

REGISTERED NUMBER: SC222407 (Scotland)

**Report of the Directors and
Audited Financial Statements
for the Year Ended 31 December 2017
for
Lingo24 Limited**

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Lingo24 Limited (Registered number: SC222407)

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for the Year Ended 31 December 2017**

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Lingo24 Limited

**Company Information
for the Year Ended 31 December 2017**

DIRECTORS: Mr C N Arno
Mr A A M Campbell

SECRETARY: Mr C N Arno

REGISTERED OFFICE: 18 Torphichen Street
Edinburgh
Midlothian
EH3 8JB

REGISTERED NUMBER: SC222407 (Scotland)

**SENIOR STATUTORY
AUDITOR:** Fraser Campbell

AUDITORS: Campbell Dallas Audit Services
Statutory Auditors
Titanium 1
King's Inch Place
Renfrew
PA4 8WF

**Report of the Directors
for the Year Ended 31 December 2017**

The directors present their report with the financial statements of the company for the year ended 31 December 2017.

PRINCIPAL ACTIVITY

Lingo24 is a leading Language Service Provider (LSP) with global reach and a trusted brand synonymous with technical excellence, quality and outstanding customer service.

REVIEW OF BUSINESS

Lingo24 is a leading Language Service Provider (LSP) with global reach and a trusted brand synonymous with technical excellence, quality and outstanding customer service.

2017 was another year of investment and business transformation for Lingo24. The initial phase of the transformation, now complete, involved completely restructuring the sales team to enable our transition from a company with lots of small customers to one handling multiple large customers. In 2017 we continued the business transformation by changing the way that the project management team was structured, while also focusing more of our technology resources on improving this team's productivity.

The Board is pleased to report that our initiatives aimed at reshaping our client base have been very successful. In 2017 sales from our Top 30 clients increased 18% on the previous year and accounted for 70% of total sales (with our largest client representing less than 8% of total sales). Over 20 customers each spent more than £100,000 with us last year. Similarly, our decision to focus on e-commerce and dedicate sales resources to this fast-growing sector continued to meet with success. In 2017 e-commerce sales increased 32% on the previous year, with this sector accounting for 37% of our total sales. With the focus on larger and e-commerce clients, we did lose sales from some of our smaller clients more quickly than we had expected, restricting overall sales growth to 8% year-on-year. While this rate of growth exceeded the industry average, the Board was disappointed with this outcome, although we were encouraged by an extremely strong finish to the year.

We also continue to focus on the quality of our sales revenue. In this respect, we are pleased to report a high level of success on revenue retention. In 2017 we lost none of our top 100 clients, while overall revenue retention for the entire business was again over 90%. We also have an increasing number of our key clients committed to working with us longer term, through 'floor agreements' which specify a guaranteed minimum annual spend. With 30 clients accounting for 70% of our revenue and our high retention rate (increasingly supported by 'floor agreements'), our revenue visibility for the upcoming year has never been better.

Retention rates are arguably the best measure of customer satisfaction. However, we also monitor customer satisfaction on an on-going basis and are very proud of our high NPS rating. In 2018 we will establish a presence in Amsterdam, a translation hot spot, which should further enhance our relationship with a number of our key European clients. While our high NPS rating and success on client retention reflect the importance we attach to being customer focused and the effort we put into developing strong client relationships, we would also like to thank our clients for their loyalty.

**Report of the Directors
for the Year Ended 31 December 2017**

In 2017 we continued to invest in our technology platform, with the objective of improving efficiency in the short term and, in the medium term, making the business truly scalable. In this respect, we are very pleased that over 80% of our business is now conducted through our award-winning computer assisted translation (CAT) tool (known as Coach), which is bringing benefits to both clients and translators, as well as our own project management team. We are also seeing an increasing uptake in the number of clients using our client portal (Ease) and our integration technology (a series of tools which allow our clients to integrate a range of content management systems much more easily with our translation platform). In addition, the investment in our in-house AI-driven machine translation (MT) capability, which delivers clients both cost savings and faster turnaround times, has become core to our business with some of our biggest customers. We have fully embraced this fast-moving technology and are already delivering Adaptive MT through Coach.

The benefits from our investment in technology are being felt across the business in the form of process improvement and increased automation. However, from a financial perspective they are most obvious in the improvement in our gross margin, from 32% in 2016 to 37% in 2017. We expect this margin to improve further in 2018.

We place a great deal of importance on the maintenance and improvement of our network of thousands of suppliers, which allows us to meet the complex needs of our global clients in terms of both quality and timeliness. We recognise the vital contribution that our 'expanded team' plays in our success. While our continuing enhancement of Coach is making the life of our translators easier and more productive, in 2017 we also completed Port, our new supplier portal. Port is the first of a series of technology projects designed to deepen our already strong relationship with our key suppliers. These supplier-based projects, which will continue through 2018, will also allow our project managers to become more efficient (given that this team spends over 30% of its time on supplier selection).

