

FINANCIAL RESULTS

for the year ended 31 December 2016

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Operational highlights

Group Complexity

Group complexity reduced with disposal or closure of a number of loss making, cash consumptive businesses

Growth

Growth and profitability delivered in our largest businesses, ptHealth and ingenie; InnoCare launched as spin out from ptHealth

Reshaping

Reshaping of Hubio completed including substantial reduction of cash requirements and the launch of our new UBI proposition based on ingenie's leading IP

Central Group

Plan to prepare all remaining businesses for possible divestment and establish new way of working with substantially reduced central group / board by the end of 2017

Key financial results

- Underlying business revenues increased to £60.7m (2015: £54.9m)
- Underlying EBITDA loss of £9.8m (2015: £15.1m)
- Total loss after tax of £69.1m (2015: profit of £274.9m) after full impairment of warranty escrow (£50.1m charge)
- Group net assets of £68.5m (2015: £137.1m)
- Net assets (excluding contingent liabilities) of 147 pence per share
- Group cash including term deposits at 31 December 2016 £81.2m (£71.8m as at 21 April 2017)

Consolidated Income Statement

for the year ended 31 December	2016	2016	2016	2015	2015	2015
	Underlying	Non-underlying	Total	Underlying	Non-underlying	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Revenue	60.7	3.1	63.8	54.9	3.9	58.8
Cost of sales	(31.8)	(1.9)	(33.7)	(31.1)	(2.3)	(33.4)
Gross profit	28.9	1.2	30.0	23.8	1.6	25.4
Administrative expenses	(40.9)	(10.1)	(51.0)	(43.1)	(162.0)	(205.1)
Other	-	-	-	0.1	2.0	2.1
Group operating loss	(12.0)	(8.9)	(20.9)	(19.2)	(158.4)	(177.6)
Finance income/(expense)	1.3	0.8	2.1	(0.3)	-	(0.3)
Loss before taxation	(10.8)	(8.1)	(18.9)	(19.5)	(158.5)	(178.0)
Taxation	(0.5)	0.2	(0.3)	3.7	9.5	13.2
Loss after taxation for the year from continuing operations	(11.2)	(7.9)	(19.1)	(15.9)	(148.9)	(164.8)
Provision against escrow receivable	-	(50.1)	(50.1)	-	-	-
Net gain on disposal of discontinued operations	-	0.3	0.3	-	494.3	494.3
Loss for the year from discontinued operations	-	(0.2)	(0.2)	-	(54.6)	(54.6)
(Loss)/profit after taxation for the year	(11.2)	(57.9)	(69.1)	(15.9)	290.8	274.9

NOTES

- Underlying split from Non-underlying
- Underlying comprises: Hubio, ingenie, ptHealth, BAS and Central
- Non-underlying includes exceptional and other non-recurring items as well as discontinued business
- Underlying revenues £60.7m
- Underlying operating loss of £12.0m, Underlying EBITDA loss of £9.8m (see next slide)
- Roundings have been left uncorrected

Underlying business results

for the year ended 31 December	Hubio	ingenie	Healthcare	BAS	Central	Total
	£'m	£'m	£'m	£'m	£'m	£'m
2016						
Revenue	15.0	13.9	28.1	3.7	-	60.7
Cost of sales	(7.0)	(7.6)	(14.9)	(2.4)	-	(31.8)
Gross profit	8.0	6.4	13.2	1.3	-	28.9
Administrative expenses excluding depreciation and amortisation	(12.5)	(5.3)	(13.1)	(1.6)	(7.5)	(40.1)
Underlying EBITDA before capitalisation of development expenditure	(4.6)	1.0	0.1	(0.3)	(7.5)	(11.2)
Capitalisation of development expenditure	-	0.4	1.0	-	-	1.4
Underlying EBITDA before allocation of central costs	(4.6)	1.4	1.2	(0.3)	(7.5)	(9.8)
Allocation of central costs	(1.7)	(0.6)	(0.6)	(0.3)	3.2	-
Underlying EBITDA	(6.3)	0.8	0.6	(0.6)	(4.3)	(9.8)
Depreciation and amortisation						(2.2)
Underlying group operating loss						(12.0)
2015						
Revenue	14.4	12.5	25.1	2.8	-	54.9
Cost of sales	(7.3)	(7.5)	(13.9)	(2.5)	-	(31.1)
Gross profit	7.0	5.1	11.3	0.4	-	23.8
Administrative expenses excluding depreciation and amortisation	(16.4)	(5.3)	(11.6)	(1.1)	(9.0)	(43.4)
Underlying EBITDA before capitalisation of development expenditure	(9.3)	(0.2)	(0.3)	(0.7)	(9.0)	(19.6)
Capitalisation of development expenditure	3.0	1.0	0.3	-	0.2	4.5
Underlying EBITDA before allocation of central costs	(6.3)	0.8	-	(0.7)	(8.9)	(15.1)
Allocation of central costs	(2.0)	(0.3)	(0.3)	(0.9)	3.5	-
Underlying EBITDA	(8.3)	0.5	(0.3)	(1.6)	(5.4)	(15.1)
Depreciation and amortisation						(4.2)
Underlying group operating loss						(19.2)

