27 April 2018

Watchstone Group plc
("Watchstone" or the "Company" or the "Group")

**Preliminary results for the year ended 31 December 2017**

Watchstone (AIM:WTG.L) today announces its results for the year ended 31 December 2017.

**Financial:**

- Underlying* business revenues increase to £44.9m (2016: £42.7m). Total revenues of £44.9m (2016: £43.6m)
- Underlying* EBITDA loss of £3.6m (2016: £4.9m)
- Group operating loss of £7.4m (2016: £4.5m)
- Total loss after tax £2.6m (2016: £69.1m)
- Group net assets of £66.1m representing approximately 144 pence per share
- Group cash and term deposits at 31 December 2017 of £62.8m**
- Continued reduction in Group complexity through closure of the majority of loss making, cash consumptive businesses
- Successful resolution of a number of legacy tax matters and other obligations resulting in the release of provisions of £10.3m (2016: £10.7m)

**Current trading (unaudited):**

- Underlying* central costs reduced by over 40% in Q1 2018 compared to Q1 2017
- As at 20 April 2018, Group cash and term deposits (unaudited) of £60.3m**
- Cash outflows since 31 December 2017 include:
    - typical settlement of outstanding 2017 invoices, staff bonuses and settlement of non-underlying liabilities
    - £0.4m to redeem pt Preference Share liabilities
- Unaudited total underlying Group revenue for Q1 2018 is down vs. Q1 2017 (partly due to adverse Canadian $ to £ currency exchange rate movements)
- Healthcare Services:
    - continued emphasis on clinic optimisation in ptHealth and on InnoCare sales
    - Q1 2018 unaudited CDN$ revenue is ahead of Q1 2017
- ingenie continues to experience difficult market conditions:
    - taking measures to address recent insurer pricing changes
    - retail market and pricing volatility has led to continued lower revenue in Q1 2018 vs Q1 2017 and Q4 2017

** Underlying comprises Healthcare Services, ingenie and Central. See Note 2 for details on Underlying and Non-Underlying classification.*
*** Cash excludes escrow monies of £50.1m*

The Annual Report and Accounts for the year ended 31 December 2017 will be released by 17 May 2018 and posted to registered shareholders. Once published, the Annual Report and Accounts will be available at www.watchstonegroup.com/investors.

The 2018 AGM will be held at 10.30am on 27 June 2018 at the Vauxhall & Lambeth Suite – 2nd Floor, Park Plaza County Hall, 1 Addington St, Lambeth, London SE1 7RY. Notice of the Annual General Meeting ("AGM") and a Form of Proxy will be posted to registered shareholders in due course.

For further information:


| | |
|---|---|
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Notes to editors:

**About Watchstone**

Watchstone Group plc is a company focused on managing the Group's businesses, cash and other corporate assets and legacy issues in order to achieve maximum shareholder value, whilst ensuring good governance.

The sectors in which the Group operates are within healthcare in Canada and insurance telematics. The markets are addressed through the following businesses:

- **Healthcare Services**
  - **ptHealth** is a national healthcare company that owns and operates physical rehabilitation clinics across Canada. From large cities to small communities, ptHealth takes pride in delivering quality services in a compassionate and patient-centred atmosphere that is focused on providing recovery solutions for its patients.
  - **InnoCare** is a proprietary clinic management software platform and call centre and customer service operation alongside ptHealth. InnoCare uses its established industry expertise to enable third-party clinic owners to transform their patients' experience and operate more efficient and productive practices in the growing North American healthcare market.
- **ingenie**

  is an insurance broker focused on helping young drivers use the road safely and affordably. Using telematics technology, ingenie gives its community discounts, feedback and bespoke advice via its Driver Behaviour Unit to help them improve their driving skills whilst staying safe. It provides its telematics technology to certain third parties as a technology solutions provider.

## Chairman's Report

2017 was another year of change for the Group but much has been achieved and we entered 2018 with a clear direction of travel in respect of the outstanding legacy issues and our two remaining operating businesses.

During 2017, we substantially completed the work to simplify and rationalise the Group involving the closure or disposal of loss making businesses and significantly reducing the size and cost of the central overhead. The succession to Stefan Borson as Group Chief Executive Officer has been smooth and the central team now comprises just three full time staff to assist Stefan and Mark Williams, and the Board has been reduced in size. The full benefit of these changes will only be seen in 2018 but are expected to reduce the central costs by approximately half.

We remain on track with the execution of our plan to prepare our businesses for future disposals. These potential divestments will be determined with a view to maximising shareholder value taking all factors into consideration.

