CELEBRATING 60 YEARS

1958 - 2018

Pennant

ANNUAL REPORT & ACCOUNTS 2017

PENNANT INTERNATIONAL GROUP PLC

COMPANY NUMBER: 3187528

Pennant

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

Our vision is to be the provider of choice for world-class products and services which train and assist engineers in both the defence and regulated civilian sectors.

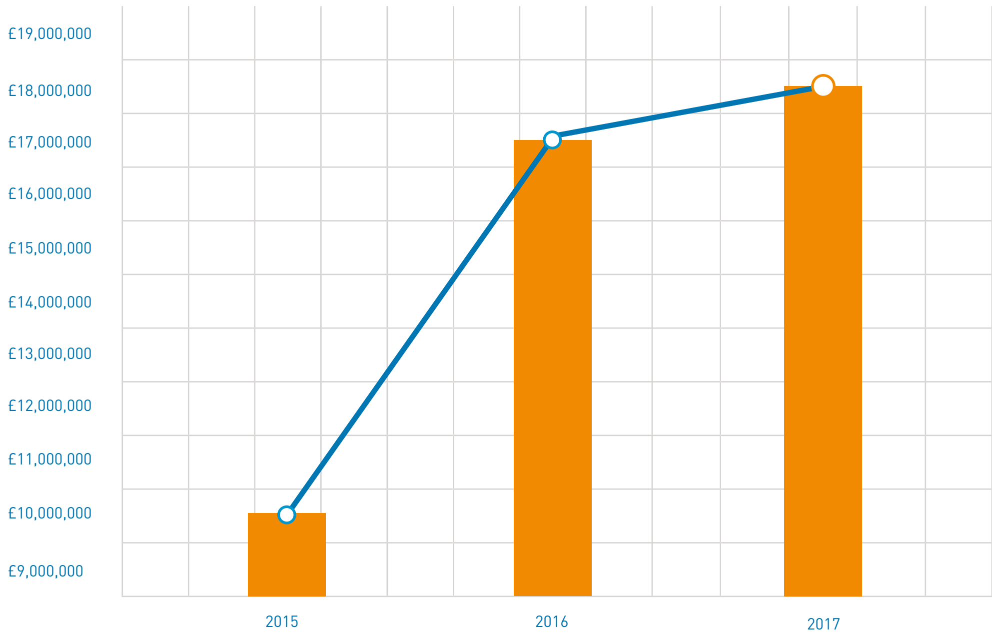
STRATEGIC REPORT

FINANCIAL HIGHLIGHTS

ADJUSTED OPERATING PROFIT:	ORDER BOOK:	BASIC EPS:	YEAR END CASH:
£1,931,073	£34 million	4.65p	£1,502,655
2016: £1,904,609	2016: £38 million	2016: 6.48p	2016: £3,517,541

- Adjusted operating profit is stated after exceptional one off termination costs of £125,000
- Year-end order book does not reflect IFRS 15 transitional adjustment of £7m revenue in 2018
- Cash at bank reflects timing of contracts with significant cash inflows received during quarter 1 of 2018

GROUP REVENUE:



£18,069,960
2017

£17,211,455
2016

£9,892,685
2015

KEY POINTS:

- Gross margin 40% (2016: 40%)
- Operating profit £1.81 million (2016: £1.90 million)
- Adjusted operating margin 11% (2016:11%)
- Order book £34 million (2016: £38 million)
- Net assets £13.3 million (2016: £11.8 million)
- Cash used in operations £1.0 million (2016: £0.2 million)

CHAIRMAN'S STATEMENT

YEAR OF CHANGE

2017 was a year of dynamic and transformational change for the Group, led by new management, engaged staff and supportive customers.

The management team, led by Phil Walker, is building strong and sustainable new partnerships and further strengthening existing relationships with customers across the globe, including Australia, South East Asia, the Middle East, Canada and the United States.

Customers of Pennant include some of the world's leading original equipment manufacturers, governments and colleges, who are working closely with us to embed Pennant solutions into their training programmes for the long term.

"A YEAR OF DYNAMIC AND TRANSFORMATIONAL CHANGE LED BY NEW MANAGEMENT, ENGAGED STAFF AND SUPPORTIVE CUSTOMERS"

The next generation of engineers around the world is being trained via a growing range of Pennant products and services.

Our traditional, bespoke engineered products are being increasingly supplemented by virtual reality solutions offering state of the art training to our customers across a widening range of industries.

Our software business is deeply engrained in the maintenance and supportability standard operating procedures of defence forces around the world. As we enter the new financial year, we are launching a major overhaul of our software-offering to make it even more compelling as a market leading solution.

None of this change would have been possible without the dedication of the Pennant team, which is committed to excellence and the delivery of world class, market leading, technology-driven solutions.

KEY FINANCIALS

In the year ended 31 December 2017 the Group delivered consolidated revenues of £18.07 million (2016: £17.21 million), driven by the continued production and delivery of work on the Middle East contracts.

The Group posted consolidated operating profit of £1.81 million (2016: operating profit of £1.90 million), which is broadly in line with the prior year and was achieved despite a prime contractor-led rescoping of one of the Group's major contracts, announced in September 2017, which resulted in revenue deferral, and exceptional termination costs incurred on the departure of the former CEO.

Consolidated net assets increased to £13.33 million (2016: £11.82 million) reflecting the profitable trading.

Basic earnings per share were 4.65p compared to the reported earnings per share of 6.48p for the same period last year.

DIVIDENDS

The Board fully appreciates the importance of dividend payments. However, notwithstanding the trading performance, positive outlook and nil borrowings, the Directors have concluded that it is in the Company's and shareholders' current best interests to retain cash for working capital and investment in accordance with plans for future growth.

CHAIRMAN'S STATEMENT

The Board will therefore not be recommending the payment of a final dividend for the year ended 31 December 2017. However, it will continue to review dividend policy throughout 2018 based on trading performance and working capital requirements.

GOVERNANCE

The Board believes in robust corporate governance. We have worked closely with our advisors and in 2017 continued to strengthen our governance frameworks to ensure strong governance throughout the Group, appropriate for a company of our size. We have established appropriate risk management procedures and keep key risks to the Group under continual review. Further details are provided in the Governance & Risks section of this document.

OUR PEOPLE

I would also like to take this opportunity to thank all staff across the Group for their hard work and dedication throughout this transitional year. Their commitment and drive to ensure that the business continues to deliver the high-quality solutions that our customers require and expect, operating under tight timescales, are key factors in maintaining and enhancing the ongoing and longstanding relationships we have with our customers.

OUTLOOK

Prospects for the global economy in 2018 remain uncertain, and there are budgetary pressures in defence markets. However, Pennant is nimble, agile and responsive and so is well placed to maximise opportunities as the economic situation develops.

We are experiencing an encouraging start to the current financial year and anticipate that the full year results for 2018 will be first-half weighted owing to the adoption of IFRS 15 (as further explained in note 2 to the Consolidated Financial Statements).

Prospects remain positive. The contracted order book, valued at more than £34 million, underpins good forward visibility of revenues well into 2020. In addition, the pipeline of active bids and other opportunities remains healthy.

Approved by the Board on 9 March 2018
And signed on its behalf

Simon A. Moore

S A Moore
Chairman

"ENHANCING THE ONGOING AND LONGSTANDING RELATIONSHIPS WITH CUSTOMERS"

CHIEF EXECUTIVE'S REVIEW

SOLID PERFORMANCE

I am pleased to report that 2017 produced a healthy result for Pennant. In what was a transitional year, the Group overcame all the challenges faced and, most importantly, each Group company made a positive contribution to overall performance.

"PENNANT HAS CONTINUED TO MEET CONTRACTUAL MILESTONES, DELIVERING PRODUCTS AND SERVICES - A TESTAMENT TO OUR DEDICATION AND HARD WORK"

Our interim report, released in September, announced positive results for the first half of the year but also highlighted a prime contractor-led rescoping of one of our major contracts that would impact revenues for the year.

I am delighted that the Group was able to realise a number of other opportunities to largely mitigated the effect of the reduced revenues on that major contract. Most importantly, the Group has continued to meet contractual milestones, delivering products and services, and securing payments in line with all performance obligations, which is testament to the dedication and hard work of all employees and the resilience of the business, enabling the positive momentum of the business as a whole to be maintained.

FINANCIAL REVIEW

The gross profit margin for the period was 40% (2016: 40%) reflecting the consistent mix of products and services delivered during the year.

Adjusted operating profit margin (taking into account one-off exceptional termination costs of £125,000 associated with the departure of the former CEO) was maintained at 11%, demonstrating robust financial controls.

Cash used in operations amounted to £1.0 million (2016: cash used in operations £0.2 million), reflecting the phases of production on several major programmes. The Group continues to have nil borrowings with a healthy year-end cash balance of £1.5 million (2016: £3.5 million).

The Group's tax position shows a tax charge of £275,409 (2016: tax credit of £17,691), which relates to overseas subsidiaries and the release of deferred tax. Profits generated from operations utilised £2.2 million of UK tax losses and the Group has unrelieved tax losses carried forward of £0.3 million (2016: £2.5 million).

Research and Development tax credits claimed in the UK during the year amounted to £0.3 million (2016: £0.1 million) with further significant claims on current projects expected to be made during 2018.

The year-end order book stood at £34 million (2016: £38 million), of which £13 million (2016: £18 million) is scheduled for delivery within one year. Of the total order book, 65% (2016: 70%) is denominated in sterling and 30% (2016: 25%) is denominated in Canadian dollars. Any movement of sterling to the Canadian dollar would potentially impact the OmegaPS business.

CHIEF EXECUTIVE'S REVIEW

OPERATIONAL REVIEW

Strengthening the team

The year has seen a number of key appointments, including David Clements as Commercial & Risk Director. David is a solicitor with extensive experience in corporate and commercial law gained acting for AIM-quoted and private companies.

With over 21 years accounting experience, Gary Barnes was promoted from Group Financial Controller to Head of Finance in March 2017. In this role, Gary has been responsible for operational oversight of all financial matters and has reported direct to the Board.

The Group also appointed a new Operations Manager (overseeing key engineering, production, software and programme management functions), a Training Specialist (a former Deputy Head of Oman Military Technological College), and a new Purchasing Manager.

These appointments have strengthened the Group's commercial, risk and compliance framework; financial function; training delivery, product development and user insight; and procurement process and supplier management, together underlining the Group's continued commitment to investing in people.

Product innovation

During the year the Group has focused on targeted product development and as a result work has commenced on a range of new products and enhancements that will significantly broaden the offering and create commercial opportunities, including the following:

- **Basic Helicopter Maintenance Trainer** – new mechanical trainer
- **Generic Stores Loading Trainer** – new procedural trainer
- **Virtual Parachute Training System** – redesign and improvement of existing product
- **Genskills Mk 2** – additional functionality added to existing product
- **Virtual Training Suite** – including Loadmaster and Jumpmaster trainers
- **Point of Maintenance** – deployable tablet version of OmegaPS
- **Virtual Aircraft Training System** – upgrade to model and graphics

In line with our core strategic objectives these product innovations will significantly expand the Group's market coverage and improve the overall customer proposition.

Infrastructure

The Group has continued to modernise and improve its facilities with over £1m invested or committed during 2017, in addition to the £1m investment in 2016.

In July 2017, the Board committed to spending a further £500,000 on the Group's facilities to create additional office space and establish a secure fibre-optic link between its two Cheltenham sites. This work has been successfully concluded within budget and provides essential infrastructure for growth. With an expanded workforce, the new offices are already being fully utilised.

In October 2017 the Group acquired land for £255,000 (totalling 11,000 sq. ft) in front of the recently acquired commercial premises at Staverton Connection. The purchase provides additional space for expansion and crucially secures the entire site.

Following these investments: the Group's production capacity has tripled to over 30,000 sq. ft; 30 new desk spaces have been created; new purchasing, inspection, test and stores facility have been built; and a prototyping and demonstration facility has been established.

Our people

Our employees remain core to our future business success. Without talented people, there are no product innovations or technical solutions.

During 2017 we strengthened and grew the teams across our UK, Canadian and Australian operations. To attract the right people with the specialist skills required, we strive to be an employer that offers an exciting and rewarding place to work.

The Group is committed to providing meaningful and challenging roles for our employees. It is critical to our success to engender a working environment that encourages innovation and supports a culture of delivering world class products and services that meet customers' needs.

The Group's employees have diverse experience and educational, professional and cultural backgrounds and we respect equality of opportunity for all existing and prospective employees without unlawful or unfair discrimination and regardless of age, gender, background or ethnic origin.

The Pennant team has responded exceptionally well to the challenges presented during the year and the Group's strong reputation and longstanding relationships with many of its customers are the measure of its success.

CHIEF EXECUTIVE'S REVIEW

CONTRACTS

New contract awards and operational achievements during the year are set out below:

- Ongoing production and delivery of training aids in fulfilment of a second phase contract with undisclosed Middle Eastern customer worth in excess of £7 million;
- ongoing production and successful delivery of training aids in accordance with a contract with another undisclosed Middle Eastern customer worth £6 million;
- performance of a major contract for electro-mechanical trainers affected by delays in the provision to the Group of programme-critical customer data and requirements (subsequently resolved shortly after the year-end, with work on the contract having now resumed in earnest);
- renewal of contract for logistical support at RNAS Yeovilton for a further five years, with gross revenues anticipated to be in the region of £1.25 million over the life of the contract;
- amendment and extension to the existing contract with BAE Systems Australia for the maintenance of training equipment at Defence Aeroskills Training Academy at Wagga Wagga. Contract extended by two years to cover 2020 and 2021, securing AUD $3.5 to contracted revenues;
- ongoing delivery of a contract with Lockheed Martin to provide Rotary Wing Rear Crew Winch Trainer in support of Rear Crew Training for the United Kingdom Military Flight Training System;
- a new contract with Kawasaki Heavy Industries in Japan in relation to the Thomson-East Coast Line (Singapore's new mass rapid transport rail project);
- new contracts with Network Rail for control room simulators;
- multiple sales of Genskills Trainers to new customers in Abu Dhabi, China, Russia and Singapore;
- amendment to the Group's contract with the Canadian Department of National Defence, adding C$3.8 million to the contract value for the remaining term to September 2018;
- Omega PS software sales to Fleetway, Stadler Rail and Damen Shipyards Group; and
- the sale of additional training aids to an undisclosed Middle Eastern customer for £1.15 million (for delivery during 2017 and 2018).

ENGINEERING FUTURE GROWTH

The underlying strengths of Pennant – our long-term customer relationships, our specialist services and our quality-assured reputation remain the solid foundation of our offerings across the Group.

The continued investment in infrastructure, people and products means that the business has the tools required to drive future growth.

The Group has significant ongoing orders that will provide work through 2018, 2019 and beyond and there are further prospects with both existing and new customers, many of which represent substantial opportunities for new business. Although the timing of major contract awards has proved to be both difficult to predict and beyond the Group's control, we remain confident that the following factors point towards significant potential for growth:

- New capital equipment platforms (for land, naval, air, rail) are becoming more sophisticated and complex, thereby increasing the requirement for training;
- the use of 'real' equipment for training has safety implications, is expensive and often impractical;
- there is a continuing trend for defence forces and other organisations to outsource training services, including updating their training devices;
- global training regulations are harmonising and the ability to utilise synthetic training is increasing; and
- global expenditure on defence and rail is on the rise.

The Board is confident that it can continue to increase revenues through organic growth and will continue to explore ways to complement our organic growth strategy by pursuing opportunities for corporate development, including strategic acquisitions, partnerships and joint ventures, carefully considering options to expand our capabilities and service offering, such as the teaming agreements entered into during the year with US and UK partners.