Central costs

for the year ended 31 December	2016	2015
	£'m	£'m
Allocated to underlying businesses	3.2	3.5
Listed plc costs	4.3	5.4
Total underlying	7.5	8.9
Non-underlying	3.0	1.6
Total	10.5	10.5

NOTES

- Central costs focused on current Underlying businesses
- Listed plc costs reflective of nature of the WTG organisation and history

Provision against escrow receivable

- In September 2016, Slater & Gordon (“S&G”) notified us of a purported claim in respect of its acquisition of our Professional Service Division which completed in May 2015
- In November 2016, S&G obtained an opinion from an independent barrister in respect of the warranty escrow that based solely on the information presented to him that the purported claim has on balance a prospect of success and that, if successful, such claim would be likely to have a value of £53.0m (“Opinion”)
- Accordingly, £50.0m (plus interest) is retained in the warranty escrow account until the purported claim is resolved (“Warranty Escrow”)
- Watchstone’s view as to the merits of the purported claim has not changed but on the basis of the Opinion, we consider it appropriate that a provision for impairment be established in respect of the Warranty Escrow and have determined that the appropriate amount should be to fully impair the Warranty Escrow
- This reflects the inherent uncertainty in valuation of the purported claim and is in no way a reflection of the Group’s view on ultimate resolution, which is uncertain in both time and quantum (if any)
- As yet no proceedings have been brought and the Group will defend proceedings robustly if such proceedings are brought

Profit after tax bridge from 2015 to 2016

	£'m	£'m
2015 profit after tax		274.9
Underlying business loss after tax improvement		4.6
Non-underlying loss after tax improvement		141.0
Provision against escrow receivable		(50.1)
PSD and other discontinued		
Profit on sale	(494.0)	
Reduction in losses	54.4	(439.5)
2016 loss after tax		(69.1)

Roundings have been left uncorrected

Cash Flow

for the year ended 31 December	2016	2015
	£m	£m
Net cash used by operating activities	(22.4)	(67.7)
Net cash (used in)/generated by investing activities	(38.9)	573.1
Net cash generated by/(used in) financing activities	0.6	(451.8)
Net (decrease)/increase in cash and cash equivalents	(60.7)	53.7
Cash and cash equivalents at the end of the year	43.7	103.8
Term deposits	37.5	-
Cash including term deposits	81.2	103.8

NOTES

- Net cash used in investing activities include £37.5m placed on rolling term deposits

Analysis of Balance Sheet

as at 31 December	Central	Hubio	Healthcare	ingenie	BAS	Discontinued and Non- underlying	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
2015	111.3	2.4	7.2	17.9	3.0	(4.7)	137.1
Underlying EBITDA	(7.5)	(4.6)	1.2	1.4	(0.3)	-	(9.8)
Discontinued & Non-Underlying EBITDA	(3.1)	-	0.1	-	-	(1.0)	(4.0)
Exceptional items	(43.8)	(0.6)	-	(0.1)	(4.0)	(0.7)	(48.0)
Other income statement	(0.6)	(3.4)	(0.7)	(0.4)	(0.2)	(2.1)	(7.4)
Balance sheet movements including exchange in reserves	(7.2)	3.5	-	(0.6)	-	4.9	0.6
2016	49.1	(1.5)	7.8	18.2	(1.5)	(3.6)	68.5

Intercompany balances are excluded from the above analysis

Provisions

£'m	Tax related matters	Legal disputes	Onerous contracts	Other	Total
At 1 January 2016	23.5	6.4	3.6	3.4	37.0
Additional provisions	3.2	1.8	0.5	3.3	8.9
Unused amounts released	(9.2)	(1.3)	(0.1)	(0.1)	(10.7)
Used during the year	(2.5)	(0.8)	(1.3)	(2.3)	(7.0)
At 31 December 2016	15.1	6.1	2.7	4.3	28.2

Roundings have been left uncorrected

Analysis of Balance Sheet

as at 31 December	2016	2015
	£'m	£'m
Cash including term deposits	81.2	103.2
Escrow balances	-	53.8
Other net current liabilities/assets	(41.2)	(57.8)
Creditors, loans and provisions over one year	(7.3)	(5.5)
Non-current assets	35.8	43.4
Net assets	68.5	137.1

NOTES

- The closing net assets can be analysed by their proximity to cash.
- £3.8m escrow received in 2016.
- Included in liabilities are taxation and other provisions of £28.2m.

Ongoing actions and plans

- Reshape operating businesses for value while minimising cash outflows
- Resolve and mitigate legacy matters principally at the plc level
- Manage cash and other assets with care and prudence
- Defend litigation and optimise returns from NIHL assets
- Operate with strong corporate governance and continue to rebuild investor confidence

Watchstone.