With the focus of strengthened management teams in ingenie and ptHealth including a new CEO in ingenie, new Chairmen in both and other senior hires, the businesses will be given the time to develop and grow.

ptHealth and ingenie remain profitable with further opportunities for profit improvement from organic growth and margin enhancement.

We will continue to address the legal and regulatory matters that face the Group with focus and determination. In 2017, and to date in 2018, we have resolved multiple matters but the largest of our litigation and threatened litigation remain outstanding.

Slater & Gordon (UK) 1 Limited's ("Slater & Gordon") claim in respect of the disposal of the Professional Services Division ("PSD") is ongoing and we filed a robust and detailed defence in October 2017. Our position resolutely remains that Slater & Gordon's allegations are wholly without merit and should never have been advanced. During the year, we increased the provision for legal costs in relation to this claim, reflecting our determination to robustly defend the action to trial.

There is still much work to be done, both at the Group level and within our businesses, and I would like to thank our colleagues for their commitment. On behalf of the whole Board, I would also like to thank each of the directors who left the Board in 2017 for their contributions and commitment over the last few years in the challenging and complex situation faced by the Group.

I would also like to thank our shareholders who have been patient and maintained support for the Company as the intense work to deliver the best value from all our assets has continued. The Board remains confident that we will go on to reward that support.

**Richard Rose**
*Non-executive Chairman*

## Group Chief Executive's Update

I am pleased to present my first update as Group Chief Executive Officer and to lead the Group in this next phase. Our focus remains on resolving all of our legacy matters as efficiently as possible and generating as much value as we can from our remaining businesses, ingenie and ptHealth.

Each business has a clear strategy as well as high quality and ambitious management teams and we are confident that in time they will reward our shareholders' patience.

The Group losses are now stemmed and the central team efficiently run. Until we resolve the Slater & Gordon litigation we will not be able to distribute capital to shareholders but that remains our ultimate aim. We are determined to fight off what we consider an unmeritorious claim. Further, we remain in active dialogue with Slater & Gordon regarding any deferred consideration due from Noise Induced Hearing Loss ("NIHL") cases.

For the year ended 31 December 2017, we were able to show underlying sales growth of approximately 5% and reducing underlying EBITDA loss to £3.6m in 2017 vs. £4.9m in 2016. The full year benefits of the continued restructuring during 2017 are not fully reflected in the numbers and we would anticipate continued improvement in EBITDA in 2018. Total revenues of £44.8m grew by 3%, reflecting the lack of revenues from non-underlying businesses in 2017 and total loss after tax for the year was £2.6m (2016: £69.1m).

**<u>Business Review:</u>**

Taking each of the operating businesses in turn:

### 1. Healthcare Services

Our Healthcare Services activities consist of our ptHealth clinics business as well as InnoCare, which sells software and services to independent clinics in Canada. Healthcare Services performed satisfactorily in 2017, with revenue increasing by 6% and an EBITDA of £0.7m

***Healthcare Services in 2017 at a glance***

- *In 2017, ptHealth and InnoCare treated an average of 3,095 patients a day with over 750,000 visits for the year*
- *Of the 4,588 patients surveyed (up from 2,958 from 2016) 97% said they would recommend us (up by 1% vs 2016)*
- *Over 1,300 practitioners use InnoCare software, an increase of 8% over 2016*

### 2. ingenie

Whilst revenue for the year increased to £14.4m, ingenie had a challenging end to the year. The impact of changes to the Ogden discount rate created instability in motor policy pricing, which particularly affects ingenie's young driver market. Reflecting this and continued investment in its technology platform, profitability was below 2016. The impact of these factors has extended into 2018 and volumes continue to be affected. The team has a detailed plan to address these challenges and to broaden its product range as well as targeting more new B2B business. These market challenges and the consequential impact on volumes and its revenues in the year has been reflected in a reduction of the long-term growth forecast for the business and resulted in an impairment charge of £5.6m in the year ended 31 December 2017. The programme supporting our external customer in the Netherlands, ANWB, continues to perform well, endorsing our technology and market leading approach to road safety and motor insurance pricing.

In December 2017, Selim Cavanagh joined ingenie as Chief Executive Officer from LexisNexis Risk Solutions, where he held various senior roles including VP Telematics, VP Motor Insurance and MD of its Wunelli telematics business unit, after a background in consumer insurance at AXA UK. ingenie will benefit from Selim's 20 years of experience in delivering data, IT and research-based motor insurance solutions.

The ingenie Board has also been strengthened by David Young, one of our Group Non-executive Directors taking the Chair at ingenie. The new Board is working well with multiple new initiatives to drive the future value of ingenie and we have a pipeline of exciting new product offerings, features and technologies to launch over the coming months.

