

Financial Results

for the year ended 31 December 2015

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Operational highlights

- Disposal of the Professional Services Division for £645m plus deferred contingent consideration completed in May 2015
- Court approved capital return of 90 pence per ordinary share completed in December 2015
- New Board in place which has brought strong governance, stability and started to rebuild investor confidence
- Substantial work completed and on-going to simplify the Group, reduce the Group's losses and build the platform to deliver shareholder value from all the Group's assets

Key financial results

- Underlying* business revenues steady at £58.3m (2014: £56.5m)
- Underlying EBITDA loss £16.1m (2014: £16.8m)
- Disposal of PSD generated profit of £494.3m
- Impairment of goodwill and other intangible and non-cash assets - total charge of £113.5m (2014: £129.1m)
- Total profit after tax £274.9m (2014: loss of £374.5m)
- Group net assets £137.1m (2014: £264.5m)
- Group net assets (excluding contingent liabilities) of £137.1m representing £2.97 per share, after having made the capital return of £412m
- Group cash at 31 December 2015 £103.2m including £97.6m in the Company (Group £93.1m as at 20 May 2016 including Company £86.9m, with a further £50m in escrow)

Consolidated Income Statement

for the year ended 31 December		2015	2015	2015	2014	2014	2014
		Underlying	Non-underlying	Total	Underlying	Non-underlying	Total
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Revenue		58,256	528	58,784	56,501	3,627	60,128
Cost of sales		(33,025)	(373)	(33,398)	(37,569)	(3,517)	(41,086)
Gross profit/(loss)		25,231	155	25,386	18,932	110	19,042
Administrative expenses	9	(47,541)	(157,568)	(205,109)	(42,201)	(200,397)	(242,598)
Other income	10	-	1,971	1,971	-	18,001	18,001
Share of results of associates		103	-	103	278	434	712
Group operating loss		(22,207)	(155,442)	(177,649)	(22,991)	(181,852)	(204,843)
Finance income	12	1,236	-	1,236	417	-	417
Finance expense	12	(1,575)	-	(1,575)	(882)	-	(882)
Loss before taxation		(22,546)	(155,442)	(177,988)	(23,456)	(181,852)	(205,308)
Taxation	13	3,771	9,419	13,190	(4,900)	2,124	(2,776)
Loss after taxation for the year from continuing operations		(18,775)	(146,023)	(164,798)	(28,356)	(179,728)	(208,084)
Net gain on disposal of discontinued operations	37	-	494,317	494,317	-	-	-
Loss for the year from discontinued operations	37	-	(54,580)	(54,580)	-	(166,400)	(166,400)
Profit/(loss) after taxation for the year		(18,775)	293,714	274,939	(28,356)	(346,128)	(374,484)

NOTES

- Underlying split from Non-underlying
- Underlying comprises: Hubio, ingenie, ptHealth, BAS, Maine Finance and Central
- Non-underlying includes exceptional and other non-recurring items as well as discontinued business
- Underlying revenues £58.3m
- Underlying operating loss of £22.2m, Underlying EBITDA loss of £16.1m (see next slide)
- Non-underlying operating loss of £155.4m includes non cash write-downs of £113.5m

Underlying business results

for the year ended 31 December	Hubio	ingenie	Health	Other	Central	Total
	£'000	£'000	£'000	£'000	£'000	£'000
2015						
Revenue	17,341	12,530	25,147	3,238	-	58,256
Cost of sales	(9,600)	(7,451)	(13,864)	(2,110)	-	(33,025)
Gross profit	7,741	5,079	11,283	1,128	-	25,231
Administrative expenses excluding depreciation and amortisation	(14,966)	(4,262)	(11,288)	(1,920)	(8,875)	(41,311)
Underlying EBITDA before central cost allocation	(7,225)	817	(5)	(792)	(8,875)	(16,080)
Allocation of central costs	(1,983)	(333)	(319)	(876)	3,511	-
Underlying EBITDA	(9,208)	484	(324)	(1,668)	(5,364)	(16,080)
Depreciation and amortisation						(6,230)
Share of results from associates						103
Underlying group operating loss						(22,207)
2014						
Revenue	17,505	5,933	27,712	5,351	-	56,501
Cost of sales	(11,091)	(4,035)	(15,323)	(7,120)	-	(37,569)
Gross profit	6,414	1,898	12,389	(1,769)	-	18,932
Administrative expenses excluding depreciation and amortisation	(11,648)	(2,318)	(12,577)	(1,194)	(7,975)	(35,712)
Underlying EBITDA before central cost allocation	(5,234)	(420)	(188)	(2,963)	(7,975)	(16,780)
Allocation of central costs	(850)	(400)	(109)	(326)	1,685	-
Underlying EBITDA	(6,084)	(820)	(297)	(3,289)	(6,290)	(16,780)
Depreciation and amortisation						(6,489)
Share of results from associates						278
Underlying group operating loss						(22,991)

NOTES

- Other includes BAS and Maine Finance
- Hubio - software revenues increased in Canada and fell in UK. Telematics was flat. Administrative expenses reflect investment into telematics business
- ingenie - full year in 2015 only part year in 2014, profitable and cash positive
- ptHealth - improving margins and moving to positive earnings and cash flows
- BAS - growing revenues, earnings and cash