The delivery achieved in the year, together with operational improvements implemented across the Group provides a firm platform for future performance.

Approved by the Board on 9 March 2018
and signed on its behalf

P H Walker
Director

GROUP STRATEGIC FRAMEWORK

To achieve our vision and mission, our strategy comprises four longer term focus areas and four strategic objectives. This strategy has been developed to enable the business to maintain our world-class capabilities and seize opportunities for growth.

This strategy was introduced, and implementation commenced throughout 2017.

OUR VISION

To be the provider of choice for world-class products and services which train and assist engineers in both the defence and regulated civilian sectors.

OUR MISSION

To realise the Vision while delivering sustainable growth in shareholder value.

OUR STRATEGY

- **Innovation** – Make World Class Products
- **Customer Focus** – Provide Excellent Services
- **Diversification** – Grow Civil
- **Corporate Development** – New Markets, New Ventures

STRATEGIC OBJECTIVES

1. Continuously review and enhance the Group's product range
2. To grow and improve our service offering
3. Accelerate the Group's presence in civilian training and regulated engineering markets
4. Expand the Group's business in innovative ways

OUR STRATEGY IN ACTION

Teaming agreement with Capewell Aerial Systems LLC

VPTS - Redesign and relaunch of Virtual Parachute Training System (VPTS)

Strategic teaming agreement with Resource Group

Expansion of work with Network Rail


Virtual Training Suite - New product suite developed

POM - Development deployable tablet device


Investment in new offices, production facilities and demo space


Wagga Wagga - Growth of capability and support offering

ABOUT PENNANT

The Group was 60 years old on 25 February 2018. Over the past six decades Pennant has evolved, from modest beginnings, into a market-leading technology-led business with a truly global customer base.

The Group has a diverse portfolio of capabilities enabling it to offer a wide range of products and services which train and assist engineers in both the defence and regulated civilian sectors.

The Group's range of hardware trainers spans complex generic part-task trainers such as the IAMT and GenFly (incorporating real aircraft parts and sophisticated avionics software) and platform-specific emulators (such as the Wildcat trainers). The Group also provides computer-based training and desktop software emulators, plus technical documentation (either to supplement hardware trainers or as standalone products), and has a well-established and growing ability to deliver advanced virtual reality training solutions (such as the Virtual Parachute Training System). The Group (through its OmegaPS division) also develops, supplies and consults on the market-leading LSAR software OmegaPS.

The Group operates principally in the defence, rail, power and aerospace sectors and with government departments.

The Company was admitted to trading on the AIM stock exchange in 1998 and has successfully traded as a public company for 20 years, last issuing shares to fund working capital on major programmes in 2016.

The Group has offices worldwide: in the UK (with two sites in Cheltenham and offices in Manchester and Fareham), Australia (in Melbourne and on the Wagga Wagga RAAF base) and in Ottawa in Canada.

REORGANISATION

Throughout the period under review the Group operated with three UK trading companies, namely Pennant Training Systems Limited (which changed its name to Pennant International Limited post period-end), Pennant Software Services Limited and Pennant Support and Development Services Limited.

The Board continuously explores ways to enhance and improve the strength and operating efficiency of the Group and has taken the opportunity to consolidate the UK Group structure.

Post year-end, the assets and undertakings of Pennant Software Services Limited and Pennant Support & Development Services Limited were transferred to Pennant International Limited (formerly Pennant Training Systems Limited). The Board's intention is to consolidate UK operations into a new, simplified organisational structure. The practical effect of this will be to consolidate in one trading company all the UK functions currently spread across the Group and will result in the Group operating one trading company in the UK being Pennant International Limited.

NEW GROUP STRUCTURE & CAPABILITIES

PENNANT INTERNATIONAL GROUP PLC
(AIM Listed)

Pennant International (HQ)
Cheltenham, Manchester, Fareham

- GENERIC MAINTENANCE TRAINING SYSTEMS
- ENGINEERED SOLUTIONS & PART TASK TRAINING SYSTEMS
- MULTIMEDIA & SOFTWARE DEVELOPMENT
- SUPPORT & MAINTENANCE SERVICES
- LSAR SOFTWARE - OMEGA PS

Pennant Australasia
Melbourne, Wagga

- SUPPORT & MAINTENANCE SERVICES
- GENERIC MAINTENANCE TRAINING SYSTEMS
- LSAR SOFTWARE - OMEGA PS
- TRAINING

Pennant Canada
Ottawa

- LSAR SOFTWARE - OMEGA PS
- CONSULTANCY SERVICES
- TRAINING
- SUPPORT & MAINTENANCE SERVICES

Pennant Inc
US

- LSAR SOFTWARE - OMEGA PS
- SUPPORT & MAINTENANCE SERVICES

Pennant Singapore
(branch)

- SUPPORT & MAINTENANCE SERVICES

Pennant Middle East

- 2018 TBC

GROUP CAPABILITIES

TO TRAIN AND ASSIST ENGINEERS, IN BOTH THE DEFENCE AND REGULATED CIVILIAN SECTORS

- EMULATION & SIMULATION
- VIRTUAL REALITY
- AUDIO & MEDIA
- SYSTEMS ENGINEERING
- LOGISTICS SUPPORT ANALYSIS
- TRAINING NEEDS ANALYSIS
- TRAINING DESIGN
- TRAINING DELIVERY/ INSTRUCTORS
- CONSULTANCY
- TECHNICAL PUBLICATIONS
- E-LEARNING INC. CBT & CAI
- IN-HOUSE PRODUCTION
- SUPPORT & MAINTENANCE

ABOUT PENNANT

CELEBRATING **60** YEARS

1958 - 2018

PENNANT INTERNATIONAL LIMITED

Following the consolidation of the Group's UK trading subsidiaries, Pennant International Limited ("PIL"), will be the main driver within the Group. PIL has the capability to deliver the full range of products and services including training, development and support across the globe.

PIL has a strong portfolio of proven training devices and services ranging from simple hand skill trainers to sophisticated simulators (incorporating virtual reality technology in many cases). It also has a track record of successfully designing and manufacturing bespoke new devices for specific hardware platforms.

Large defence primes or government departments predominantly act as our prime contractors across all the Group, and they rely on our niche technical training capabilities as part of their overall customer proposition.

The Group has established long term relationships with its key customers and these relationships have often been maintained over many years, if not decades.

1958 FOUNDED 1958

PROTOTYPES OF SRN HOVERCRAFT MADE

MODELLING

1968

RELOCATED TO NEW FACILITY

ANIMATED DISPLAYS

1978

PENNANT COURT BECOMES THE NEW HEAD OFFICE

PRESENTATION SYSTEMS, CPT'S, PTT'S

1988

OVER SIX DECADES PENNANT HAS EVOLVED FROM MODEST BEGINNINGS, INTO A MARKET LEADING TECHNOLOGY-LED BUSINESS.

CAI, CBT

1998

FLOATED ON AIM

ACQUIRED SOLVERA

ESTABLISHED PENNANT AUSTRALASIA

2008

SYNTHETIC

3D

2010

VIRTUAL REALITY

ATT CONTRACT AUSTRALIA

BHMT IN PROGRESS

2018

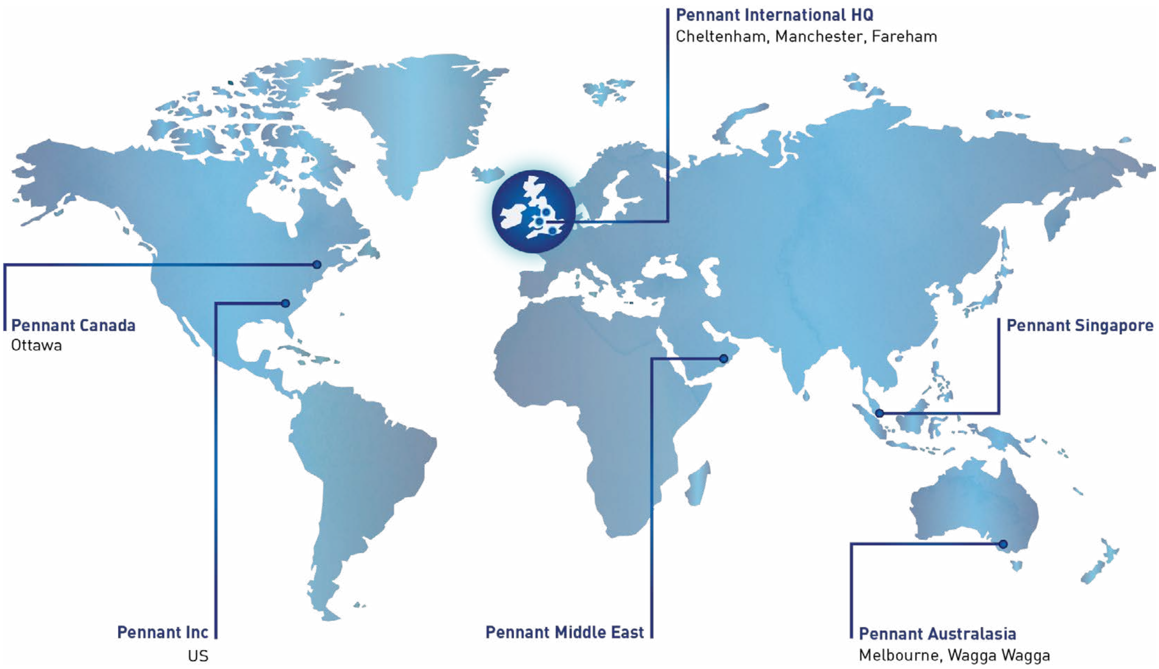
ABOUT PENNANT

OmegaPS

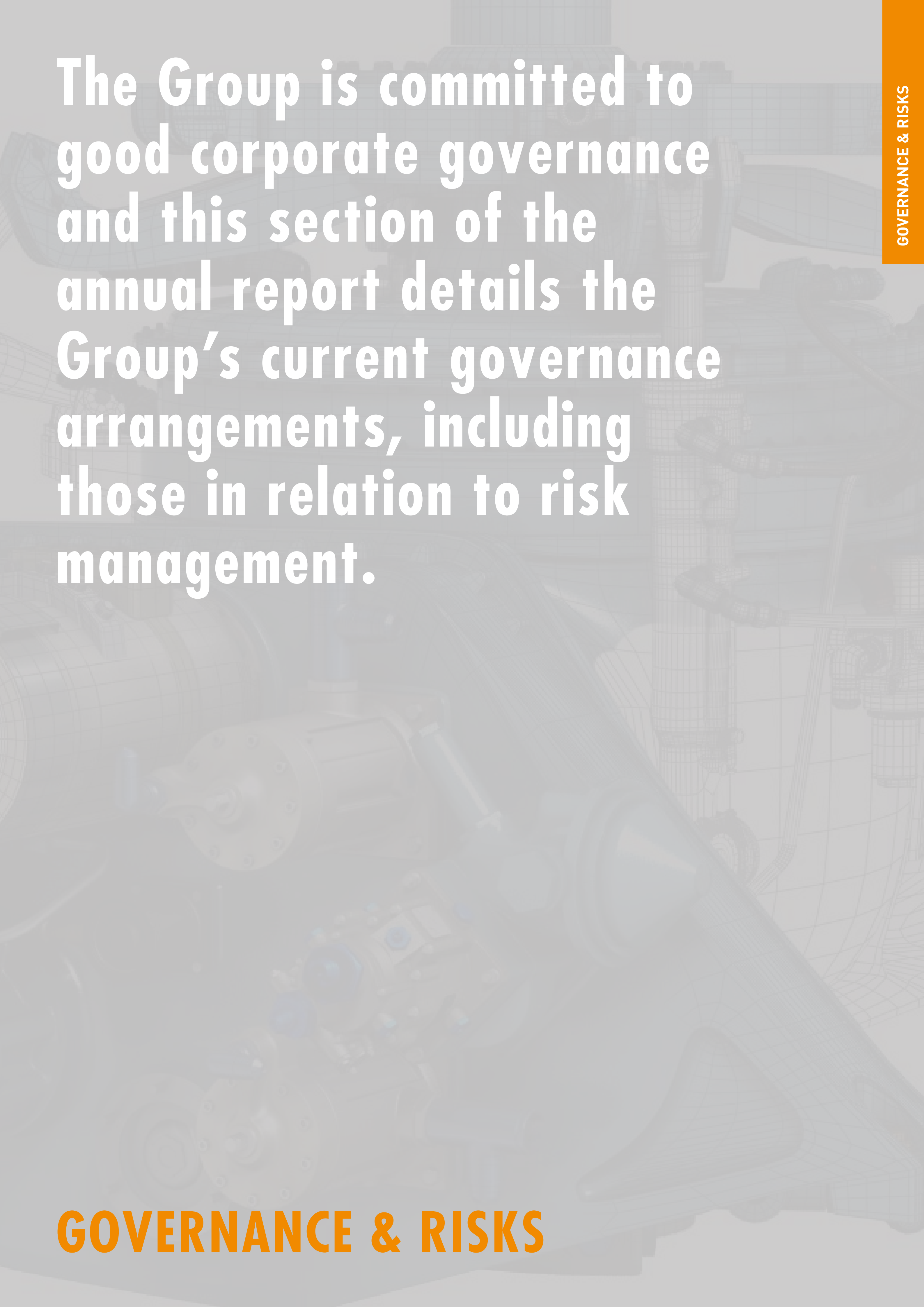
Pennant owns the rights to the market leading OmegaPS suite of Logistics Support Analysis software which is sold and used worldwide by major defence contractors and exclusively by the defence authorities in Canada and Australia to maximise efficient logisticals support to complex long-life assets.

The OmegaPS business has offices in Canada, Australia and the UK.

Revenues are generated from the sale of licences, associated maintenance agreements, software training course and consultant services in support of the product implementation. The product is regularly updated to enhance functionality, keep in line with emerging industry standards and changing technology.



"MARKET LEADING LSAR SOFTWARE"



The Group is committed to good corporate governance and this section of the annual report details the Group's current governance arrangements, including those in relation to risk management.

GOVERNANCE & RISKS

CORPORATE GOVERNANCE REVIEW

THE BOARD

The business of the Group is ultimately managed by the Directors of Pennant International Group Plc, who are responsible for running the Company for the benefit of its shareholders in accordance with their fiduciary and statutory duties.

The Board has two standing committees (the "Committees"): the Audit Committee; and the Remuneration Committee. The Terms of Reference for each of the Committees are available on the Group's website (www.pennantplc.co.uk/investors/corporate-governance) and a summary of their respective functions is provided below. The Terms of Reference for each of the Committees were updated and reviewed and approved by the Board on 8 February 2018.

The Board does not have a nominations committee and any nominations for appointment to the Board are considered by the full Board (with any appointment subject to a shareholder vote at the next Annual General Meeting).

During the year, the Board has continued to strengthen the Group's corporate governance. For example, an annual schedule of Board matters is now in place and enhancements have been made to the management information and commentary circulated to the Board ahead of meetings.

THE AUDIT COMMITTEE

The Audit Committee's role is to determine and apply policy on behalf of the Board to the financial reporting and internal controls of the Company and to maintain an appropriate relationship with the Company's auditors. The Committee consists of the Chairman and the Non-Executive Directors. It meets at least twice a year at appropriate times in the reporting and audit cycle and otherwise as required.