***ingenie in 2017 at a glance***

- *Driving and safety improvements achieved by the combination of technology and psychology:*
    - *99% ingenie drivers activate their feedback account*
    - *ingenie drivers engages 9x per month via feedback app*
    - *12% reduction in highly dangerous driving messages generated by customers from 2016 to 2017*
    - *92% drivers proven to improve after ingenie coaching on driving speed*
- *Facebook and Twitter followers exceed 50,000*
- *ingenie B2B managed over 170,000 policies in 2017*
- *ingenie B2B revenue growth of 107%*

**Update on legacy matters**

Whilst we successfully resolved a number of historic matters in the year (and since the year-end), the Slater & Gordon claim is ongoing, and we filed our defence in October 2017. Our position remains that Slater & Gordon's allegations of deceit and the associated breach of warranty claim are wholly without merit and should never have been advanced.

The SFO investigation continues and we are cooperating fully. It remains the only regulatory inquiry to which the Group is subject.

There have been no further developments at this stage on the threatened (but not commenced) class action litigation first announced in September 2015.

**2018 outlook**

The Group enters 2018 a far simpler business and we expect this year will be a period of re-focus and development for ptHealth and ingenie. Both will be encouraged to invest ambitiously but prudently.

ptHealth continues to make good progress in operational improvements generating more appointments and treatments from its existing clinics. In addition, more third party clinics are using our services to meet patient needs.

ingenie's current volumes are being addressed in partnership with its underwriting panel and by the development of new product offerings that will launch during 2018.

Central costs will be carefully managed at greatly reduced levels consistent with the unresolved legacy matters and the needs of the organisation.

**Stefan Borson**
*Group Chief Executive Officer*

# Consolidated Income Statement

for the year ended 31 December 2017

| | 2017 Underlying £000 | 2017 Non-underlying* £000 | 2017 Total £000 | 2016 Underlying £000 | 2016 Non-underlying* £000 | 2016 Total* £000 |
|---|---|---|---|---|---|---|
| **Revenue** | **44,880** | **-** | **44,880** | 42,684 | 961 | 43,645 |
| Cost of sales | **(24,582)** | **-** | **(24,582)** | (23,096) | (981) | (24,077) |
| **Gross profit** | **20,298** | **-** | **20,298** | 19,588 | (20) | 19,568 |
| Administrative expenses | **(24,979)** | **(2,737)** | **(27,716)** | (25,632) | 1,591 | (24,041) |
| **Group operating (loss)/profit** | **(4,681)** | **(2,737)** | **(7,418)** | (6,044) | 1,571 | (4,473) |
| Finance income | **270** | **-** | **270** | 508 | 833 | 1,341 |
| Finance expense | **(22)** | **2,220** | **2,198** | (271) | - | (271) |
| **(Loss)/profit before taxation** | **(4,433)** | **(517)** | **(4,950)** | (5,807) | 2,404 | (3,403) |
| Taxation | **754** | **-** | **754** | (753) | 165 | (588) |
| **(Loss)/profit after taxation for the year from continuing operations** | **(3,679)** | **(517)** | **(4,196)** | (6,560) | 2,569 | (3,991) |
| Provision against escrow receivable | **-** | **-** | **-** | - | (50,120) | (50,120) |
| Net gain on disposal of discontinued operations | **-** | **4,930** | **4,930** | - | 323 | 323 |
| Loss for the year from discontinued operations, net of taxation | **-** | **(3,378)** | **(3,378)** | - | (15,282) | (15,282) |
| **(Loss)/profit after taxation for the year** | **(3,679)** | **1,035** | **(2,644)** | (6,560) | (62,510) | (69,070) |
| Attributable to: | | | | | | |
| Equity holders of the parent | **(3,679)** | **1,047** | **(2,632)** | (6,560) | (62,502) | (69,062) |
| Non-controlling interests | **-** | **(12)** | **(12)** | - | (8) | (8) |
| | **(3,679)** | **1,035** | **(2,644)** | (6,560) | (62,510) | (69,070) |
| Loss per share (pence): | | | | | | |
| Basic | **(8.0)** | | **(5.7)** | (7.4) | | (150.0) |
| Diluted | **(8.0)** | | **(5.7)** | (7.4) | | (150.0) |
| Loss per share from continuing operations (pence): | | | | | | |
| Basic | | | **(9.1)** | | | (8.7) |
| Diluted | | | **(9.1)** | | | (8.7) |

*Non-underlying results have been presented separately to give a better guide to underlying business performance. Where items have become non-underlying in 2017 the comparable amounts in 2016 have been revised to also be classified on the same basis. This does not impact the total 2016 results. 2016 Revenue and Cost of Sales have been revised to reflect amounts that should have been presented gross rather than net. This has no impact upon gross margin.