The progress achieved in 2017 was only possible due to the efforts of our staff, located across the globe, operating as a team 24 hours/day. This year more than most the staff deserve our thanks because the business transformation we are going through, allied with the investment we have made in efficiency improving technology, has resulted in us slimming down the workforce significantly over the last 12-18 months. We believe that this process is now at an end, although we expect our ongoing technology investment to continue to generate efficiency gains, allowing us to manage growth without a proportionate increase in headcount. The importance we attach to staff engagement and retention is reflected in the fact that the Company operates an option scheme, which will enable everyone in the business to share in its future success.

As planned, the heavy investment we continued to make resulted in the business making a loss, albeit much reduced, in 2017. Our ability to invest for the future has been made possible by support from our investors together with debt financing provided by Lloyds Banking Group, a strong and supportive partner, for which we are very grateful.

In 2017 we made considerable progress, particularly in making project management and various back end processes more streamlined and effective. In 2018 we will be focusing a lot of technology investment on supplier management and selection, which we believe is an area of the business where very significant efficiency gains can be achieved. When these projects are completed we should be in a position to report that Lingo24 is a fully scalable business.

Lingo24 finished 2017 with its strongest order book on record and has made an encouraging start to 2018, with sales growing and margins improving. I remain more confident than ever that we will achieve our longer-term plans for sustainable and profitable growth.

**Report of the Directors
for the Year Ended 31 December 2017**

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2017 to the date of this report.

Mr C N Arno
Mr A A M Campbell

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Report of the Directors and the 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 Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS


The auditors, Campbell Dallas Audit Services, will be proposed for re-appointment at the forthcoming Annual General Meeting.

Lingo24 Limited (Registered number: SC222407)

**Report of the Directors
for the Year Ended 31 December 2017**

This report has been prepared in accordance with the provisions of Part 15 of the Companies Act 2006 relating to small companies.

ON BEHALF OF THE BOARD:

A handwritten signature in black ink, appearing to be 'A A M Campbell', written over a dotted line.

Mr A A M Campbell - Director

Date: 4.04.2018

Balance Sheet
31 December 2017

		2017		2016	
	Notes	£	£	£	£
FIXED ASSETS					
Intangible assets	3		1,977,664		1,804,285
Tangible assets	4		9,077		15,680
			<u>1,986,741</u>		<u>1,819,965</u>
CURRENT ASSETS					
Debtors	5	2,751,686		2,469,414	
Investments	6	241		241	
Cash at bank and in hand		20,226		111,077	
		<u>2,772,153</u>		<u>2,580,732</u>	
CREDITORS					
Amounts falling due within one year	7	3,430,888		2,956,214	
		<u>3,430,888</u>		<u>2,956,214</u>	
NET CURRENT LIABILITIES			<u>(658,735)</u>		<u>(375,482)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			1,328,006		1,444,483
CREDITORS					
Amounts falling due after more than one year	8		1,212,462		512,067
			<u>1,212,462</u>		<u>512,067</u>
NET ASSETS			<u>115,544</u>		<u>932,416</u>
CAPITAL AND RESERVES					
Called up share capital	12		99,060		99,060
Other reserves	13		4,175,492		4,175,492
Retained earnings	13		(4,159,008)		(3,342,136)
			<u>115,544</u>		<u>932,416</u>
SHAREHOLDERS' FUNDS			<u>115,544</u>		<u>932,416</u>

The notes form part of these financial statements

Balance Sheet - continued
31 December 2017

The financial statements have been prepared and delivered in accordance with the provisions of Part 15 of the Companies Act 2006 relating to small companies.

In accordance with Section 444 of the Companies Act 2006, the Income Statement has not been delivered.

The financial statements were approved by the Board of Directors on 4.04.2018 and were signed on its behalf by:



Mr A A M Campbell - Director

**Notes to the Financial Statements
for the Year Ended 31 December 2017**

1. STATUTORY INFORMATION

Lingo24 Limited is a private company, limited by shares, registered in Scotland. The company's registered number and registered office address can be found on the Company Information page.

2. ACCOUNTING POLICIES

Basis of preparing the financial statements

These financial statements have been prepared in accordance with the provisions of Section 1A "Small Entities" of Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

Going concern

In light of the reported trading position the directors have considered the cashflow position of the company for the next twelve months and are of the opinion they have sufficient bank funding in place and are satisfied that the principal equity funders will continue to support the company for the foreseeable future.

Profit and loss and cash flow projections are in place for 12 months from the date of signing the financial statements, and have been sensitised downwards to calculate cash headroom in this period. The equity shareholders have committed to continue to fund the company for the next 12 months, where cash needs are beyond the company's financial headroom.