During the year the Committee, operating under Terms of Reference adopted on 15 November 2016 (as updated on 8 February 2018), discharged its responsibilities by (amongst other things) reviewing and monitoring:

- the consistency of, and any changes to, accounting policies both on a year-on-year basis and across the Group (including the consideration of future impact of IFRS15);
- the methods used to account for significant or unusual transactions;
- whether the Company has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditors;
- the clarity of disclosure in the Company's financial reports and the context in which statements are made; and
- all material information presented with the financial statements, such as the operating and financial review and this corporate governance section (insofar as it relates to audit and risk management).

Given the nature of the Group's business, the Committee pays particularly close attention to reviewing and discussing with the external auditors the management's judgments on the application of revenue recognition policies in relation to material projects.

THE REMUNERATION COMMITTEE

The Remuneration Committee's role is to determine and apply policy on behalf of the Board to the remuneration and benefits of Executive Directors and to ensure compliance with best practice (including reporting to shareholders).

The Committee comprises the Chairman and the Non-Executive Directors.

During the year, the Committee, operating under its Terms of Reference adopted on 15 November 2016 (as updated 8 February 2018), discharged its responsibilities, including determining and agreeing with the Board the framework or broad policy for the remuneration of the Company's Chief Executive Officer, Chairman, the Executive Directors, the Company Secretary and such other members of the Group's executive management as it is designated to consider.

The Committee also reviews and approves the Executive Directors' proposals (if any) following annual review of employee pay and benefits.

ATTENDANCE

Directors' attendance at meetings of the Board and its Committees during 2017 were as follows:

	Board	Audit Committee	Remuneration Committee
Simon Moore	15/15	2/2	2/2
Philip Walker	14/15*	-	-
Christopher Powell	13/15	2/2	2/2
Timothy Rice	13/15	2/2	2/2
David Clements (appointed 11/10/17)	2/2	-	-
Chris Snook (stepped down 21/02/17)	1/1	-	-

* a Board meeting was held to approve the cancellation of Philip Walker's C Shares which Mr Walker did not attend.

COMPLIANCE WITH CORPORATE GOVERNANCE CODES

As an AIM company, the Company is not required to comply with the Financial Reporting Council's UK Corporate Governance Code (the "Code"). Notwithstanding that, the Board seeks to achieve compliance with the Code wherever appropriate and proportionate, having regard to the size of the Group and the resources available to it.

In addition, the Company aims to comply with the QCA Code wherever reasonably practicable and proportionate and further details of such compliance are contained on the Company's website: http://www.pennantplc.co.uk/investors/corporate-governance/

OPERATIONAL GOVERNANCE

Day-to-day running of the Group's business is delegated by the Board to the Executive Directors lead by the Chief Executive Officer.

The Executive Directors have established a management and reporting framework across the Group, supported by a Management Committee comprising the Group's senior managers. The consolidation in January 2018 of the Group's UK businesses has simplified reporting lines. Clear channels are in place for information and proposals to flow up from the Group's various operating units to the Executive Directors and the Board, and for information and decisions to flow back down.

Furthermore, during the year, considerable improvements were made to the internal management information produced across the Group, in particular in respect of the monitoring and reporting of key performance indicators, providing improved visibility and accountability across the business leading to better products and services for customers and ensuring the Group retains its quality accreditations.

FINANCIAL CONTROL

The Board has overall responsibility for the Group's system of internal financial control and for reviewing its effectiveness. The purpose of the system of control is to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against misstatement or loss.

During the year (operating under its Terms of Reference) the Audit Committee kept the effectiveness of the Company's internal controls and risk management systems under review.

The Head of Finance is the executive within the Group responsible for day-to-day financial management of the Group's affairs and its internal accounting. Gary Barnes is the Head of Finance.

The Head of Finance has a standing invite to and attends Board meetings to present to the Board on the monthly management accounts and other relevant financial matters. Operationally, the Head of Finance reports to the Chief Executive Officer, who is ultimately accountable at Board level for the Group's financial performance.

All Directors (Executive and Non-Executive) have direct access to the Head of Finance who has standing authority to provide assistance and information to Directors on their request.

The Head of Finance also participates in and provides information and support to the Audit Committee as and when the Audit Committee so requests.

RISK MANAGEMENT REVIEW

Group-wide risk management is ultimately the responsibility of the Board (supported by the Audit Committee) and is overseen operationally by the Commercial & Risk Director.

Operational risk management is embedded in the Group's business processes, which are set down in writing and compliance with which is monitored and audited by the Group's internal Quality function (and periodically reviewed by external quality compliance auditors).

Each live programme has a risk and opportunities register which is maintained by the relevant Programme Manager and reviewed regularly, in particular at standing monthly and quarterly programme review meetings.

The Group's key risks (operational and otherwise) are recorded in a Group Risk Register and those risks together with their respective mitigants, controls and corrective actions are reviewed regularly by the Board. Risk is a standing agenda item for the Board and senior managers are required to review, identify and report risks on an ongoing basis and to formally review all key risks at least every six months.

KEY RISKS

Key risks to the Group (and the relevant mitigants and controls employed by the Group) are explained below.

The risks are those which the Board considers, as at the date of this report, are the most critical to the continued operation of the Group. The risks described do not represent the totality of the risks facing the Group and should not be relied on as such by any person considering any investment decision in relation to the Company's ordinary shares.

Description of risk	Potential Impact	Migation and control
Defence focus The Group has historically been heavily reliant on government defence spending by the UK and other states (particularly aviation related), with over 75% of its revenues for 2017 deriving from defence contracts.	A reduction in defence spending leads to reduced orders, adversely affecting the Group's revenue and profit.	The Group's largest contract (by value) is currently a military land vehicle programme, diversifying from aviation-related defence projects. Furthermore, it is a key strategic focus of the Group to expand into civilian sectors in order to reduce reliance on defence spending generally. The rail sector is currently the Group's most active area of civil diversification.
Prime dependence The Group currently depends to a large extent on prime contractors awarding it sub-contracts to deliver the training solution on larger programmes.	Loss or deterioration of relationships with prime contractors leads to reduced orders, adversely affecting the Group's revenue and profit.	Work for prime contractors is carried out under written contracts spanning a number of years, mitigating the risk of immediate loss of business. The Group contracts with and maintains (and continues to cultivate) long-term good relationships with several primes, meaning that it is not overly-reliant on any one of them. Relationships are developed and maintained with primes at all organisational levels, from technical leads to programme managers to executives. Direct sales, particularly of software products (and related consultancy services), are an increasingly important part of the Group's business.

KEY RISKS

Description of risk	Potential Impact	Migation and control
Legal and compliance burden In the sectors in which it operates, the Group is subject to considerable legislation and regulation. For example: in selling its training equipment overseas, the Group must comply with UK export control laws; in receiving and using certain data, it must comply with the US ITAR regulations; in designing its hardware trainers, it must comply with various EU and UK safety laws. Of course, the Group in operating overseas is subject to the laws of relevant foreign jurisdictions, whether it is aware of them or not.	Failure to comply with relevant legislation and regulation results in the Group being unable to sell its products. The Group and its officers are found criminally liable for breaches of foreign legislation and/or face civil penalties. Serious breaches of health and safety law result in the Group's operations being suspended.	The Group has an experienced Commercial team with considerable export expertise. The Commercial & Risk Director is a qualified lawyer and provides legal advice to the Group as appropriate External legal counsel (both UK and overseas) and safety and compliance advisors are retained and consulted as necessary. The Group has a dedicated Heath & Safety officer and several employees with relevant qualifications and experience.
Contract pricing and delivery The Group's key contracts are often on a fixed price with a fixed delivery timeline and performance of those contracts will be reliant on external dependencies. The Group will contract on fixed prices on 'engineered-to-order' projects (e.g. for a platform-specific training aid), where it has never designed and delivered the required product before. In such cases, the fixed price must be calculated without reference to the previous costs of producing such a product. This creates a risk of mis-pricing a contract. Where a project has been keenly priced, any delays may cause budgets to become very strained.	External factors (e.g. a supplier delay on delivering a part) cause the delay or failure to deliver a contract resulting in reputational damage to the Group and entitling the customer to claim compensation (including, on some contracts, liquidated damages). A mis-priced contract, although delivered in compliance with its terms and timeline, results in the Group failing to realise the desired profit on carrying out such work, with an associated negative impact on the Group's overall financial performance.	The Group is careful to deal with trusted suppliers with a track record of performance, wherever possible. Considerable analysis and effort is applied in pricing each 'engineered-to-order' contract to ensure that all likely work and costs required to deliver that contract are reflected in the price. The Group employs qualified and experienced programme managers to manage delivery (including cost and risk) on all projects. The programme managers, in turn, regularly report to the Executive Directors and Head of Finance. The Group's experienced Commercial team, in conjunction with the programme managers, monitor for contractual 'scope creep' and manage change control requests accordingly. The Group's dedicated Purchasing team controls the ordering of items in time for production and manages the Group's supply chain with support from the Commercial team.

KEY RISKS

Description of risk	Potential Impact	Migation and control
Customer dependencies In delivering its 'engineered-to-order' programmes, the Group is often dependent on the provision of data from its customers and, in some cases, third parties. The required data may not be available (because it has not yet been created or distilled into writing) or a third-party data owner may be unwilling to release the data.	Material amounts of data are not received when required, and a programme is delayed, impacting the Group's ability to pass progress milestones and render invoices. In very serious cases, the delivery of the programme itself is jeopardised	This is a difficult risk to manage. The Group monitors the provision of data and is always alive to the risk of data flows drying up. Concerns are raised at an early stage with customers to ensure that the customer understands the importance of timely data flow to the Group. The risk is always flagged to the customer in pre-contract negotiations so that the contracting assumption is clear to the customer at outset. If a programme ultimately terminates due to this risk eventuating, the Group will have a right to payment for work done until termination.
Contract profiles The Group's turnover, profits and cashflows are, particularly in the Training Systems division, reliant on the award and timely delivery of a small number of high-value contracts. For example, one contract currently in delivery has a value which is over a third of 2017 turnover.	Award or delivery of such contracts is delayed, causing significant financial effects on the Group (particularly when judged by annual reporting). Delays on award or delivery lead to a negative perception amongst stakeholders that the Group's business is inconsistent and prone to 'lumpy' revenues. Large contracts generate significant working capital demands which cannot be met, delivery of the contract (and continuance of the business generally) is jeopardised.	The Group always seeks to negotiate cash-neutral or cash-positive payment milestones such that contractual programmes of work are largely self-funding. Where this is not possible, the Group has access to overdraft facilities with its bankers (currently undrawn) to fund working capital requirements and can (and has evidenced an ability to) utilise its status as a public company to raise funding on the equity capital markets. The Group is constantly seeking ways to enhance its recurring revenues (to increase profitable turnover generally and to mitigate the effects of 'lumpy' contracts) and actively targets sales of support and software services as a means of doing so.

KEY RISKS

Description of risk	Potential Impact	Migation and control
Information systems and security The Group's operations are heavily dependent on the availability and security of its IT systems. A diverse range of software platforms and packages are needed to deliver the Group's contracts.	Key systems are unavailable for a meaningful length of time and the Group's delivery of customer contracts is delayed or prevented, with consequent potential adverse effects on revenue. The 'hacking' of, or a successful cyber attack against, the Company's systems leads to serious negative reputational and contractual consequences, as well as regulatory breaches.	The Group has dedicated IT personnel tasked with ensuring the security and availability of the systems. The Group follows best practice as regards IT security and has the Cyber Essentials accreditation. The Group's secure connection between its Cheltenham and Manchester sites is a UK MOD-approved private secure connection. Data transfer between its different Cheltenham sites is via the Group's own fibre cables. All data is backed up regularly to secure servers. The Group's multi-site operations allow the recovery and restoration of systems from one site if another is affected.
Managing growth As the Group looks forward to a period of growth, it will face challenges in 'ramping up' to meet demand. Given its volume of 'engineered-to-order' programmes and pipeline, the Group is not able to run a standard assembly line and has to custom-configure its production facilities for each order. The Group needs staff with a wide range of technical skills, including engineering and software design and programming. Subject matter expertise is required in various areas including fixed wing and rotary aviation and parachuting. The pool of people with the appropriate skills is inherently limited.	The Group does not have the appropriate facilities in which to build its goods and delivery of contracts is delayed or prevented, leading to negative impacts on revenue and reputation. The Group is unable to secure the necessary human resources and the timely delivery of its contracts is jeopardised, with potentially negative effects to revenue and profit.	The Group has developed a comprehensive facilities plan and carefully monitors its needs for future space, both for secured and potential orders and has already acquired additional space for expansion. The Group maintains a panel of recruitment consultants with track-records of finding suitable people, enabling the Group to 'flex' resource to meet demands of programmes. Employee training and development is prioritised in technical areas so that skills gaps can be filled internally. Good links to former employers are maintained by those staff with military backgrounds, enabling the recruitment of additional subject matter experts.
Changes in training standards and technology Much of the Group's business is driven by the training requirements of its customers which are in turn driven by training standards set down by various authorities (such as the European Aviation Safety Agency). The rapid development in virtual and augmented reality technology and other innovative solutions present challenges (and opportunities) to the Group's traditional hardware focused approach to training aids.	Failure to ensure its products comply with changing standards means decreased saleability (and a lesser end-user experience), adversely affecting the Group's revenue and profit. Similarly, being left behind as technology progresses reduces the attractiveness of the Group's products, ultimately resulting in fewer sales and lower revenue and profit.	The Group has formed a discrete business unit (comprised of specialists in relevant training regulation and delivery) tasked with ensuring its product range keeps pace with, and anticipates changes to, regulation. This unit also proactively considers and implements product improvements (to enhance training value) and works in conjunction with the Group's virtual technology specialists on innovative ways to deliver training.

REMUNERATION REPORT

The Remuneration Committee plays an important role in the good governance of the Group. As set out in its Terms of Reference, the Committee determines the remuneration packages for Executive Directors and other senior employees and keeps the Group's policy on pay and benefits under review generally.

During 2017, the Committee made good progress in further aligning the remuneration arrangements for the Executive Directors with the interests of shareholders, in particular, introducing a new bonus scheme which only pays out upon the Group achieving at least 90% of the market forecast profit for the relevant financial year. In agreeing to this new scheme, the current Chief Executive Officer waived bonus accrued under the former scheme. A similarly calibrated scheme has also been introduced for employees generally.

Given the results for 2017, neither the Executive Directors' scheme nor the scheme for employees will pay out. A pay increase of 2.5% was approved for employees generally, effective 1 January 2018.

Directors' emoluments in respect of 2017 are shown in the table below.

For the current year, the Committee will keep under review the long-term incentivisation of Executive Directors and senior employees, having regard to the need to control costs while ensuring that pay and benefits offered by the Group are appropriate for attracting and retaining the right people.

The Committee will continue to have due regard to remuneration reports from independent sources, to the guidance of its professional advisers and to good practice generally.

Simon Moore
Chair
Remuneration Committee

DIRECTORS' REMUNERATION

	Salary	Bonus	Benefits and car allowance	Pension	**Total 2017**	2016
	£		£	£	**£**	£
C C Powell	45,000	-	-	-	**45,000**	178,000
C Snook*	404,505	-	2,440	3,467	**410,412**	325,149
J K Powell	-	-	-	-	**-**	23,333
P H Walker	156,266	-	17,720	15,600	**189,586**	292,126
S A Moore	60,000	-	-	-	**60,000**	54,385
T J Rice	40,000	-	-	-	**40,000**	10,769
D Clements	22,436	-	-	2,244	**24,680**	-
	728,207	-	20,160	21,311	**769,678**	883,762

* The salary reported for Mr Snook comprises payment for services during the period of £30,333 together with an amount of £374,172 in respect of pay in lieu of notice, other contractual entitlements and contribution to legal costs associated with the termination of appointment.