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

| | 2017<br>£'000 | 2016<br>£'000 |
|---|---|---|
| **Loss after taxation** | **(2,644)** | (69,070) |
| ***Items that may be reclassified in the Consolidated Income Statement*** | | |
| Exchange differences on translation of foreign operations | **136** | 50 |
| **Total comprehensive loss for the year** | **(2,508)** | (69,020) |
| | | |
| **Attributable to:** | | |
| Equity holders of the parent | **(2,481)** | (69,012) |
| Non-controlling interest | **(27)** | (8) |
| | **(2,508)** | (69,020) |

# Consolidated Statement of Financial Position

as at 31 December 2017

| | 2017<br>£'000 | 2016<br>£'000 |
|---|---|---|
| **Non-current assets** | | |
| Goodwill | **17,443** | 23,221 |
| Other intangible assets | **4,825** | 6,259 |
| Property, plant and equipment | **3,819** | 6,293 |
| Other receivables | **759** | - |
| | **26,846** | 35,773 |
| **Current assets** | | |
| Inventories | **1,283** | 941 |
| Trade and other receivables | **6,144** | 10,228 |
| Corporation tax assets | **-** | 355 |
| Term deposits | **40,000** | 37,500 |
| Cash | **22,808** | 43,714 |
| | **70,235** | 92,738 |
| Assets of disposal group classified as held for sale | **833** | 1,300 |
| Total current assets | **71,068** | 94,038 |
| **Total assets** | **97,914** | 129,811 |
| **Current liabilities** | | |
| Cumulative redeemable preference shares | **(2,203)** | - |
| Other secured and unsecured loans | **-** | (163) |
| Trade and other payables | **(11,710)** | (25,895) |
| Obligations under finance leases | **(4)** | (102) |
| Provisions | **(13,024)** | (27,816) |
| | **(26,941)** | (53,976) |
| Liabilities of disposal group classified as held for sale | **(851)** | - |
| Total current liabilities | **(27,792)** | (53,976) |
| **Non-current liabilities** | | |
| Cumulative redeemable preference shares | **(3,795)** | (6,131) |
| Provisions | **(87)** | (425) |
| Deferred tax liabilities | **(167)** | (741) |
| | **(4,049)** | (7,297) |
| **Total liabilities** | **(31,841)** | (61,273) |
| **Net assets** | **66,073** | 68,538 |
| **Equity** | | |
| Share capital | **4,604** | 4,604 |
| Other reserves | **136,618** | 143,179 |
| Retained earnings | **(76,095)** | (80,218) |
| **Equity attributable to equity holders of the parent** | **65,127** | 67,565 |
| Non-controlling interests | **946** | 973 |
| **Total equity** | **66,073** | 68,538 |

# Consolidated Cash Flow Statement

for the year ended 31 December 2017

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash used in operations before exceptional costs, net finance expense and tax | **(11,289)** | (16,411) |
| Non underlying cash out flows excluding discontinued operations | **(5,266)** | (10,422) |
| Cash used in operations before net finance expense and tax | **(16,555)** | (26,833) |
| Corporation tax received | **622** | 6,990 |
| **Net cash used by operating activities** | **(15,933)** | (19,843) |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | **(4,417)** | (5,469) |
| Purchase of intangible fixed assets | **(1,816)** | (1,400) |
| Proceeds on disposal of property, plant and equipment | **1,260** | - |
| Disposal of subsidiaries net of cash foregone | **2,560** | 4,013 |
| Investment in term deposits | **(70,000)** | (82,500) |
| Maturity of term deposits | **67,500** | 45,000 |
| Interest income | **178** | 97 |
| Disposal of associated undertakings | **-** | 86 |
| Repayment of financing loan | **-** | (1,255) |
| **Net cash used in investing activities** | **(4,735)** | (41,428) |
| **Cash flows from financing activities** | | |
| Issue of share capital | **-** | 8 |
| Finance expense paid | **(20)** | (932) |
| Finance income received | **-** | 1,609 |
| Finance lease repayments | **(94)** | (103) |
| **Net cash (used in)/generated by financing activities** | **(114)** | 582 |
| **Net decrease in cash and cash equivalents** | **(20,782)** | (60,689) |
| **Cash and cash equivalents at the beginning of the year** | **43,714** | 103,839 |
| **Exchange gains on cash and cash equivalents** | **(124)** | 564 |
| **Cash and cash equivalents at the end of the year** | **22,808** | 43,714 |
| **Cash and cash equivalents** | | |
| Cash | **22,808** | 43,714 |
| | **22,808** | 43,714 |

The above Consolidated Cash Flow Statement includes cash flows from both continuing and discontinued operations.