Taking the above into consideration, the directors consider it appropriate to prepare the financial statements on a going concern basis.

Significant judgements and estimates

The preparation of Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis and revisions to estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant judgements and estimates - Intangible assets

Intangible assets comprise the technology platforms and translation software that form the business infrastructure which underlies the group's business model and its ability to generate revenue. The directors review the revenue and cash inflows which these assets generate for indicators of impairment. Profit and loss and cash flow projections are prepared for a period of 12 months from the date of signing the accounts, and the directors are satisfied that these assets will generate cash inflows for the business in the forthcoming year. On this basis, the directors are satisfied that carrying these assets at amortised cost is appropriate.

Significant judgements and estimates - Deferred tax

The company has a recognised deferred tax asset of £558,386 (2016: £421,709) which has arisen from unutilised tax losses of £5,159,421 (2016: £4,269,603) and other timing differences. The directors have reviewed the company's profit and loss and cash flow projections for the next 12 months and believe it is appropriate to recognise this asset on the basis it can be offset against expected future profits.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2017**

2. ACCOUNTING POLICIES - continued

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the year, exclusive of Value Added Tax.

In respect of long-term contracts and contracts for on-going services, turnover represents the value of work done in the year, including estimates of amounts not invoiced. Turnover in respect of long-term contracts and contracts for on-going services is recognised by reference to the stage of completion.

Intangible assets

Intangible assets are initially measured at cost. After initial recognition, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Information Systems - 20% straight line

Fixed assets

Depreciation is provided at the following annual rates in order to write off the cost less estimated residual value of each asset over its estimated useful life.

Computer Equipment - 33% on cost

All fixed assets are initially recorded at cost.

Taxation

Taxation for the year comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

Current tax is recognised at the amount of tax payable using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2017

2. ACCOUNTING POLICIES - continued

Research and development

Development expenditure incurred on clearly defined projects whose outcome can be assessed with reasonable certainty is capitalised as an intangible asset and carried forward. Amortisation is not charged in the year of acquisition and is charged from the following year over the lesser of the life of the project or five years.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Hire purchase and leasing commitments

Rentals paid under operating leases are charged to profit or loss on a straight line basis over the period of the lease.

Pension costs

The company contributes to the individual personal pension arrangements of their employees. These contributions are charged to the profit and loss account.

Financial instruments

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument and are classified in accordance with their underlying economic reality. The Company has two main categories of financial instruments, which are loans and other receivables and other financial liabilities.

Loans and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Upon recognition, these assets are measured at fair value less directly related transaction expenses. In successive periods these are measured at amortised cost, and any differences between acquisition cost and redemption value is accounted for over the borrowing period by using the effective interest method. If transaction costs are immaterial and the credit period is short, amortised cost is equal to the nominal value less any allowance for credit losses.

Other financial liabilities

Other financial liabilities are recognised initially at fair value, net of transaction costs incurred. In successive periods these are measured at amortised cost. Any differences between acquisition cost and redemption value is accounted for over the borrowing period by using the effective interest method. If transaction costs are immaterial and the credit period is short, amortised cost is equal to the nominal value.

Impairment of financial instruments

A provision for impairment is established when there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been impacted.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2017**

2. ACCOUNTING POLICIES - continued

Government grants

Grants in respect of revenue expenditure are credited to the profit and loss account when received. Grants in respect of capital expenditure are credited to the profit and loss account over the lifetime of the asset.

3. INTANGIBLE FIXED ASSETS

	Information systems £
COST	
At 1 January 2017	2,553,324
Additions	684,043
	<hr/>
At 31 December 2017	3,237,367
	<hr/>
AMORTISATION	
At 1 January 2017	749,039
Amortisation for year	510,664
	<hr/>
At 31 December 2017	1,259,703
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NET BOOK VALUE	
At 31 December 2017	1,977,664
	<hr/>
At 31 December 2016	1,804,285
	<hr/>

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2017**

4. TANGIBLE FIXED ASSETS

	Computer equipment £
COST	
At 1 January 2017	51,959
Additions	1,594
Disposals	(1,559)
At 31 December 2017	<u>51,994</u>
DEPRECIATION	
At 1 January 2017	36,279
Charge for year	7,936
Eliminated on disposal	(1,298)
At 31 December 2017	<u>42,917</u>
NET BOOK VALUE	
At 31 December 2017	<u>9,077</u>
At 31 December 2016	<u>15,680</u>

5. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017 £	2016 £
Trade debtors	1,091,766	1,027,338
Amounts owed by group undertakings	689,185	655,828
Other debtors	206,557	75,298
Tax	144,839	148,730
Deferred tax asset	558,386	421,709
Prepayments and accrued income	60,953	140,511
	<u>2,751,686</u>	<u>2,469,414</u>

The company has a recognised deferred tax asset of £558,386 (2016: £421,709) which has arisen from unutilised tax losses of £5,159,421 (2016: £4,269,603) and other timing differences. These losses will be used against future profits within the company.