Pension contributions shown above are pension payments into the Pennant International Group Plc Pension Scheme, a defined contribution scheme.

There were 1,223,588 share options held by the Directors at the end of 2017 (2016: 597,619) as further particularised in the following tables.

SERVICE CONTRACTS

There are no Directors' service contracts (or contracts for services) with notice periods in excess of one year.

DIRECTORS AND THEIR INTERESTS

The following Directors have held office since 1 January 2017 except where indicated otherwise and their beneficial interests in the ordinary shares of the Company were as stated below:

	31 December 2017 5p ordinary shares	31 December 2016 5p ordinary shares
	Number	Number
C C Powell	**6,301,533**	6,301,533
P H Walker	**-**	-
S A Moore	**18,183**	18,183
T Rice	**-**	-
D Clements (appointed 11 October 2017)	**-**	-
C Snook (stepped down 21 February 2017)	**-**	487,500

The following Directors have interests in share options of the Company as stated below:

	EMI options	**Unapproved options**	**Total 2017**
	Number	Number	**Number**
C C Powell	-	-	**-**
P H Walker	297,619	525,969	**823,588**
S A Moore	-	300,000	**300,000**
T Rice	-	-	**-**
D Clements	100,000	-	**100,000**
Total	397,619	825,969	**1,223,588**

On 18 March 2015 Philip Walker was granted 297,619 EMI options at 84.0p, exercisable upon expiry of three years from the date of grant.

On 20 June 2016 Simon Moore was granted 300,000 unapproved share options at 55.5p, exercisable once the ordinary shares of the company have traded on AIM at a price of 100p or more for more than 10 business days within a 20 business day period.

On 19 April 2017 Philip Walker was granted 525,969 unapproved share options at 55.0p, exercisable upon expiry of three years from the date of grant.

On 12 September 2017 David Clements was granted 100,000 EMI options at 80.5p, exercisable upon expiry of three years from the date of grant.

DIRECTOR'S REPORT

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is the provision of management services to the Group.

The principal activities of Group companies during the year were the supply of integrated training and support solutions, products and services, principally to the defence, rail, aerospace and naval sectors and to Government Departments.

DIVIDENDS

No dividends were paid during the year (2016: £NIL). As highlighted in the Chairman's Statement, the Board is not recommending the payment of a final dividend in respect of the year ended 31 December 2017.

GOING CONCERN

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. In reaching this conclusion the Directors have considered the financial position of the Group, its cash, liquidity position and borrowing facilities together with its forecasts and projections for 18 months from the reporting date that take into account reasonably possible changes in trading performance. The going concern basis of accounting has therefore continued to be adopted in preparing the financial statements.

POST BALANCE SHEET EVENTS

Aside from the re-organisation of the Group's UK trading subsidiaries already described in the CEO Review, there are no post balance sheet events to report.

TREASURY OPERATIONS AND FINANCIAL INSTRUMENTS

The Group operates a centralised treasury function which is responsible for managing liquidity, interest and foreign currency risks associated with the Group's activities.

The Group's principal financial instrument is cash, the main purpose of which is to provide finance for the Group's operations. In addition, the Group has various other financial assets and liabilities such as trade receivables and trade payables arising directly from its operations. In accordance with the Group's treasury policy, derivative instruments are not entered into for speculative purposes. The Group's exposure and approach to capital and financial risk, and approach to managing these is set out in note 33 to the Consolidated Financial Statements.

EMPLOYEE ENGAGEMENT

The Group engages with its employees regularly through various media including emails, intranet, newsletters, employee opinion surveys, team briefings and twice yearly financial results presentations to all staff. Details of the Group's performance are shared with all employees at appropriate times using these methods.

EMPLOYEE POLICIES

The Group has established employment policies to ensure compliance with current legislation and codes of practice, including equal opportunities.

The Group is an equal opportunities employer and applications from disabled persons are fully and fairly considered having regard to each applicant's individual aptitudes and abilities. In the event of disability, every effort is made to ensure that employment continues and appropriate training is provided with the intention that career development and promotion of disabled people should not be affected.

POLICY ON PAYMENT OF SUPPLIERS

The Group's policy during the year and for 2018 is to pay suppliers in accordance with the relevant contractual terms between the Group and the supplier.

AUTHORITY FOR COMPANY TO PURCHASE ITS OWN SHARES

Under a shareholders' resolution of 19 April 2017, the Company (acting by its Directors) was granted authority to purchase through the market up to 4,941,530 of the Company's ordinary shares, at a maximum price equal to 105% of the average of the middle market quotations for an ordinary share taken from the Company's quotation on the London Stock Exchange for the five business days immediately preceding the purchase. Since 19 April 2017, the Company has not purchased any of its own shares and the authority referred to above remains unutilised.
A proposal to renew the authority will be made at the Company's Annual General Meeting ("AGM") in 2018.

DIRECTOR'S REPORT

THE BOARD

On 21 February 2017, Chris Snook stepped down from the Board as Chief Executive Officer and, after a short interim period, Philip Walker (formerly the Group's Chief Financial Officer) was appointed as his successor.

David Clements was promoted to the Board as Commercial Director (later Commercial & Risk Director) on 11 October 2017, having been appointed as Company Secretary to all Group companies in June 2017.

The Board comprises the Chairman, the Chief Executive Officer, the Commercial & Risk Director and the Non-Executive Directors. It meets at least once each quarter and a full pack of Board papers (containing various reports and management information) is distributed to Directors in advance of the meetings. The Directors have access to external advice at the expense of the Company and access to the Company Secretary.

One third of the Directors are subject to re-election every year. Accordingly, Simon Moore (the Chairman) retires by rotation at the AGM and, being eligible, offers himself for re-election. David Clements, as a Director appointed since the 2017 AGM, is also subject to election.

DIRECTORS' INDEMNITY

The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for Directors and officers of the Company in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them which relate to anything done or omitted, or alleged to have been done or omitted, by them as officers or employees of the Company. Appropriate directors' and officers' liability insurance cover is in place in respect of all the Directors.

DIRECTORS' CONFLICTS OF INTEREST

The Company has procedures in place for managing conflicts of interest. Should a Director become aware that they, or their connected parties, have an interest in an existing or proposed transaction involving Pennant, they will notify the Board in writing or at the next Board meeting. Directors have an ongoing duty to update the Board in relation to any changes to these conflicts.

SIGNIFICANT SHAREHOLDINGS

As at 31 December 2017 the Group has been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the voting rights held as a shareholder of the Company as shown in the table below.

Investor	Number of shares held	% interest in the total voting rights of Pennant
Powell C C Esq	**6,301,533**	19.13
Canaccord Genuity Group	**4,615,000**	14.01
BGF Investment Management Limited	**3,636,364**	11.04
Liontrust Asset Management	**3,633,077**	11.03
Downing LLP	**2,408,172**	7.31
Seal D J Esq	**1,300,000**	3.95
Barclays Stockbrokers Limited	**1,129,951**	3.43

POLITICAL DONATIONS

The Group did not make any political donations during 2017 (2016: £NIL).

MATTERS COVERED IN THE CHAIRMAN'S STATEMENT AND FINANCIAL STATEMENTS

As permitted by paragraph 1A of schedule 7 to the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 certain matters which are required to be disclosed in the Directors Report (such as review of the business and future developments) have been omitted as they are included within the Strategic Report section (in the Chairman's Statement on pages 5 to 6 and the CEO Review on pages 7 to 9 and within the notes to the Financial Statements.

DIRECTOR'S REPORT

ANNUAL GENERAL MEETING

The Company's Annual General Meeting will be held at its offices located at Pennant Court, Staverton Technology Park, Cheltenham, GL51 6TL on Wednesday 25 April 2018. The Notice convening the Annual General Meeting and an explanation of the business to be put to the meeting will be contained in a separate circular sent to shareholders and will also be made available on the website at www.pennantplc.co.uk under the 'Circulars' section.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

As far as the Directors are aware they have each taken all necessary steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

As far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

AUDITOR

Mazars LLP have signified their willingness to continue in office and a resolution to reappoint Mazars LLP as auditor to the Company will be proposed at the AGM.

Approved by the Board on 9 March 2018
and signed on its behalf

D J Clements
Director

DAVID CLEMENTS, DIRECTOR

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Strategic Report, Directors' Report 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 International Financial Reporting Standards ("IFRS") as adopted by the European Union 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 the Group and of the profit or loss of the Company and the Group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether IFRS as adopted by the European Union have been followed subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company's and the group's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and 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 and the Group's and the group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group 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 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 Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The following section outlines the results for the year ended 31 December 2017.

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENNANT INTERNATIONAL GROUP PLC

OPINION

We have audited the financial statements of Pennant International Group Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the Consolidated Income Statement, Consolidated and Parent Company Statements of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Cash Flows, the Consolidated and Parent Company Statements of Changes in Equity and notes to the Consolidated and Parent Company financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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 Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the 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 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.

USE OF THE AUDIT 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.

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.

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) we identified, including 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.

The risk	Our response
Revenue/Profit Recognition A significant proportion of the group's activities are accounted for as long term contracts. Accounting for these contracts can be complex and requires management to exercise their judgement when considering the likely costs to complete on a contract. Management's assessment of the costs to complete will impact on the expected overall profitability of the contract. This also raises the risk that revenue and profit could be materially misstated, either in error or fraudulently, as they are based on the estimated stage of completion with reference to costs.	Our procedures over revenue and profit recognition included, but were not limited to: • A detailed review of how revenue and profit is recognised. This included confirming that sales invoices are raised in relation to the achievement of agreed milestones and detailed testing of the accuracy and robustness of estimating costs to complete. • A detailed review of management's treatment of the commercial risks and the associated financial exposures presented by each material contract. • An assessment of how accurately actual costs were monitored and compared to budgeted costs and what subsequent actions were taken for any variations identified. In addition, we reviewed and challenged material exposures to customer delays, re-scoping of contracts and the requirement to hold warranty provisions. No material misstatements were identified as a result of the audit procedures performed.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on the financial statements and our audit. Materiality is used so we can plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. The level of materiality we set is based on our assessment of the magnitude of misstatements that individually or in aggregate, could reasonably be expected to have influence on the economic decisions the users of the financial statements may take based on the information included in the financial statements.

Based on our professional judgement the level of overall materiality we set for the financial statements is outlined below:

Financial Statement materiality:	£181,000
Benchmark applied:	Materiality has been determined with reference to a benchmark of Profit before tax, of which it represents 10%.
Basis for chosen benchmark:	We used profit before tax to calculate our materiality as, in our view, this is the most relevant measure of the underlying financial performance of the company.

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was approximately 80% of our financial statement materiality, namely £145,000.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £5,400 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 during the course of assessing the overall presentation of the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENNANT INTERNATIONAL GROUP PLC

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, all entities within the group were subject to full scope audit, with the exception of immaterial overseas entities and was performed by the group audit team. At the parent company level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

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.

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.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In 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 Strategic Report or the Directors' Report.

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 specific by law are not made; or
- we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 36, 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENNANT INTERNATIONAL GROUP PLC

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.

Signed:

Louis Burns

Louis Burns
(Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
45 Church Street
Birmingham
B3 2RT
Date: 9 March 2018

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017	2016
Continuing operations		**£**	£
Revenue	5	**18,069,960**	17,211,455
Cost of sales		**(10,906,992)**	(10,249,472)
Gross profit		**7,162,968**	6,961,983
Administrative expenses		**(5,356,895)**	(5,057,374)
Operating profit	8	**1,806,073**	1,904,609
Finance costs	10	**(2,693)**	(9,051)
Finance income	11	**5,371**	7,781
Profit before taxation		**1,808,751**	1,903,339
Taxation (charge) / credit	12	**(275,409)**	17,691
Profit for the year attributable to the equity holders of the parent		**1,533,342**	1,921,030
Earnings per share	14		
Basic		**4.65p**	6.48p
Diluted		**4.30p**	6.06p

The accompanying notes on pages 40 to 65 are an integral part of these financial statements.

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

	Notes	2017	2016
		£	£
Profit for the year attributable to the equity holders of the parent		**1,533,342**	1,921,030
Other comprehensive income: *Items that will not be reclassified to profit and loss*			
Property impairment	**17**	**-**	(276,212)
Deferred tax		-	46,956
Items that may be reclassified to profit or loss Exchange differences on translation of foreign operations		**(85,055)**	413,469
Total comprehensive income for the period attributable to the equity holders of the parent		**1,448,287**	2,105,243

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Notes	2017 £	2016 £
Non-current assets			
Goodwill	15	**962,133**	964,159
Other intangible assets	16	**231,048**	295,780
Property, plant and equipment	17	**3,702,851**	2,642,448
Deferred tax assets	26	**310,699**	482,989
Total non-current assets		**5,206,731**	4,385,376
Current assets			
Inventories	18	**74,629**	-
Trade and other receivables	20	**10,153,650**	7,820,128
Cash and cash equivalents	21	**1,502,655**	3,517,541
Asset held for sale		**-**	575,000
Total current assets		**11,730,934**	11,912,669
Total assets		**16,937,665**	16,298,045
Current liabilities			
Trade and other payables	22	**2,808,009**	3,824,925
Current tax liabilities		**80,600**	1,610
Obligations under finance leases	23	**4,945**	4,070
Deferred revenue	25	**124,848**	162,500
Total current liabilities		**3,018,402**	3,993,105
Net current assets		**8,712,532**	7,919,564
Non-current liabilities			
Obligations under finance leases	23	**26,895**	31,957
Deferred revenue	25	**6,325**	18,403
Deferred tax liabilities	26	**307,916**	287,625
Warranty provisions	27	**250,000**	150,000
Total non-current liabilities		**591,136**	487,985
Total liabilities		**3,609,538**	4,481,090
Net assets		**13,328,127**	11,816,955
Equity			
Share capital	28	**1,647,177**	1,649,277
Share premium account		**2,677,571**	2,685,971
Capital redemption reserve		**200,000**	200,000
Retained earnings		**7,982,360**	6,347,343
Translation reserve		**332,012**	417,067
Revaluation reserve		**489,007**	517,297
Total Equity		**13,328,127**	**11,816,955**

Approved by the Board and authorised for issue on 9 March 2018

P H Walker - Director

The accompanying notes on pages 40 to 65 are an integral part of these financial statements.

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

	Share Capital	Share Premium (See below)	Capital Redemption reserve (See below)	Treasury Shares	Retained Earnings	Translation Reserve (See below)	Revaluation Reserve (See below)	Total Equity
	£	£	£	£	£	£	£	£
At 1 January 2016	1,402,100	8,400	200,000	(418,225)	4,230,206	3,598	839,157	6,265,236
Profit for the year	-	-	-	-	1,921,030	-	-	1,921,030
Other comprehensive income	-	-	-	-	-	413,469	(276,212)	137,257
Total comprehensive income	1,402,100	8,400	200,000	(418,225)	6,151,236	417,067	562,945	8,323,523
Issue of ordinary shares	247,177	2,677,571	-	418,225	-	-	-	3,342,973
Recognition of share based payment	-	-	-	-	103,503	-	-	103,503
Deferred tax on revaluation loss	-	-	-	-	46,956	-	-	46,956
Transfer from revaluation reserve	-	-	-	-	45,648	-	(45,648)	-
At 1 January 2017	1,649,277	2,685,971	200,000	-	6,347,343	417,067	517,297	11,816,955
Profit for the year	-	-	-	-	1,533,342	-	-	1,533,342
Other comprehensive income	-	-	-	-	-	(85,055)	-	(85,055)
Total comprehensive income	1,649,277	2,685,971	200,000	-	7,880,685	332,012	517,297	13,265,242
Cancellation of B and C shares	(2,100)	(8,400)	-	-	-	-	-	(10,500)
Recognition of share based payment	-	-	-	-	73,385	-	-	73,385
Transfer from revaluation reserve	-	-	-	-	28,290	-	(28,290)	-
At 31 December 2017	**1,647,177**	**2,677,571**	**200,000**	-	**7,982,360**	**332,012**	**489,007**	**13,328,127**

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

SHARE PREMIUM ACCOUNT

Represents the amount by which shares have been issued at a price greater than nominal value less issue costs.