As at 31 December 2017, the Group had cash and cash equivalents of £22,808,000 (2016: £43,714,000) and term deposits of £40,000,000 (2016: £37,500,000).

Notes:

## 1. Results announcement

The Financial Statements for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations adopted by the European Union (EU) (adopted IFRS). However, this announcement does not contain sufficient information to comply with adopted IFRS. The Group will publish its Annual Report and Financial Statements by 17 May 2018 and these will appear on the Group's website at www.watchstonegroup.com and be posted to shareholders. The auditors have reported on those accounts; their report was (i) unqualified, (ii) drew attention by way of emphasis without qualifying their report to an uncertain outcome of Slater & Gordon claim; and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The financial information set out in this announcement does not constitute the Group's statutory accounts for the year ended 31 December 2017. Statutory accounts for the year ended 31 December 2016 have been delivered to the Registrar of Companies and those for the year ended 31 December 2017 will be delivered following the AGM. This preliminary announcement was approved by the Board of Directors on 26 April 2018 and these preliminary results have been extracted from the audited results for the year ended 31 December 2017.

## 2. Consolidated Income Statement presentation

The Income Statement is presented in three columns. This presentation is intended to give a better guide to underlying business performance by separately identifying adjustments to Group results which are considered to either be exceptional in size, nature or incidence, relate to businesses which do not form part of the continuing business of the Group, or have potential significant variability year on year in non-cash items which might mask underlying trading performance. The columns extend down the Income Statement to allow the tax and earnings per share impacts of these transactions to be disclosed. Equivalent elements of the Group results arising in different years, including increases in or reversals of items recorded, are disclosed in a consistent manner.

## 3. Business segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker and represent two divisions supported by a Group cost centre (denoted as Central below). The principal activities of the two segments are as follows:

- ingenie: Telematics based insurance broking and technology solutions provider; and

- Healthcare Services: Comprising ptHealth and InnoCare. ptHealth is a national healthcare company that owns and operates physical rehabilitation clinics across Canada. InnoCare is a proprietary clinic management software platform and call centre and customer service operation, also based in Canada.

During 2017, Business Advisory Service Limited ("BAS"), an energy brokerage and Hubio were reclassified as discontinued operations. Accordingly, the amounts for 2016 have been restated to be presented on a comparable basis.

Segment information about these businesses is presented below.

In previous years, an allocation of central costs to the businesses within the Group has been applied. During 2017, the direction of the Group changed such that the individual businesses move towards operating on an increasingly stand-alone basis. As a consequence of this change an allocation has not been applied within the segmental reporting.

| | **ingenie** | **Healthcare Services** | **Central** | **Total** |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **Year ended 31 December 2017** | | | | |
| **Underlying revenue** | **14,429** | **30,451** | **-** | **44,880** |
| **Underlying cost of sales** | **(7,983)** | **(16,599)** | **-** | **(24,582)** |
| **Underlying gross profit** | **6,446** | **13,852** | **-** | **20,298** |
| **Underlying administrative expenses excluding depreciation and amortisation*** | **(5,130)** | **(13,145)** | **(5,633)** | **(23,908)** |
| **Underlying EBITDA** | **1,316** | **707** | **(5,633)** | **(3,610)** |
| **Depreciation and amortisation*** | | | | **(1,071)** |
| **Underlying Group operating loss** | | | | **(4,681)** |
| **Net finance income** | | | | **248** |
| **Underlying Group loss before tax** | | | | **(4,433)** |
| **Non-underlying adjustments** | | | | **(517)** |
| **Total Group loss before tax from continuing operations** | | | | **(4,950)** |

| | ingenie | Healthcare Services | Central | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Year ended 31 December 2016 | | | | |
| Underlying revenue (restated) | 13,927 | 28,757 | - | 42,684 |
| Underlying cost of sales (restated) | (7,565) | (15,531) | - | (23,096) |
| Underlying gross profit | 6,362 | 13,226 | - | 19,588 |
| Administrative expenses excluding depreciation and amortisation* | (4,949) | (12,067) | (7,474) | (24,490) |
| Underlying EBITDA | 1,413 | 1,159 | (7,474) | (4,902) |
| Depreciation and amortisation* | | | | (1,142) |
| Underlying Group operating loss | | | | (6,044) |
| Net finance income | | | | 237 |
| Underlying Group loss before tax | | | | (5,807) |
| Non-underlying adjustments | | | | 2,404 |
| Total Group loss before tax from continuing operations | | | | (3,403) |

* Depreciation added back above when calculating Underlying EBITDA from continuing operations excludes depreciation on telematics devices of £3,090,000 (2016: £2,998,000) which is included within cost of sales.