6. CURRENT ASSET INVESTMENTS

	2017 £	2016 £
Other investments	<u>241</u>	<u>241</u>

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2017**

7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017	2016
	£	£
Bank loans and overdrafts (see note 9)	562,493	381,367
Finance leases (see note 10)	4,773	-
Trade creditors	696,947	803,456
Amounts owed to group undertakings	597,367	656,599
Social security and other taxes	48,108	60,726
VAT	109,682	87,206
Other creditors	606,865	292,037
Accrued expenses	804,653	674,823
	<u>3,430,888</u>	<u>2,956,214</u>

Included within other creditors due within one year are shareholder loans of £526,250 (2016: £215,170).

8. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2017	2016
	£	£
Finance leases (see note 10)	1,989	-
Other creditors	1,210,473	512,067
	<u>1,212,462</u>	<u>512,067</u>

Included within other creditors due after one year are shareholder loans of £1,210,473 (2016: £512,067).

9. LOANS

An analysis of the maturity of loans is given below:

	2017	2016
	£	£
Amounts falling due within one year or on demand:		
Bank overdrafts	<u>562,493</u>	<u>381,367</u>

Included in loans and overdraft is £562,493 (2016: £381,367) relating to the invoice discounting facility.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2017**

10. LEASING AGREEMENTS

Minimum lease payments fall due as follows:

	Finance leases	
	2017	2016
	£	£
Net obligations repayable:		
Within one year	4,773	-
Between one and five years	1,989	-
	<u>6,762</u>	<u>-</u>
	<u><u>6,762</u></u>	<u><u>-</u></u>
	Non-cancellable operating leases	
	2017	2016
	£	£
Within one year	50,732	81,782
Between one and five years	13,311	64,043
	<u>64,043</u>	<u>145,825</u>
	<u><u>64,043</u></u>	<u><u>145,825</u></u>

11. DEFERRED TAX

	£
Balance at 1 January 2017	(421,709)
Credit to Income Statement during year	<u>(136,677)</u>
Balance at 31 December 2017	<u><u>(558,386)</u></u>

12. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:		Nominal value:	2017	2016
Number:	Class:		£	£
9,906,000	Ordinary shares	£0.01	<u>99,060</u>	<u>99,060</u>

Notes to the Financial Statements - continued
for the Year Ended 31 December 2017

13. RESERVES

	Retained earnings £	Other reserves £	Totals £
At 1 January 2017	(3,342,136)	4,175,492	833,356
Deficit for the year	(816,872)		(816,872)
At 31 December 2017	<u>(4,159,008)</u>	<u>4,175,492</u>	<u>16,484</u>

14. DISCLOSURE UNDER SECTION 444(5B) OF THE COMPANIES ACT 2006

The Report of the Auditors was unqualified.

Fraser Campbell (Senior Statutory Auditor)
for and on behalf of Campbell Dallas Audit Services

15. RELATED PARTY DISCLOSURES

The company has taken advantage of exemption, under the terms of Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', not to disclose related party transactions with wholly owned subsidiaries within the group.

During the year loans were received from shareholders of Lingo24 Holdings Limited to the value of £945,000 (2016: £700,000).

At the year end, loans due to shareholders include a loan of £15,449 (2016: £14,510) due to Jack Waley-Cohen of which £nil (2016: £13,469) is due within one year and £15,449 (2016: £1,041) is due after one year, a loan of £1,674,932 (2016: £712,728) due to Paul Gregory of which £500,000 (2016: £201,701) is due within one year and £1,174,932 (2016: £511,027) is due after one year, a loan of £20,659 (2016: £nil) due to Christian Arno of which £11,667 (2016: £nil) is due within one year and £8,992 (2016: £nil) is due after one year, and a loan of £25,683 (2016: £nil) due to Hugh Little of which £14,583 (2016: £nil) is due within one year and £11,100 (2016: £nil) is due after one year.

Within other creditors are amounts of £22,431 (2016: £8,392) due to Andrew Campbell and £28,534 (2016: £11,183) due to Christian Arno, both directors of the company.

During the year, directors remuneration of £104,500 (2016: £107,333) and pension contributions of £25,500 (2016: £22,669) were paid to C N Arno, and directors remuneration of £105,640 (2016: £26,635) and pension contributions of £12,100 (2016: £3,025) were paid to A Campbell, both directors of the company.

16. ULTIMATE CONTROLLING PARTY

The controlling party is Lingo24 Holdings Limited.

The ultimate controlling party is Mr C N Arno.