Central costs

for the year ended 31 December	2015	2014
	£'000	£'000
Allocated to underlying businesses	3,511	1,685
Listed plc costs	5,364	6,290
Total underlying	8,875	7,975
Non-underlying	1,576	10,320
Total	10,451	18,295

NOTES

- Central costs reduced significantly from 2014 to 2015
- Smaller team overall focused on current Underlying businesses
- Listed plc costs reflective of nature of the WTG organisation and history – likely to be above average for the foreseeable future

Profit on disposal of PSD and Return of Capital

	£'m
Total consideration (including £53.8m held in escrow at 31 December 2015)	645.0
Net assets disposed	(132.3)
Costs of sale	(18.4)
Profit on disposal	494.3

Impairment of non-cash assets

for the year ended 31 December	2015	2014
	£'000	£'000
Goodwill	61,836	99,151
Other intangible assets	44,616	8,971
Tangible fixed assets	1,861	661
Associated undertakings	-	1,338
Investments	2,691	1,830
Stocks	2,506	1,079
Loans	-	16,086
Total	113,510	129,116

NOTES

- Total impairments in Hubio were £98.8m, of which Himex goodwill was £43.6m and other intangibles was £38.0m
- ingenie goodwill was impaired £13.6m
- Hubio review of markets, products and resources to deploy along with a current expectation of revenue and earnings growth
- ingenie assessed future growth expectations
- Projection period reduced from 11 to 7 years

Profit after tax bridge from 2014 to 2015

	£'m	£'m
2014 loss after tax		(374.5)
Underlying business loss after tax improvement		9.6
Impairment charges and other exceptionals reduction		33.7
PSD and other discontinued		
Profit on sale	494.3	
Reduction in losses	111.8	606.1
2015 profit after tax		274.9

Cash Flow

for the year ended 31 December	2015	2014
	£'m	£'m
Net cash used by operating activities	(67.7)	(104.6)
Net cash generated by/(used in) investing activities	573.1	(30.8)
Net cash (used in)/generated by financing activities	(451.8)	6.0
Net increase/(decrease) in cash and cash equivalents	53.7	(129.5)
Cash and cash equivalents at the end of the year	103.8	50.5

NOTES

- Cash used by operating activities includes discontinued business cash flows; PSD was negative £24.9m and also exceptional costs
- Cash generated by investing activities includes £575.0m on disposals which includes the cash from the sale of PSD
- Cash used in financing activities includes the return of capital £411.9m plus option cash out of £11.2m
- It also includes debt and finance lease repayments which mostly occurred on completion of the PSD sale and totaled £33.0m

Analysis of Balance Sheet

as at 31 December	Central	Hubio	ingenie	Other Continuing	Discontinued	Total
	£'000	£'000	£'000	£'000	£'000	£'000
2014	(15,818)	103,673	33,651	22,162	120,829	264,497
Underlying Adjusted EBITDA	(8,875)	(7,225)	817	(797)	-	(16,080)
Discontinued & Non-Underlying Adjusted EBITDA	(1,437)	-	-	(1,179)	(29,589)	(32,205)
Amortisation & depreciation	(1,263)	(12,212)	(1,149)	(2,563)	(1,838)	(19,025)
Exceptional items (excluding SBPs)	(15,333)	(102,505)	(13,558)	(1,466)	(15,082)	(147,944)
Disposals & acquisitions	593,507	-	-	(14,095)	(85,970)	493,442
Tax	1,172	11,191	334	492	(1,401)	11,788
Cash funding & interest	(22,829)	11,192	(2,197)	(23)	13,095	(762)
FX	-	(1,683)	-	320	(196)	(1,559)
Capital return (including options cash out)	(423,023)	-	-	-	-	(423,023)
Share issues (including treasury shares)	5,234	-	-	2,746	-	7,980
2015	111,335	2,431	17,898	5,597	(152)	137,109

Analysis of Balance Sheet

as at 31 December	2015	2014
	£'m	£'m
Net cash	103.0	34.4
Escrow balances	53.8	-
Other net current liabilities/assets	(57.6)	58.2
Creditors, loans and provisions over one year	(5.5)	(17.5)
Non-cash assets	43.4	189.4
Net assets	137.1	264.5

NOTES

- The closing net assets can be analysed by their proximity to cash.
- £3.8m escrow has been received in 2016.
- Included in liabilities are taxation and other provisions of £37m.

Capital and Reserves

as at 31 December 2015	Consolidated	Company
	£'m	£'m
Share capital	4.6	4.6
Other reserves	146.6	138.5
Retained earnings	(14.7)	(14.0)
Capital and reserves	136.5	129.1
Non-controlling interests	0.6	-
Total equity	137.1	129.1

NOTES

- Other reserves include share premium of £127.3m
- Included in the Company, Watchstone Group plc, is a negative retained earnings balance of £14.0m
- Because this includes unrealised profits of £1.5m, the distributable balance is negative £15.5m

Ongoing actions and plans

- Reshape operating businesses for growth and value while reducing losses and cash outflows
- Resolve and mitigate legacy matters both at the plc level and within our operating companies
- Manage cash and other assets with care and prudence
- Collect released warranty escrow and optimise returns from NIHL assets
- Operate with strong corporate governance and continue to rebuild investor confidence
- Current intention to make a further capital return of approximately £46.0m (£1 per share) once the warranty escrow of £50.0m has been received

Watchstone.