In the preparation of the Financial Statements, certain contracts were identified within the Healthcare Services segment which should have been presented gross, rather than as an agent for the year ended 31 December 2016. Accordingly, the revenue and cost of sales for Healthcare Services for the year ended 31 December 2016 have been restated. This has also resulted in a difference in revenues to those announced as part of the trading statement released on 26 January 2018. The impact of this change is £830,000 (2016: £674,000) to revenue and cost of sales. There is no impact upon gross margin.

## 4. Non-underlying results

The non-underlying results of the business include the income and expenses of businesses classified as non-underlying by virtue of these not forming part of the long term plans for the Group and as such are being wound down or disposed of. This includes Maine Finance and ingenie Canada. Businesses meeting this criterion which also meet the definition of a discontinued operation under IFRS 5 have been further classified as discontinued operations within the non-underlying results. This includes Hubio, BAS, and additionally in 2016, Quintica Holdings Limited, BE Insulated (UK) Limited and Carbon Reduction Company (UK) Limited. The comparative amounts have been presented to be on a consistent basis.

Items which are considered to be exceptional in size, nature or incidence, or have potential significant variability year on year in non-cash items which might mask underlying trading performance are also included within non-underlying. In 2017, this primarily relates to movements in provisions for legal fees and historic tax matters along with an impairment charge on goodwill. In 2016, this included providing for the Warranty Escrow receivable which was included alongside the discontinued operations to which it relates. The classification of provision releases as underlying or non-underlying are consistent with their initial establishment.

Non-underlying administrative expenses are analysed as follows:

| **Year ended 31 December** | **2017**<br>**£'000** | 2016<br>£'000 |
|---|---|---|
| Exceptional items: | | |
| - Legal and regulatory | **3,517** | (1,107) |
| - Tax related matters (credit) | **(9,036)** | (5,795) |
| - Impairments of non-cash assets | **5,633** | - |
| - Restructuring | **67** | (247) |
| Total exceptional items | **181** | (7,149) |
| Other adjustments: | | |
| - Share based payments | **43** | 145 |
| - Amortisation of acquired intangibles | **1,434** | 1,684 |
| - Other non-underlying administrative expenses | **1,079** | 3,729 |
| Total other adjustments | **2,556** | 5,558 |
| Total non-underlying administrative expenses | **2,737** | (1,591) |

2016 has been restated to remove exceptional items and other adjustments that relate to businesses which are now classified as discontinued.

Other adjustments are not exceptional in size, nature or incidence, however they do not relate to the ongoing future trade of the Group and can vary significantly from year to year. Amortisation represents a non-cash charge relating to acquisition accounting and is not taken into account by management when reviewing operational performance of the Group. Other non-underlying administrative expenses primarily comprises legal fees incurred and do not relate to the underlying, continuing businesses of the Group.

Other non-underlying administrative expenses relate principally to the costs of businesses classified as non-underlying and central costs associated with the same. These are specifically identifiable external costs and do not include allocations of internal amounts.

The legal and regulatory expense includes £2,940,000 of additional legal fee provisions in respect of recovery of the Warranty Escrow; and £605,000, being a contribution to costs in relation to the judgement on OS3 Distribution Limited litigation. In 2016, the credit of £1,107,000 included the release of provisions of £2,186,000 relating to legal disputes in the UK and the settlement of the Navseeker claim in the US. This was partially offset by additional legal fees in relation to PSD.

Within the tax related matters credit of £9,036,000. £7,536,000 arises from the release of unused provisions upon resolution of historic tax matters with HMRC. The remainder of £1,500,000 relates to revisions to estimates of the liability for the remaining, unresolved matters in response to the latest information available to the Group. The equivalent amount stated in 2016 is a net amount including £5,419,000 in respect of the release of unused provisions upon resolution of historic tax matters with HMRC.

The restructuring expense of £67,000 is stated after taking into account the release of unused provisions of £353,000. In 2016, this amount included costs in relation to the wind down of ingenie Canada, the closure of Maine Finance and the RAG B2C business and was net of the release of provisions of £1,584,000.

