

LINGUAMATICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

25. Related party transactions

Remuneration paid to Key Management Personnel amounted to £558,939 (2016: £634,570).

The company has taken advantage of the FRS 102 exemption not to disclose transactions with its wholly owned subsidiaries, Linguamatics Solutions Limited and Linguamatics Solutions Incorporated.