CAPITAL REDEMPTION RESERVE

This represents the amount by which the Company's share capital has been diminished by the cancellation of shares held in treasury.

RETAINED EARNINGS

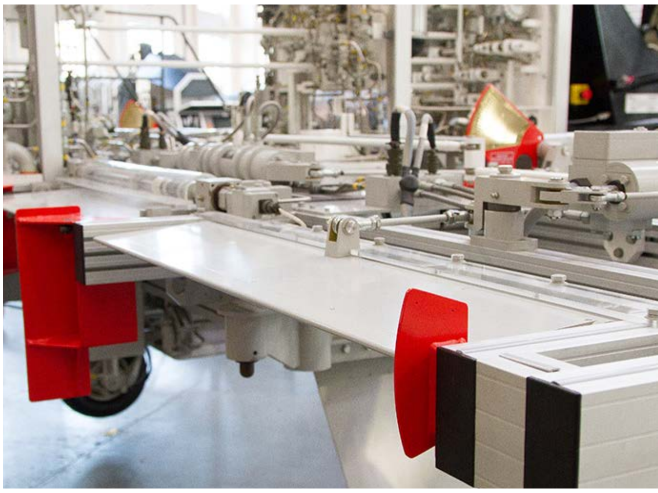
This represents the accumulated realised earnings from the prior and current periods as reduced by losses and dividends from time to time.

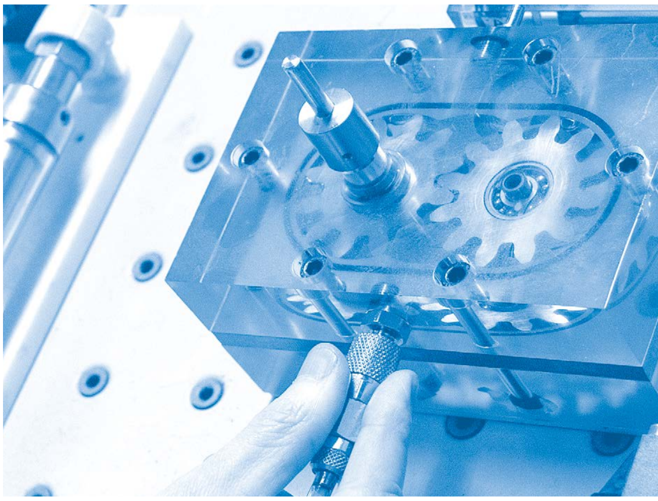
TRANSLATION RESERVE

Exchange differences relating to the translation of the net assets of the Group's foreign subsidiaries from their functional currency to the presentational currency of the Group, being sterling, are recognised directly in the translation reserve.

REVALUATION RESERVE

This represents the extent to which the revaluation of such land and buildings at fair value exceed the carrying amount.





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

	Notes	2017 £	2016 £
Net cash from operations	29	**(988,536)**	(249,248)
Investing activities			
Interest received		**5,371**	7,781
Purchase of intangible assets		**(227,108)**	(28,438)
Purchase of property, plant and equipment		**(1,282,088)**	(1,086,896)
Proceeds from sale of motor vehicles		-	12,491
Proceeds from sale of assets held for sale		**575,000**	4,314
Net cash used in investing activities		**(928,825)**	(1,090,748)
Financing activities			
Proceeds from sale of ordinary shares		**(10,500)**	3,342,973
Net funds from obligations under finance leases		**(4,187)**	13,842
Net cash (used in)/from financing activities		**(14,687)**	3,356,815
Net (decrease)/increase in cash and cash equivalents		**(1,932,048)**	2,016,819
Cash and cash equivalents at beginning of year		**3,517,541**	1,123,456
Effect of foreign exchange rates		**(82,838)**	377,266
Cash and cash equivalents at end of year	21	**1,502,655**	3,517,541

The accompanying notes on pages 40 to 65 are an integral part of these financial statements.

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

1. GENERAL INFORMATION

Pennant International Group plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is Pennant Court, Staverton Technology Park, Cheltenham, GL51 6TL.

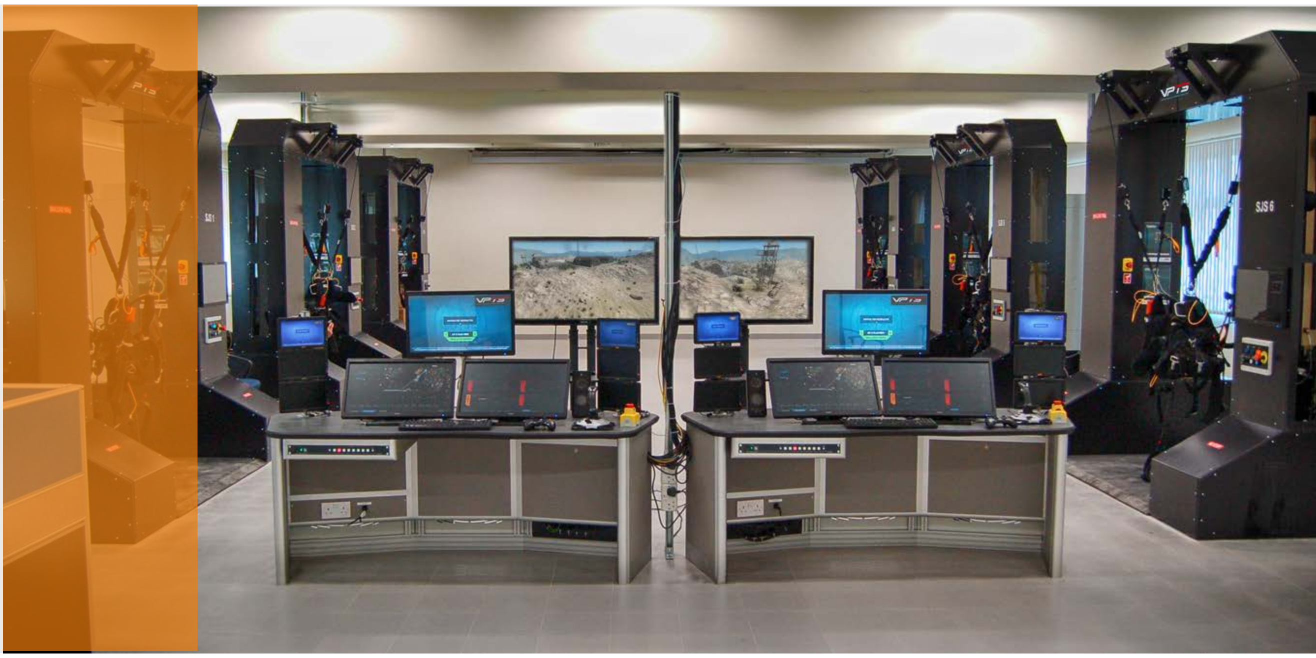
The principal activity of the Group during the year was the delivery of integrated training and support solutions, products and services, principally to the defence, rail, aerospace and naval sectors and to Government Departments.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 3.

2. STANDARDS, AMENDMENTS AND INTERPRETATIONS ADOPTED IN THE CURRENT FINANCIAL YEAR ENDED 31 DECEMBER 2017

The adoption of the following mentioned standards, amendments and interpretations in the current year have not had a material impact on the Group's financial statements for the year ended 31 December 2017:

	EU effective date - periods beginning on or after
Amendment to IAS 7 *Statement of Cash Flows:* Disclosure initiative	1 January 2017
Amendment to IAS 12 *Income Taxes*: Recognition of deferred tax assets for unrealised losses	1 January 2017
Annual Improvements to IFRSs (2014 - 2016): Clarification of the scope of IFRS 12 D*isclosure of Interests in Other Entities*	Expected to be endorsed Q1 2018



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

2. STANDARDS, AMENDMENTS AND INTERPRETATIONS ADOPTED IN THE CURRENT FINANCIAL YEAR ENDED 31 DECEMBER 2017

	EU effective date - periods beginning on or after
Amendments to IAS 28 *Investments in Associates and Joint Ventures:* Long-term interests in Associates and Joint Ventures	Expected to be endorsed 2018
Amendment to IAS 40 *Investment Property:* Transfers of investment property	Expected to be endorsed Q1 2018
Amendment to IFRS 2 *Share-based Payment:* Classification and measurement of share-based payment transactions	Expected to be endorsed Q1 2018
Amendment to IFRS 4 *Insurance Contracts:* Applying IFRS 9 *Financial Instruments* with IFRS 4 Insurance Contracts	1 January 2018
IFRS 9 *Financial Instruments*	1 January 2018
Amendments to IFRS 9 *Financial Instruments:* Prepayment features with negative compensation	Expected to be endorsed 2018
IFRS 9 *Revenue from Contracts with Customers*	1 January 2018
Clarifications to IFRS 15 Revenue from *Contracts with Customers*	1 January 2018
IFRS 16 *Leases*	1 January 2018
IFRS 17 *Insurance Contracts*	Expected endorsement date not available
Annual Improvements to IFRSs (2014 - 2016)	Expected to be endorsed Q1 2018
Annual Improvements to IFRSs (2015 - 2017)	Expected to be endorsed 2018
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	Expected to be endorsed Q1 2018
IFRIC 23 *Uncertainty over Income Tax Treatments*	Expected to be endorsed 2018

2. STANDARDS, AMENDMENTS AND INTERPRETATIONS ADOPTED IN THE CURRENT FINANCIAL YEAR ENDED 31 DECEMBER 2017

The adoption of the above-mentioned standards, amendments and interpretations in future years are not expected to have a material impact except in the case of of IFRS15 and IFRS16, as further explained below:

IFRS 15 - Revenue from Contracts with Customers

This section details the expected impact on the Group of adopting IFRS15 on 1 January 2018.

- Revenue in relation to the production of generic Commercial Off The Shelf ("COTS") products (such as the GenFly, GenSkills and IAMT) will only be recognised on completion of the contract, delivery of the product, or upon a contractual acceptance milestone, rather than throughout the duration of the contract.
- This means that if a COTS item is produced in one year but the acceptance or delivery of the item (as the case may be) takes place the following year, all revenue associated with that item would be recognised in the second year.
- Costs incurred to date on COTS products will be shown as work-in-progress held on the statement of financial position at cost.
- Revenue in relation to engineered-to-order solutions (such as the Wildcat trainers for the MOD), previously recognised on a percentage of costs completed basis, will continue to be recognised on fundamentally the same basis.
- Revenue on service contracts will continue to be recognised over time as the customer receives the service.
- Profit on contracts will continue to be recognised progressively as risks are mitigated or retired.
- No impact is anticipated on the way that Pennant manages its contracts.

No impact is anticipated on the lifetime revenue and profitability of contracts or the timing of cash receipts, which are determined by the terms and conditions of those contracts.

- The adoption of IFRS15 with effect from 1 January 2018 will require Pennant to:
    - report revenue and profit on certain contracts in the 2018 financial year ("FY 2018") where the relevant work was carried out, costs incurred, and revenue and profit recognised during prior financial years but where the completion, acceptance or delivery of the relevant goods under those contracts will occur during FY 2018 (as explained in key points 1 and 2 above); and
    - make a corresponding transitional adjustment to the Group's opening reserves for FY 2018 to reflect the impact of adopting IFRS15 in relation to such contracts (the "Opening Adjustment").
- The Opening Adjustment comprises the recognition of approximately £7 million of revenue and £3 million of EBITA.
- In addition to the Opening Adjustment, the adoption of IFRS15 is also likely to result in revenue and profit on work carried out during FY 2018 being reported across 2019 and 2020, rather than for FY 2018 (as explained on the preceding page).
- The ultimate impact of the later recognition of revenue and profit will depend on the mix of products worked on during FY 2018 but the present estimate is approximately £5 million of revenue and £2 million of EBITA.
- The anticipated net effect on FY 2018 of Pennant adopting IFRS15 (taking into account the Opening Adjustment and the later recognition of revenue and profit) is a positive adjustment to revenue and EBITA of £2 million and £1 million respectively.

IFRS 16 - Leases

We anticipate that the standard will impact almost all commonly used financial metrics including gearing ratio, current ratio, asset turnover, EBITA, operating profit, EPS and operating cash flows.

The Board continues to assess the impact of the above standard on the Groups arrangements, in particular with stakeholders such as banks, investors and analysts.

It is anticipated that the adoption of the above standard will create an asset and an equal liability on the balance sheet, thereafter the amortisation profile of the asset and liability will be different.

3. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The financial statements have been prepared on the historical cost basis or a revaluation basis where indicated. The principal accounting policies set out below have been consistently applied to all periods presented.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. In reaching this conclusion the directors have considered the financial position of the Group, its cash, liquidity position and borrowing facilities together with its forecasts and projections for 18 months from the reporting date that take into account reasonably possible changes in trading performance. The going concern basis of accounting has therefore continued to be adopted in preparing the financial statements.

Basis of consolidation

The financial statements incorporate the results of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has power to govern the financial and operating policies of the investee entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the results of subsidiaries to bring accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations and goodwill

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The assets and liabilities and contingent liabilities of the subsidiaries are measured at their fair value at the date of acquisition. Any excess of cost of acquisition over fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of cost of acquisition below the fair value of the identified net assets acquired (i.e. discount on acquisition) is credited in profit or loss in the period of acquisition. Goodwill arising on consolidation is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss account and is not subsequently reversed. Acquisition related costs are recognised in the income statement as incurred.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Rendering of consultancy services relates to the services of contractors provided to customers on a time basis. It is invoiced and recognised as revenue on a time basis.

Revenues arising from the software maintenance programme provided to customers are invoiced in advance but recognised as revenue across the period to which the maintenance agreements relate. Amounts not taken to revenue at a period end are shown in the statement of financial position as deferred revenue.

Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (see below).

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Foreign currency

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pound sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.
In preparing the financial statements of the individual companies, transactions in currencies other than the Group Company's functional currency (foreign currencies) are recorded at rates of exchange prevailing on the dates of the transactions. At the reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated.
Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of the gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income and expense in the period in which the operation is disposed of. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rates.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from the net profits as reported on the income statement because it excludes items of income and 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 reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that the taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for temporary differences arising on investments in subsidiaries and interest in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or at least realised based on the tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt within equity.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Provisions

Provisions are made in respect of contractual obligations and warranties based on the judgement of management taking into account the nature of the claim or contractual obligation, the range of possible outcomes, past experience and any mitigation.