Impairments of non-cash assets above relates to:

| Year ended 31 December | **2017** **£'000** | 2016 £'000 |
|---|---|---|
| Goodwill | **5,593** | 6,814 |
| Other intangible assets | **-** | 179 |
| Tangible fixed assets | **40** | - |
| | **5,633** | 6,993 |

## 5. Goodwill

The movement in goodwill is as follows:

| | **Goodwill** **£'000** |
|---|---|
| **Cost** | |
| At 1 January 2016 | 185,916 |
| Exchange differences | 7,978 |
| **At 1 January 2017** | **193,894** |
| **Disposals** | **(96,071)** |
| **Exchange differences** | **(834)** |
| **At 31 December 2017** | **96,989** |
| | |
| **Impairment** | |
| At 1 January 2016 | 157,539 |
| Charge | 6,814 |
| Exchange differences | 6,320 |
| **At 1 January 2017** | **170,673** |
| **Disposals** | **(96,071)** |
| **Charge** | **5,593** |
| **Exchange differences** | **(649)** |
| **At 31 December 2017** | **79,546** |

**Net book value**

| | |
|---|---|
| **31 December 2017** | **17,443** |
| 31 December 2016 | 23,221 |

Impairments recognised during 2016 resulted in only two CGUs retaining goodwill at 1 January 2017.

Goodwill is allocated to the Group's CGUs as follows:

| | **2017** | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| ingenie | **9,081** | 14,674 |
| Healthcare Services | **8,362** | 8,547 |
| | **17,443** | 23,221 |

**Basis of valuation and key assumptions for impairment testing of goodwill and intangible assets**

The recoverable amount of goodwill for businesses at the year-end is determined on the basis of Value in Use, using a discounted cash flow ("DCF") appraisal based on explicit forecast periods of 3 to 4 years (2016: 2 to 3 years) to reflect the maturity of the businesses and/or markets they operate in. External market data has been used where possible and the Group has also drawn upon data used in its annual planning cycle, with reference to other market participants. In particular changes in revenues and pre-tax discount rate are key assumptions.

For each of the CGUs with significant amount of goodwill, the key assumptions used in the Value-in-Use calculations and recoverable amounts of goodwill are stated below.

| **2017** | **ingenie** | **Healthcare Services** |
|---|---|---|
| Long term growth rate | 2% | 2% |
| DCF appraisal period | 4 years | 3 years |
| Annualised revenue growth over DCF appraisal period | 3% | 4% |
| Pre-tax discount rate | 13% | 11% |

| **2016** | **Hubio Fleet** | **Hubio UK** | **ingenie** | **Healthcare Services** | **BAS** |
|---|---|---|---|---|---|
| Long term growth rate | 2% | 2% | 2% | 2% | 2% |
| DCF appraisal period | 4 years | 3 years | 3 years | 3 years | 3 years |
| Annualised revenue growth over DCF appraisal period | 11% | 7% | 8% | 5% | 5% |
| Pre-tax discount rate | 19% | 13% | 13% | 15% | 11% |

Annualised revenue growth rates vary by operating division depending on the current development to maturity of the CGU. In determining the applicable discount rate, management has applied judgement in respect of several factors, including, inter alia, assessing the risk attached to future cash flows. Pre-tax discount rates have been assessed for each CGU.

**Movement in goodwill by CGU**

The movement in goodwill by CGU is as follows:

| | **2016** | **Foreign exchange movements** | **Impairment** | **2017** |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| ingenie | 14,674 | - | (5,593) | 9,081 |
| Healthcare Services | 8,547 | (185) | - | 8,362 |
| **Total** | **23,221** | **(185)** | **(5,593)** | **17,443** |

For ingenie, if there was an increase in the pre-tax discount rate of 1 percentage point there would be an additional impairment of £1m to the amounts above. Similarly, if there was a decrease of 1 percentage point in the long term growth rate there would be an additional impairment of £0.8m.

No reasonably possible changes to assumptions would lead to an impairment of the goodwill for the Healthcare Services CGU.

## 6. Provisions

| | Tax related matters £'000 | Legal disputes £'000 | Onerous contracts £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|---|
| At 1 January 2016 | 23,543 | 6,400 | 3,643 | 3,424 | 37,010 |
| Additional provisions | 3,231 | 1,814 | 525 | 3,315 | 8,885 |
| Unused amounts released | (9,181) | (1,300) | (100) | (144) | (10,725) |
| Used during the year | (2,500) | (800) | (1,349) | (2,313) | (6,962) |
| Exchange movements | - | - | - | 33 | 33 |
| **At 1 January 2017** | **15,093** | **6,114** | **2,719** | **4,315** | **28,241** |
| **Additional provisions** | **-** | **2,927** | **126** | **936** | **3,989** |
| **Unused amounts released** | **(9,086)** | **(46)** | **(227)** | **(973)** | **(10,332)** |
| **Used during the year** | **(2,814)** | **(1,553)** | **(2,092)** | **(2,282)** | **(8,741)** |
| **Exchange movements** | **-** | **-** | **(34)** | **(12)** | **(46)** |
| **At 31 December 2017** | **3,193** | **7,442** | **492** | **1,984** | **13,111** |
| Split: | | | | | |
| Non-current | - | - | 87 | - | 87 |
| Current | 3,193 | 7,442 | 405 | 1,984 | 13,024 |

### Tax related matters

A provision for tax-related matters had been established in previous years with respect to judgemental tax positions primarily in relation to historic PAYE and VAT issues. During the year ended 31 December 2017, the majority of the outstanding PAYE issues were resolved and settled for £2,814,000 with £7,586,000 of unused provision being released to the income statement as the settlement was less than management's estimate at the time of preparation of the 31 December 2016 Financial Statements. Of the remaining amounts, £4,000,000 of the provision at 31 December 2016 related to a disputed and judgemental tax issue. Based upon the latest information available to management, this has been reduced to £2,500,000 at 31 December 2017. Key judgements exist around the classification of certain transactions and therefore the related tax treatment. The amount provided represents the Directors' estimate of the likely outcome based upon the information available; however the ultimate settlement may be different. The Group continues to take steps to resolve these outstanding items and believe the majority will be settled within twelve months from the balance sheet date.

### Legal disputes and regulatory matters

In legal cases where the Group is (or would be) the defendant, defence costs are provided as the Group is committed to defending the actions. Such costs are provided for at the mid-range of possible eventualities given the uncertainty of the outcome. If the Group is successful in defending such actions, then the final costs may be lower than the total provision recognised above. Additional provisions in the table above relate to expected legal costs to defend these actions. No amounts have been provided for the costs of any settlement, fine or award of damages.

Amounts used during the year represent legal costs incurred to date as a result of the above items. The provisions will be utilised further as the matters progress.

In legal cases where the Group is the claimant (or counter claimant), costs are not provided as there is no obligation to proceed and the Group is not contractually committed to incur costs.

**Onerous contracts**

Where contracted income is expected to be less than the related expected expenditure the difference is provided in full. The timing and amount of these items can be reasonably determined. The majority of the amount provided at 31 December 2016 related to three onerous property leases. Two of these onerous leases have been settled in the year at amounts less than management's estimate at 31 December 2016 and therefore unused amounts of £227,000 have been released. The settlement and costs incurred during the period relate to the £2,282,000 utilised during the year. To date it has not been possible to sublet or otherwise resolve the remaining property lease and therefore an additional amount of £126,000 has been provided representing the maximum exposure to this onerous lease. The majority of the provision at 31 December 2017 now relates to non-property obligations.

**Other**

Provisions have been established for expected costs where a commitment has been made at the balance sheet date and for which no future benefit is anticipated. These primarily relate to three areas, commission clawback relating to non-underlying businesses, warranties provided by the Group and outstanding restructuring payments. With the exception of the latter, the exact timing and quantum of the amounts is uncertain, and the provision is based upon historic trends in these businesses. £703,000 of the additional provision in the year relates to the normal ongoing business activities of the Group. The amounts of the restructuring provision can be reasonably estimated and are time bound within an upper limit of one year. The commission clawback element of the provision totals £562,000 (2016: £967,000) of which £1,108,000 was used in the year and £703,000 was newly created.

## 7. Post balance sheet events

**Settlements with former management and former vendors**

In January and March 2018, the Company agreed settlements with former management. The 31 December 2016 Financial Statements referred to an investigation by the Group into expense claims submitted by Mr Robert Terry and payments made to him by the Group during his period of employment and related litigation. In January 2018, Mr Terry (together with his wife and former employee, Mrs Louise Terry) and Watchstone settled certain respective claims arising out of Mr Terry's contract of employment with Watchstone, the settlement agreement entered into when Mr Terry departed Watchstone in November 2014 ("November 2014 Settlement") and a separate agreement relating to works done at Quob Park (the former head office of the Group) ("Terry Settlement"). Under the terms of the Terry Settlement, Mr Terry waived his right to receive £280,000 under the November 2014 Settlement and Mr and Mrs Terry paid Watchstone £800,000 (in cash). These items, arising after the balance sheet date, have not been included in the results of the Group in the year ended 31 December 2017.

On 9 November 2016, Court proceedings were commenced in the High Court of Justice by the Group against the vendors of the Hubio Solutions Limited (formerly Himex Limited)("HSL") regarding, inter alia, the cost of litigation in respect of Navseeker, Inc, a subsidiary of HSL (Laurence Baker, et al. v. Hassan Sadiq, et al. and NavSeeker, Inc. C.A. No. 9464-VCL, Court of Chancery of the State of Delaware USA) which was settled in June 2016. In March 2018, the parties settled the Court proceedings and the Group received a net payment of £315,000 in full and final settlement.

**Disposal of businesses**

In January 2018, the Group disposed of the non-telematics assets of its Canadian subsidiary and in February 2018 the Group disposed of its Hubio Fleet business.