Share-based payment

The Group issues equity-settled share based payments to certain employees. Equity-settled share based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the date of grant is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of an option pricing model. The model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged to write off the cost of assets over their estimated useful lives on the following bases:

Freehold land	Nil
Freehold buildings	Net book value at 1 January 2007 being written off over 35 years on a straight line basis
Plant and equipment	10% to 25% if cost per annum
Computers	33.33% of cost per annum
Motor vehicle	25% of cost per annum

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously expensed. A decrease in carrying value amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Internally-generated intangible assets

An internally-generated intangible asset arising from the Group's development activities is capitalised and held as an intangible asset in the statement of financial position when the costs relate to a clearly defined project; the costs are separately identifiable; the outcome of such a project has been assessed with reasonable certainty as to its technical feasibility and its ultimate commercial viability; the aggregate of the defined costs plus all future expected costs in bringing the product to market is exceeded by the future expected sales revenue; and adequate resources are expected to exist to enable the project to be completed. Internally-generated intangible assets are amortised over their useful lives, normally three years, from completion of development. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the income statement in the period in which it is incurred.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any recognised impairment loss. Amortisation is charged to write off intangible assets on a straight line basis over their estimated useful lives on the following basis:

Software development costs	33.33% of cost per annum

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and subsequently measured at amortised cost using the effective interest method. A provision is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of any provision is recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents are recognised as financial assets. They comprise cash held by the Group and short term bank deposits with an original maturity date of three months or less.

Loss recognised previously in equity is included in profit or loss for the period. Dividends are recognised in the income statement when the right to receive payment has been established.

Available-for-sale investments

Available-for-sale investments are recognised as financial assets and are initially measured at fair value, including transaction costs. At subsequent reporting dates available-for-sale investments are measured at fair value where material or cost where fair value is not readily ascertainable. Gains and losses arising from changes in fair value are recognised directly in equity until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss recognised previously in equity is included in profit or loss for the period. Dividends are recognised in the income statement when the right to receive payment has been established.

Financial instruments

Trade payables

Trade payables are initially recognised as financial liabilities measured at fair value, and subsequent to initial recognition measured at amortised cost.

Bank borrowings

Interest bearing bank loans, overdrafts and other loans are recognised as financial liabilities and recorded at fair value, net of direct issue costs. Finance costs are accounted for on an amortised cost basis in the income statement using the effective interest rate.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deduction of all its liabilities. Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimations that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Critical accounting judgements

Revenue recognition

A significant proportion of the Group's revenue derives from construction contracts. The Directors are satisfied that revenue is recognised when, and to the extent that, the group obtains the right to consideration which is derived on a contract-by-contract basis from the stage of completion of the contract activity at the reporting date. This is measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract cost. Judgement has been required in the estimation of the total costs of each contract.

Recoverability of internally-generated intangible asset

During the year, management reconsidered the recoverability of its internally-generated intangible asset which is included in its balance sheet at £174,520 (2016: £252,000). The project continues to progress in a very satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the project.

Key source of estimation uncertainty

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation, as described in note 15, requires estimates of the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the balance sheet date was £962,133 (2016: £964,159) and the review carried out has shown no impairment.

5. REVENUE

An analysis of the Group's revenue is as follows:

	2017 **£**	2016 £
Sale of goods	**229,591**	153,133
Rendering of services	**3,388,012**	2,948,960
Revenue from construction contracts	**13,678,784**	13,412,304
Software maintenance programmes	**773,573**	697,058
	18,069,960	17,211,455
Investment income (note 11)	**5,371**	7,781
	18,075,331	17,219,236

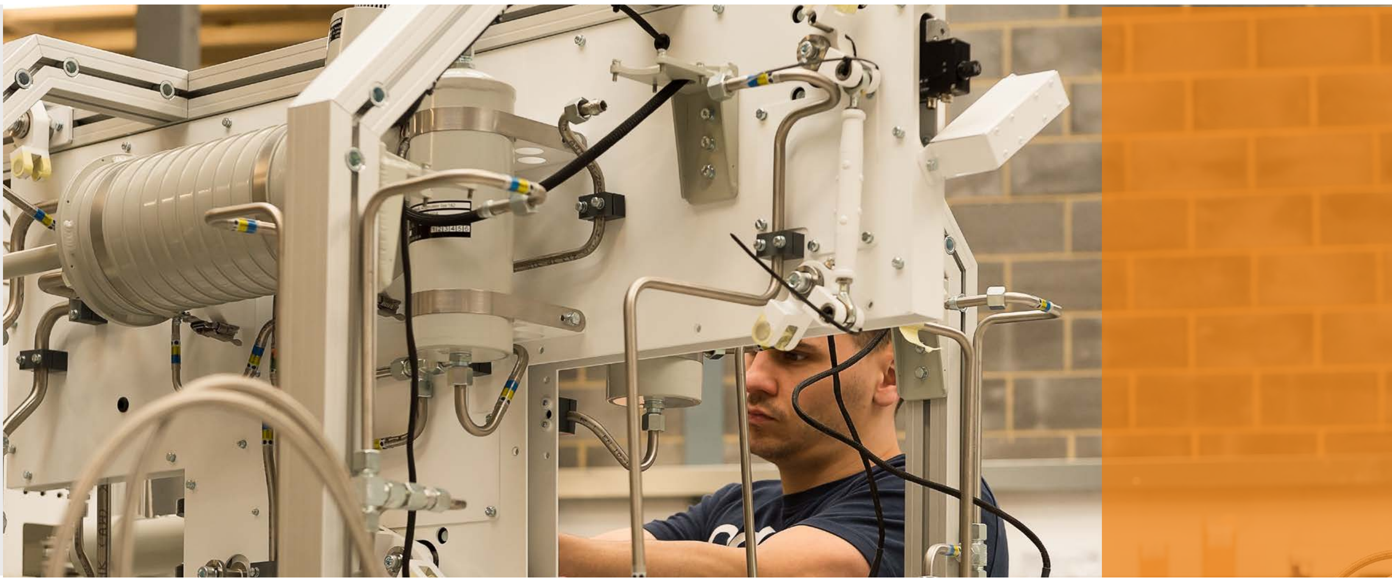
6. SEGMENT INFORMATION

The operating segments that are regularly reviewed by Executive Management in order to allocate resources to segments and to assess performance are Training Systems, Data Services and Software as these represent the way the Group organised its products and services during the year. The accounting policies of the reporting segments are the same as those adopted by the Group and set out in note 3.

6.1 ***Segment revenues and results***

	Segment revenue		**Segment profit**	
	2017 £	2016 £	**2017 £**	2016 £
Training Systems	**9,660,779**	12,080,290	**676,108**	1,693,501
Data Services	**4,503,423**	1,782,516	**726,318**	(98,103)
Software	**5,276,292**	4,331,681	**311,581**	221,637
	19,440,494	18,194,487	**1,714,007**	1,817,035
Inter-segment sales				
Training Systems	**-**	-		
Data Services	**(885,122)**	(450,502)		
Software	**(485,412)**	(532,530)		
External sales	**18,069,960**	17,211,455		
Net unallocated corporate receipts			**92,066**	87,574
Net finance income / (costs)			**2,678**	(1,270)
Profit before tax			**1,808,751**	1,903,339

Inter-segment sales are made on an arm's length basis.



6. SEGMENT INFORMATION

6.2 ***Segment assets and liabilities***

Segment assets	**2017 £**	2016 £
Training Systems	**9,821,444**	10,111,893
Data Services	**2,272,242**	1,574,163
Software	**4,616,006**	4,401,754
	16,709,692	16,087,810
Eliminations on consolidation	**(587,140)**	(2,603,448)
Unallocated	**815,113**	2,813,683
Consolidated assets	**16,937,665**	16,298,045

Segment liabilities		
Training Systems	**2,661,143**	3,531,488
Data Services	**276,936**	207,161
Software	**582,585**	547,438
	3,520,664	4,286,087
Unallocated	**88,874**	195,003
Consolidated assets	**3,609,538**	4,481,090

6.3 ***Other segment information***

	Depreciation and amortisation		**Additions to non-current assets**	
	2017 £	2016 £	**2017 £**	2016 £
Training Systems	**434,283**	508,499	**1,382,092**	1,046,812
Data Services	**35,937**	44,174	**70,261**	5,302
Software	**43,136**	31,447	**56,843**	63,220
	513,356	584,120	**1,509,196**	1,115,334

6. SEGMENT INFORMATION

6.4 Geographical information

The Group operates in four geographical areas – United Kingdom, USA, Canada and Australia.

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below.

	Revenue from external customers		Non-current assets*	
	2017 £	2016 £	**2017 £**	2016 £
United Kingdom	**13,986,414**	13,650,129	**4,614,799**	3,617,519
USA	**19,003**	12,029	**-**	-
Canada	**3,723,259**	3,229,943	**10,695**	7,513
Australia	**341,284**	319,354	**270,538**	277,355
	18,069,960	17,211,455	**4,896,032**	3,902,387

* Non-current assets excluding financial instruments and deferred tax assets.

6.5 Information about major customers

Included in the revenues of each segment are the following sales to individual external customers amounting to 10% or more of the Group's revenues.

	2017 £	2016 £
Training Systems		
Customer 1	**3,446,250**	4,254,480
Customer 2	**4,128,510**	2,065,140
Software services		
Customer 3	**3,273,152**	3,199,160

7. STAFF COSTS

The aggregate remuneration comprised:	**2017 £**	2016 £
Wages and salaries	**6,084,710**	5,392,158
Social security costs	**591,793**	539,555
Other pension costs (note 32)	**304,326**	284,701
	6,980,829	6,216,414

The average number of persons, including Executive Directors employed by the Group during the year was:

	Number	Number
Office and management	**16**	14
Production	**90**	85
Selling	**9**	8
	115	107

8. OPERATING PROFIT FOR THE YEAR

	2017 £	2016 £
Operating profit for the year has been arrived at after charging:		
Net foreign exchange (gain)/loss	**(45,683)**	139,759
Research and development costs	**311,636**	64,869
Amortisation of intangible assets	**291,816**	299,801
Depreciation of property, plant and equipment	**221,540**	284,319
Loss on disposal of motor vehicles	**-**	16,877
Share-based payment (note 32)	**73,385**	103,503
Redundancy cost	**-**	42,345
Exceptional termination cost	**125,000**	-

9. AUDITOR REMUNERATION

	2017 **£**	2016 £
Fees payable to the company's auditor for:		
- The audit of the annual financial statements	**27,000**	17,000
- The audit of the company's group undertakings	**33,000**	33,000
Total audit fees	**60,000**	50,000

10. FINANCE COSTS

	2017 **£**	2016 £
Interest expense for financial lease arrangements	**-**	834
Interest expense for bank overdraft	**2,693**	57
Other interest expense	**-**	8,160
	2,693	9,051

11. FINANCE INCOME

	2017 **£**	2016 £
Income from bank deposits	**4,285**	3,772
Dividends receivable from available-for-sale investments	**-**	25
Other interest receivable	**1,086**	3,984
	5,371	7,781

12. TAXATION

	2017 **£**	2016 £
Recognised in the income statement		
Current UK tax expense	**52,218**	3,511
Foreign tax	**34,385**	64,657
In respect of prior years	**(3,511)**	(82,156)
	83,092	(13,988)
Deferred tax expense relating to origination and reversal of temporary differences	**189,398**	17,720
Exchange rate difference	**2,919**	-
Effect of tax rate change on opening balance	**-**	(21,423)
Total tax expense	**275,409**	(17,691)

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

Reconciliation of effective tax rate	**2017 £**	2016 £
Profit before tax	1,809,751	1,903,339
Tax at the applicable rate of 19.25% (2016: 20.00%)	348,378	380,666
Tax effect of expenses not deductible in determining taxable profit	19,788	57,418
Additional deduction for R&D expenditure	(77,974)	-
Tax effect of utilisation of losses not previously recognised	-	-
Foreign tax credits	2,250	29,265
Effect of different tax rates of subsidiaries operating in other jurisdictions	-	4,437
Effect of change of deferred tax rate	8,853	(33,529)
Losses arising not recognised in deferred tax	(40,612)	-
Utilisation of unrecognised deferred tax	(2,169)	(367,922)
Effect of adjustments for prior years		(82,156)
Other differences	16,895	(5,870)
Total tax expense	275,409	(17,691)

13. DIVIDENDS

No dividends were paid during the year (2016: £NIL). No final dividend will be proposed at the Annual General Meeting (2016: £NIL).

14. EARNINGS PER SHARE

Earnings per share has been calculated by dividing the net profit attributable to equity holders by the weighted average number of ordinary shares in issue during the year as follows:

	2017 £	2016 £
Profit after tax attributable to equity holders	**1,533,342**	1,921,030
	Number	Number
Weighted average number of ordinary shares in issue during the year	**32,943,533**	29,647,844
Diluting effect of share options	**2,752,096**	2,326,786
Diluted average number of ordinary shares	**35,695,629**	31,979,630

15. GOODWILL

Goodwill	£
Carrying amount:	
At 1 January 2016	929,606
Currency translation	34,553
At 1 January 2017	964,159
Currency translation	(2,026)
At 31 December 2017	**962,133**

Goodwill acquired in a business combination is allocated, at acquisition, to cash generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	2017 £	2016 £
Cash generating unit:		
Data Services division	**583,900**	583,900
Software division	**378,233**	380,259
	962,133	964,159

The Group tests goodwill annually for impairment. The recoverable amounts of the CGU's are determined from value in use calculations. The Group prepares cash flow forecasts for the following 12 months derived from the most recent annual financial budgets approved by management and extrapolates cash flows for a further 3 years based on a growth rate of 3.0% (2016: 3.0%). These forecast cash flows are discounted at 10% per annum (2016: 10% per annum) to provide the value in use for each CGU.

Key assumptions are based on past experience and external sources. No impairment of goodwill has been recorded in previous years and the most recent tests confirm no impairment. The Directors have assessed the sensitivity of the assumptions detailed above and consider that it would require significant adverse variance in any of the assumptions to reduce fair value to a level where it matched the carrying value.

16. OTHER INTANGIBLE ASSETS

Cost	Software	Development costs	Total
	£	£	£
At 1 January 2016	385,979	907,753	1,293,732
Currency translation	6,488	-	6,488
Additions	28,438	-	28,438
Disposals	(358,548)	-	(358,548)
At 1 January 2017	62,357	907,753	970,110
Currency translation	(261)	-	(261)
Additions	52,588	174,520	227,108
At 31 December 2017	**114,684**	**1,082,273**	**1,196,957**

Amortisation			
At 1 January 2016	323,157	403,753	726,910
Currency translation	6,167	-	6,167
Charge for the year	47,801	252,000	299,801
Disposals	(358,548)	-	(358,548)
At 1 January 2017	18,577	655,753	674,330
Currency translation	(237)	-	(237)
Charge for the year	39,816	252,000	291,816
At 31 December 2017	**58,156**	**907,753**	**965,909**

Carrying amount			
At 31 December 2017	**56,528**	**174,520**	**231,048**
At 31 December 2017	43,780	252,000	295,780

17. PROPERTY, PLANT AND EQUIPMENT

Cost / Valuation	Land and buildings	Fixtures and equipment	Motor vehicles	Total
	£	£	£	£
At 1 January 2016	2,320,000	2,086,307	51,840	4,458,147
Currency translation	-	32,994	9,477	42,471
Additions	827,398	230,100	29,398	1,086,896
Disposal	-	(408,712)	(48,058)	(456,770)
Impairment	(276,212)	-	-	(276,212)
Assets held for sale	(643,788)	-	-	(643,788)
At 1 January 2017	2,227,398	1,940,689	42,657	4,210,744
Currency translation	-	(1,053)	694	(359)
Additions	878,079	404,009	-	1,282,088
At 31 December 2017	**3,105,477**	**2,343,645**	**43,351**	**5,492,473**

Depreciation				
	£	£	£	£
At 1 January 2016	91,704	1,635,726	23,391	1,750,821
Currency translation	-	28,237	1,109	29,346
Charge for year	97,282	182,594	4,443	284,319
Disposal	-	(408,712)	(18,690)	(427,402)
Assets held for sale	(68,788)	-	-	(68,788)
At 1 January 2017	120,198	1,437,845	10,253	1,568,296
Currency translation	-	894	(1,108)	(214)
Charge for year	79,606	137,795	4,139	221,540
At 31 December 2017	**199,804**	**1,576,534**	**13,284**	**1,789,622**

Carrying amount				
At 31 December 2017	**2,905,673**	**767,111**	**30,067**	**3,702,851**
At 31 December 2016	2,107,200	502,844	32,404	2,642,448

Land and buildings were revalued at 20 October 2017 to £2,800,000 by Hutchings & Thomas, independent valuers not connected with the Group, on the basis of market value. The valuation conforms to International Valuation Standards and was based on recent market transactions on arm's lengths terms and rental yields for similar properties. This valuation equated to the carrying value at the time, so no gain or loss was realised on revaluation.

Within the value stated for land and buildings are assets under construction totalling £620,000 (2016: £NIL).

At 31 December 2017, had the land and buildings of the Group been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying amount would have been approximately £0.56 million (2016: £1.16 million; 2015: £1.21 million).

The revaluation surplus is disclosed in the Statement of Changes in Equity. The revaluation surplus arises in a subsidiary and cannot be distributed to the parent due to legal restrictions in the country of incorporation.

All of the Group's properties are categorised as Level 2 in the fair value hierarchy as defined by IFRS 13 Fair Value Management. There are no transfers of properties between Levels 1, 2 and 3 during the year ended 31 December 2017.

18. INVENTORIES

	2017 **£**	2016 £
Raw materials and consumables	**74,629**	-

19. CONSTRUCTION CONTRACTS

	2017 **£**	2016 £
Contracts in progress:		
Amounts due from contract customers included in trade and other receivables (note 20)	**4,901,013**	4,942,292
Amounts due to contract customers included in trade and other payables (note 22)	**(1,148,009)**	(1,728,759)
	3,753,004	3,213,533
Contract costs incurred plus recognised profits less		
Recognised losses to date	**31,848,875**	27,626,304
Less: progress billings	**(28,095,871)**	(24,412,771)
	3,753,004	3,213,533

20. TRADE AND OTHER RECEIVABLES

	2017 **£**	2016 £
Trade receivables	**4,844,785**	2,511,789
Amounts due from construction customers (note 19)	**4,901,013**	4,942,292
Other receivables	**2,561**	50,745
Prepayments and accrued income	**405,291**	315,302
	10,153,650	7,820,128

There are no unimpaired trade receivables that are past due as at the reporting date.

No receivables have been written off as uncollectible during the year (2016: £NIL) and it has not been necessary to recognise any impairment loss. The directors consider that the carrying amount of trade and other receivables approximates their fair value.

21. CASH AND CASH EQUIVALENTS

	2017 £	2016 £
Bank	**1,498,936**	3,514,253
Petty cash	**3,719**	3,288
	1,502,655	3,517,541

Cash and cash equivalents comprise cash held by the Group and short-term deposits with an original maturity date of three months or less. The carrying amount approximates their fair value.

22. TRADE AND OTHER PAYABLES

	2017 £	2016 £
Amounts due to construction contract customers (note 19)	**1,148,009**	1,728,759
Trade payables	**931,498**	1,552,710
Taxes and social security costs	**464,351**	23,265
Accruals	**264,151**	520,191
	2,808,009	3,824,925

The Directors consider that the carrying amount of trade and other payables approximates their fair value.

23. OBLIGATIONS UNDER FINANCE LEASES

	Minimum payments		**Present value of minimum payments**	
	2017	2016	**2017**	2016
	£	£	**£**	£
Amounts payable				
Within 1 year	**8,109**	8,183	**4,945**	4,070
Within 2 to 5 years inclusive	**30,055**	39,130	**26,895**	31,957
Less future finance charges	**(6,324)**	(11,286)	**-**	-
	31,840	36,027	**31,840**	36,027
Carrying amount of assets subject to finance lease:				
Property, plant and equipment			**23,950**	27,621

The Group's obligations under finance leases are secured by the lessor's rights to the leased assets.

24. BORROWINGS

The Group has available unused bank overdraft facilities of £1,500,000 (2016: £1,500,000). Any overdraft arising from the facility is repayable on demand and carries interest at 2.00% (2016: 2.00%) plus the bank's base rate. Any facilities used are secured by fixed and floating charges over the assets of Pennant International Group plc, Pennant International Limited, Pennant Software Services Limited and Pennant Support & Development Services Limited (formerly known as Pennant Information Services Limited) and by cross-guarantees between those companies.

25. DEFERRED REVENUE

	2017 **£**	2016 £
Deferred revenue arises in respect of prepaid software maintenance contracts and is shown as:		
Revenue that can be recognised within 1 year included in current liabilities.	**124,848**	162,500
Revenue that can be recognised after 1 year included in non-current liabilities.	**6,325**	18,403
	131,173	180,903

26. DEFERRED TAX

	Accelerated tax depreciation	**Other temporary differences**	**Tax losses**	**Total**
	£	**£**	**£**	**£**
At 1 January 2016	(387,544)	33,305	493,004	138,765
Change in rate	21,530	8,986	-	30,516
Credit/(charge) to income	82,747	10,058	(45,395)	47,410
Exchange differences	-	(21,327)	-	(21,327)
At 1 January 2017	(283,267)	31,022	447,609	195,364
Credit/(charge) to income	(17,063)	13,805	(186,139)	(189,397)
Exchange differences	-	(4,087)	903	(3,184)
At 31 December 2017	**(300,330)**	**40,740**	**262,373**	**2,783**

In the statement of financial position deferred assets and liabilities are shown without any set off as follows:

	2017 **£**	2016 £	2015 £
Deferred tax assets	**310,699**	482,989	530,622
Deferred tax assets	**(307,916)**	(287,625)	(391,857)
	2,783	195,364	138,765

Deferred tax has been provided at 17% (2016: 17%), the corporation tax rate that will be effective from 1 April 2020.

At the reporting date the Group had unused tax losses of approximately £0.3 million (2016: £2.5 million) available for set-off against future profits. No deferred tax asset has been recognised in respect of some of these available losses due to the unpredictability of future profit streams in some of the subsidiaries in which they arise. The tax losses are available indefinitely for offsetting against future taxable profits.

27. WARRANTY PROVISIONS

	2017 **£**	2016 £
Warranty provisions	**250,000**	150,000

The Group has recognised warranty provisions in respect of contractual obligations on two major programmes.
The Group expects the provision to be utilised within the next three years.

28. SHARE CAPITAL

	2017 **£**	2016 £
Authorised, issued and fully paid		
32,943,533 ordinary shares of 5p each	**1,647,177**	1,647,177
1,400,000 B shares of 0.1p each	**-**	1,400
700,000 C shares of 0.1p each	**-**	700
	1,647,177	1,649,277

The B and C shares were repurchased by the Company and cancelled and there are no shares of such classes now in issue (the Company's entire issued share capital now comprises ordinary shares of 5p each only). The Company's ordinary shares carry one vote per share, have equal rights to participate in dividends, are freely transferable and are not redeemable.

29. NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

Cash generated from operations	2017 £	2016 £
Profit for the year	**1,533,342**	1,921,030
Finance income	**(5,371)**	(7,781)
Finance costs	**2,693**	9,051
Income tax charge/(credit)	**275,409**	(17,691)
Depreciation of property, plant and equipment	**221,540**	284,319
Amortisation of other intangible assets	**291,816**	299,801
Profit on disposal of property, plant and equipment	**-**	16,877
Profit on disposal of available-for-sale investments	**-**	(614)
Share-based payment	**73,385**	103,503
Operating cash flows before movement in working capital	**2,392,814**	2,608,495
(Increase) /decrease in receivables	**(2,333,522)**	(4,076,693)
(Decrease)/increase in inventories	**(74,629)**	29,854
Increase/(decrease) in payables and provisions (notes 22 and 27)	**(916,916)**	1,317,015
(Decrease)/increase in deferred revenue	**(49,730)**	6,735
Cash generated from operations	**(981,983)**	(114,594)
Tax (paid)	**(3,860)**	(125,603)
Interest paid	**(2,693)**	(9,051)
Net cash in operations	**(988,536)**	(249,248)

30. OPERATING LEASE ARRANGEMENTS

	2017 £	2016 £
Lease payments under operating leases recognised as an expense in the year	**273,911**	232,724

The Group had commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2017 £	2016 £	2017 £	2016 £
Within one year	**154,038**	147,204	**61,915**	58,991
In the second to fifth years	**352,595**	265,521	**74,162**	72,873
In the sixth to tenth years	**-**	32,750	**-**	-
After ten years	**-**	236,788	**-**	-
	506,633	682,263	**136,077**	131,864

The Group has no operating leases longer than 10 years.

31. SHARE-BASED PAYMENT

The Company operates an EMI share option scheme for certain employees of the Group (the "Scheme") and has also granted unapproved options to certain Directors. Options granted under the Scheme are exercisable at the price equal to the quoted mid-market price at the close of business on the date of grant while unapproved options are exercisable in accordance with the terms of the relevant agreement (further details of which are contained in the Remuneration Report). Exercise in all cases is subject to non-market conditions as options are forfeited if the employee leaves the Group before the options vest. Details of the share options outstanding during the year are as follows:

Options granted under the Scheme

	2017		2016	
	Number of share options	**Weighted average exercise price**	**Number of share options**	**Weighted average exercise price**
Outstanding at 1 January 2017 Granted during the year Exercised during the year	**2,007,619** **200,000** **-**	**65.58p** **80.50p** **-**	2,077,619 - (70,000)	64.38p - 38.79p
Outstanding at 31 December 2017	**2,207,619**	**66.93p**	2,007,619	65.58p
Exercisable at 31 December 2017	**1,010,000**	**59.79p**	530,000	36.06p

The fair value of the options granted during the year under the Scheme is £4,483.

The inputs to the Black-Scholes model for the 2017 grants were as follows:

- Share price at date of grant 80.50p
- Exercise price 80.50p
- Expected volatility (based on historic volatility) 37%
- Risk free rate 1.30%
- Expected dividend yield 2.20%
- Option life 10 years
- Vesting period 3 years

Unapproved Options

	2017		2016	
	Number of share options	**Weighted average exercise price**	**Number of share options**	**Weighted average exercise price**
Outstanding at 1 January 2017 Granted during the year Exercised during the year	**300,000** **525,969** **-**	**55.50p** **55.00p** **-**	- 300,000 -	- 55.50p -
Outstanding at 31 December 2017	**825,969**	**55.18p**	300,000	55.50p
Exercisable at 31 December 2017	**-**	**-**	-	-

The fair value of the unapproved options granted during the year is £21,333.

The options outstanding at 31 December 2017 (unapproved and those under the Scheme) had a weighted average remaining contractual life of 7.32 years (2016: 7.40 years).

The Group recognised total expenses related to equity-settled share-based payment transactions of £73,385 (2016: £103,503).

32. EMPLOYEE BENEFITS

Defined contribution

The Group operates defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions payable by the Group to the funds.

	2017 **£**	2016 £
Contributions payable by the Group for the year	**304,326**	284,701

33. FINANCIAL INSTRUMENTS

33.1 ***Capital risk management***

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders. The capital structure of the Group consists of cash and cash equivalents and equity comprising issued share capital, reserves and retained earnings. The Group is not subject to any externally imposed capital requirements.

33.2 ***Categories of financial instruments***

	2017 **£**	2016 £
Financial assets		
Loans and receivables		
Trade and other receivables	**5,252,637**	2,877,836
Cash and cash equivalents	**1,502,655**	3,517,541
	6,755,292	6,395,377
Financial liabilities		
Measured at amortised cost		
Trade and other payables	**1,660,000**	2,096,166

33.3 ***Financial risk management***

Financial risks include market risk (principally foreign currency risk), credit risk, liquidity risk and interest risk. The Group seeks to minimise the effect of these risks by developing and applying policies and procedures which are regularly reviewed for appropriateness and effectiveness. The Group's principal financial instruments comprise cash held in current accounts, trade receivables, amounts due from and to construction contract customers, trade payables, other payables and borrowings that arise directly from its operations.

33.4 ***Foreign currency risk***

The Group operates internationally giving rise to exposure from changes in foreign exchange rates. The Group's policy permits but does not demand that these exposures are hedged in order to fix their cost in sterling. Forward foreign exchange contracts are entered into in respect of forecast foreign exchange transactions when the amount and timing of such transactions becomes reasonably certain. At 31 December 2017 and 31 December 2016 the Group had no commitments under forward exchange contracts.

33.4 ***Foreign currency risk (continued)***

The Canadian dollar, the Australian dollar and the American dollar are the main foreign currencies in which the Group operates. The carrying amounts of the Group's monetary assets and liabilities denominated in these currencies expressed in sterling at the reporting date are as follows:

	Liabilities		**Assets**	
	2017 £	2016 £	**2017 £**	2016 £
Canadian $	**187,015**	172,589	**1,465,791**	1,677,967
American $	**1,202**	9,766	**205,014**	224,575
Australian $	**156,295**	80,516	**225,653**	239,500
Total	**344,512**	262,871	**1,896,458**	2,142,042

The following table details the Group's sensitivity to a 5% increase in Sterling against the relevant foreign currencies. The analysis includes outstanding foreign currency denominated monetary items where denominated in a currency other than the functional currency of the debtor or creditor. A positive number indicates an increase in profits and a negative number a decrease in profit. A 5% weakening of Sterling against the relevant currencies would have an equal and opposite effect on profit.

	Impact on profit	
	2017 £	2016 £
Canadian $	**63,939**	75,269
American $	**10,191**	10,740
Australian $	**3,468**	7,949

33.5 ***Credit risk***

Credit risk refers to the risk that a customer or counterparty to a financial instrument fails to meet its contractual obligations, resulting in financial loss to the Group, and arises principally from the Group's receivables from customers and bank current accounts. Major customers that wish to trade on credit terms are subject to credit verification procedures and receivable balances are monitored on an on-going basis. The credit risk on bank current account balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. No significant impairments for bad or doubtful debts have made. At the end of the financial year there are no material debts that are deemed to be past due.

At 31 December 2017 and 31 December 2016 there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

33.6 ***Liquidity risk***

Liquidity risk is the risk that the Group does not have sufficient cash to meet its financial obligations as they fall due. The Group ensures that sufficient cash and undrawn facilities are available to fund ongoing operations and to meet its medium term capital and funding obligations.

At the year end the Group had net cash funds of £1,502,655 (2016: £3,517,541) and undrawn facilities of £1,500,000 (2016: £1,500,000). The level of the Group's overdraft facility is reviewed annually.

The Groups financial obligations consist of trade and other payables and obligations under finance leases which are all payable within 12 months with the exception of the non-current obligations under finance leases set out in note 23.

Trade and other payables are all payable within three months.

33.7 ***Interest risk***

The Group has no liabilities subject to interest rate risk at the balance sheet date. However, the Group is from time to time exposed to interest rate risk on bank overdraft. Interest is paid on bank overdraft at 2.00% (2016: 2.00%) over base rate. 1% rise/fall in interest rates would have decreased / increased profit for the year by an immaterial amount (2016: immaterial).

34. CAPITAL COMMITMENTS

At 31 December 2017 the Group had capital commitments of £115,501 in respect of assets under construction (2016: £NIL).

35. RELATED PARTY TRANSACTIONS

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

Barclays Bank Plc have given performance guarantees of £773,326 (2016: £769,938), in the normal course of business, to a customer of Pennant International Limited. These are secured by fixed and floating charges over the assets of the Company.

Remuneration of key management personnel

Amounts paid to Group directors who are the only key management personnel of the Group are set out in the Corporate Governance Report.

Dividends paid to Directors

Dividends totalling £NIL (2016: £NIL) were paid in the year in respect of ordinary shares in which the Company's Directors had a beneficial interest.

COMPANY STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £	2016 £
Continuing operations			
Management charges receivable		**1,900,021**	2,314,430
Administrative expenses		**(1,807,954)**	(2,226,856)
Operating profit		**92,067**	87,574
Finance costs	3	**-**	(28)
Finance income	4	**1,040**	25
Profit before tax		**93,107**	87,571
Tax charge	5	**(32,124)**	(37,638)
Profit after tax		**60,983**	49,933
Other comprehensive income		**-**	-
Total comprehensive income attributable to equity holders		**60,983**	49,933

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

	Share Capital	Share Premium	Capital Redemption reserve	Treasury Shares	Retained Earnings	Total Equity
	£	£	£	£	£	£
At 1 January 2016	1,402,100	8,400	200,000	(418,225)	3,235,584	4,427,859
Total comprehensive income for the year	-	-	-	-	49,933	49,933
Issue of ordinary shares	247,177	2,677,571	-	418,225	-	3,342,973
Recognition of share based payment	-	-	-	-	103,503	103,503
At 1 January 2017	1,649,277	2,685,971	200,000	-	3,389,020	7,924,268
Total comprehensive income for the year	-	-	-	-	60,983	60,983
Cancellation of B and C Shares	(2,100)	(8,400)	-	-	-	(10,500)
Recognition of share-based payment	-	-	-	-	73,385	73,385
At 31 December 2017	**1,647,177**	**2,677,571**	**200,000**	**-**	**3,523,388**	**8,048,136**

Note: see page 38 for a description of the reserves appearing in the column headings of the table above.

COMPANY NUMBER: 3187528 - COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2017

	Notes	2017 £	2016 £
Non-current assets			
Investment in subsidiaries	6	**7,909,037**	7,909,037
Deferred tax asset	11	**-**	-
Total non-current assets		**7,909,037**	7,909,037
Current assets			
Trade and other receivables		**18,861**	5,129
Amounts due from subsidiaries		**3,455,544**	743,179
Cash and cash equivalents	7	**796,252**	2,760,889
Total current assets		**4,270,657**	3,509,197
Total assets		**12,179,694**	11,418,234
Current liabilities			
Trade and other payables	8	**56,750**	195,003
Amounts due to subsidiaries		**4,042,684**	3,298,963
Current tax liabilities		**32,124**	-
Total current liabilities		**4,131,558**	3,493,966
Net current assets		**139,099**	15,231
Total liabilities		**4,131,558**	3,493,966
Net assets		**8,048,136**	7,924,268
Equity			
Share capital	10	**1,647,177**	1,649,277
Share premium account		**2,677,571**	2,685,971
Capital redemption reserve		**200,000**	200,000
Retained earnings		**3,523,388**	3,389,020
Total Equity		**8,048,136**	7,924,268

Approved by the Board and authorised for issue on 9 March 2018.

P H Walker
Director

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £	2016 £
Net cash from operations	12	**(1,955,177)**	(349,377)
Investing activities			
Dividend/interest received		**1,040**	25
Proceeds from sale of available-for-sale investments		**-**	4,314
Net cash from investing activities		**1,040**	4,339
Financing activities			
Proceeds from sale of ordinary shares		**(10,500)**	3,342,973
Net cash used in financing activities		**(10,500)**	3,342,973
Net cash (decrease)/increase in cash and cash equivalents		**(1,964,637)**	2,997,935
Cash and cash equivalents at beginning of year		**2,760,889**	(237,046)
Cash and cash equivalents at end of year		**796,252**	2,760,889

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

1. ACCOUNTING POLICIES

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by the Act the separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The principal accounting policies adopted are the same as those set out in note 3 to the consolidated financial statements except as noted below:

- Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

2. OPERATING PROFIT

The auditor remuneration for audit and other services is disclosed in note 9 to the consolidated financial statements.

3. FINANCE COSTS

	2017 £	2016 £
Interest expense for bank overdraft	-	**28**

4. FINANCE INCOME

	2017 £	2016 £
Dividend from available-for-sale financial asset	**-**	25
Bank Interest Received	**1,040**	**-**

5. TAX

	2017 £	2016 £
Current tax expense	**32,124**	-
Deferred tax charge for the period	**-**	37,638
Tax charge for the year	**32,124**	37,638

Reconciliation of effective tax rate		
Profit before tax	**93,106**	87,571
Tax at applicable rate 19.25% (2016: 20.00%)	**17,920**	17,514
Tax effect of:		
Expenses that are not deductible for tax	**14,674**	23,823
Changes in rate on deferred tax	**(470)**	(4,186)
Group relief	**-**	487
Total tax charge	**32,124**	37,638

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

6. SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2017 are as follows:

	Registered office	Proportion of ownership
Pennant International Limited	Pennant Court, Staverton Technology Park, Cheltenham GL51 6TL	100%
Pennant Support & Development Services Limited	Pennant Court, as above	100%
Pennant Software Services Limited	Pennant Court, as above	100%
Pennant Canada Limited	1400 Blair Place, Suite 100, Ottawa, Ontario K1J 9B8, Canada	100%
Pennant Australasia Pty Limited	Suite 6, 334 Highbury Road, Mt. Waverley Victoria, 3149, Australia	100%
Pennant Information Services Inc.	1400 Blair Place, as above	100%
Pennant EBT Trustee Limited	Pennant Court, as above	100%

The investments in subsidiaries are all stated at cost.

7. CASH AND CASH EQUIVALENTS

These comprise cash held by the company and short-term bank deposits with an original maturity of three months or less.

8. TRADE AND OTHER PAYABLES

Trade payables principally comprise amounts outstanding for services and ongoing costs. The carrying amount approximates their fair value.

9. BORROWINGS

Details of the Group overdraft arrangements are set out in note 24 to the consolidated financial statements.

10. SHARE CAPITAL

Details are set out in note 28 to the consolidated financial statements.

11. DEFERRED TAX

	Tax losses	Total
	£	£
At 1 January 2016	37,638	37,638
Charge to income	(37,638)	(37,638)
At 31 December 2016	-	-
Charge to income	-	-
At 31 December 2017	-	-

12. NOTE TO STATEMENT OF CASH FLOWS

Cash generated from operations	**2017**	2016
	£	£
Profit for the year	**60,983**	49,933
Tax charge	**32,124**	37,638
Finance costs	**-**	28
Finance income	**(1,040)**	(25)
Profit on available-for-sale investments	**-**	(614)
Share-based payment	**73,385**	103,503
Operating cash flows before movement in working capital	**165,452**	190,463
(Increase) in receivables	**(2,726,097)**	(578,242)
Increase in payables	**605,468**	38,430
Cash generated from operations	**(1,955,177)**	(349,349)
Interest paid	**-**	(28)
Net cash generated from operations	**(1,955,177)**	(349,377)

13. FINANCIAL INSTRUMENTS

The Company's approach to the management of capital and market risks is set out in note 35 to the consolidated financial statements. To address its liquidity risk the Company ensures that sufficient cash and undrawn facilities are available to fund ongoing operations and to meet its medium term capital and funding obligations. The Company is from time to time exposed to interest rate risk on a bank overdraft. Interest is paid on its bank overdraft at 2.00% (2016: 2.00%) over base rate. 1% rise/fall in interest rates would have decreased/increased profit for the year by an immaterial amount (2016: immaterial). The Company is not exposed to foreign currency risks.

Categories of financial instruments

	2017 **£**	2016 £
Financial assets		
Loans and receivables		
Trade and other receivables	**18,861**	5,129
Amounts due from subsidiaries	**3,455,544**	743,179
Cash and cash equivalents	**796,252**	2,760,889
	4,270,657	3,509,197
Financial liabilities		
Measured at amortised cost		
Trade and other payables	**56,750**	195,003
Amounts due to subsidiaries	**4,042,684**	3,298,963
	4,099,434	3,493,966

14. CONTINGENT LIABILITIES

The Company is party to a group registration for the purposes of Value Added Tax (VAT). Members of the group are jointly and severally liable for the total tax due. The total amount of VAT payable by the group registration and not accrued in the statement of financial position was £80,484 (2016: £NIL).

15. RELATED PARTY TRANSACTIONS

The Company has provided guarantees to the bank in respect of its bank borrowings and any bank borrowings of its subsidiaries as set out in note 24 to the consolidated financial statements.

The Company has guaranteed the payment of rent under a lease agreement for office premises occupied by a subsidiary company. The lease runs for five years from 1 February 2015 at an annual rental of £51,135.

Other transactions with related parties consist of management charges for services provided to and by subsidiary companies as disclosed on the face of the statement of comprehensive income.

SHAREHOLDER INFORMATION &FINANCIAL CALENDER

SHAREHOLDER ENQUIRIES

If you have an enquiry about the Company's business, or about something affecting you as a shareholder (other than queries that are dealt with by the Neville Registrars as registrar), you should contact the Company Secretary by letter to the Company's registered office or by email to: cosec@pennantplc.co.uk.

SHARE REGISTER

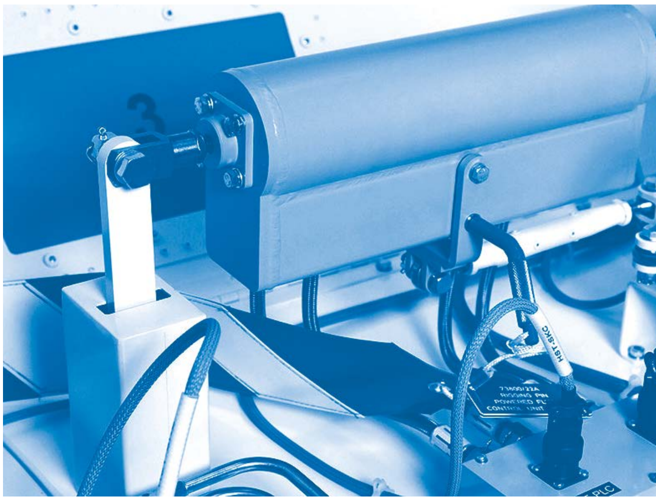
Neville Registrars maintain the register of members of the Company.

If you have any questions about your personal holding of the Company's shares, please contact Neville Registrars using the following details:

Neville House
18 Laurel Lane
Halesowen
B63 3DA

Telephone: 0121 585 1131

If you change your name or address (or we write to you and have mis-addressed the correspondence), please notify the registrars in writing or contact them using the details above.



FINANCIAL CALENDAR

- Annual General Meeting - 25 April 2018

  Expected announcement of results for the year ending 31 December 2018

- Half-year announcement - September 2018

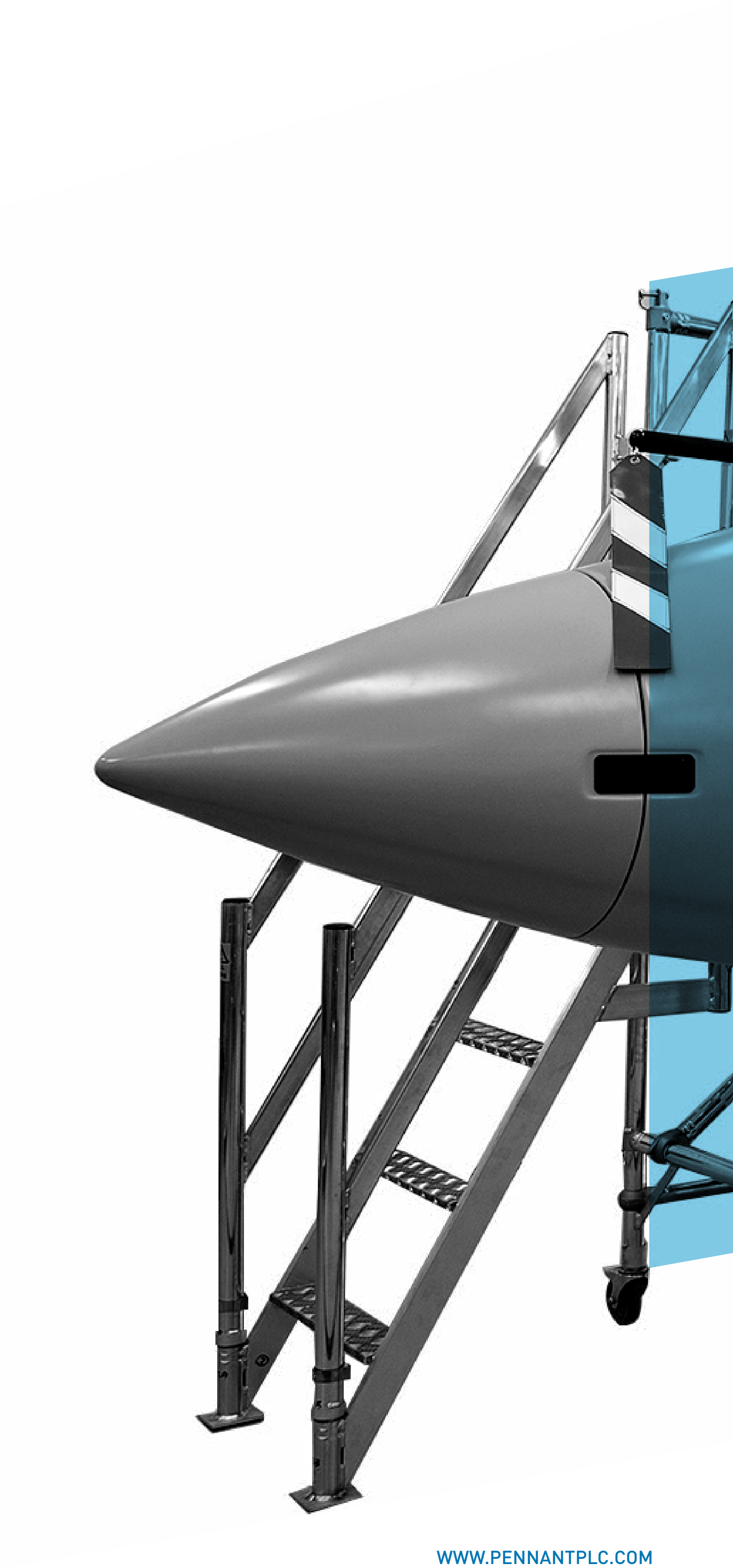
- Full-year preliminary announcement - March 2019

DAILY SHARE PRICE LISTINGS

The Financial Times - AIM

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS	S Moore	(Chairman)
	P Walker FCA	(Chief Executive Officer)
	D Clements	(Appointed 11 October 2017)
	C Powell FCA	
	T Rice	
	C Snook	(Stepped down 21 February 2017)
SECRETARY	D Clements	
REGISTERED OFFICE	Pennant Court Staverton Technology Park Cheltenham Gloucestershire GL51 6TL	
COMPANY NUMBER	3187528	
AUDITOR	Mazars LLP 45 Church Street Birmingham B3 2RT	
BANKERS	Barclays Bank Plc Bridgewater House Finzels Reach Counterslip Bristol BS1 6BX	
NOMINATED ADVISER AND BROKER	W H Ireland Ltd 4 Colston Avenue Bristol BS1 4ST	



Pennant Court
Staverton Technology Park
Cheltenham
Gloucestershire
GL51 6TL