Regenersis
Technology Life Cycle Services

# Growth Diversification People

## Annual Report and Accounts

for the year ended 30 June 2014

Stock Code: RGS

# Who We Are

Protecting the reputations of the **leading brands** we serve. Regenersis is a **leading** outsourcing partner to many of the world's leading consumer technology companies. The Group has businesses in **22 territories** serving large clients in multiple geographies.

## Market potential

The world is experiencing explosive growth in the number of connected devices (the Internet of Things and the Digital Home), and in the power and complexity of mobile computing platforms, resulting in an increasing need for sophisticated technology and user support. Regenersis is addressing those needs with a growing portfolio of software-rich services building on a strong heritage of repair operations, customer service and data erasure management.

## Key strengths

- Ability to combine our capabilities in innovative ways, tailored to individual client needs
- Delivering unique service propositions that reinforce trust in our clients' brands and create value for our business partners and shareholders
- Execution of key services that improve customer experience and add value to technology assets to differentiate their brands and increase customer loyalty

Visit us online
**www.regenersis.com**
Scan the QR code with your smartphone to take you directly to our website

## Navigating the Report

For further information within this document and relevant page numbers

Additional information online

# Financial Highlights

Significant forward momentum.

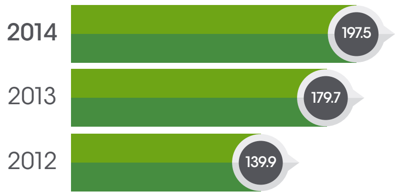


## Revenue

£197.5m

2013: £179.7m

↑ 10%

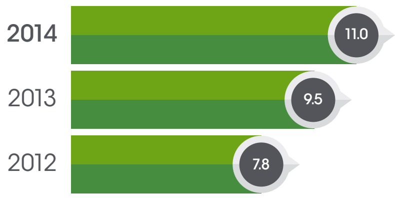



## Headline Operating Profit

£11.0m

2013: £9.5m

↑ 16%

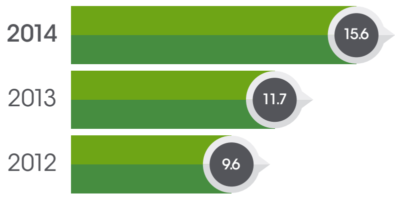



## HOP before Corporate Costs

£15.6m

2013: £11.7m

↑ 33%

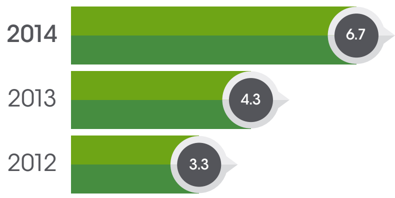



## Capital Expenditure & R&D

£6.7m

2013: £4.3m

↑ 56%




## Net Cash

£20.6m

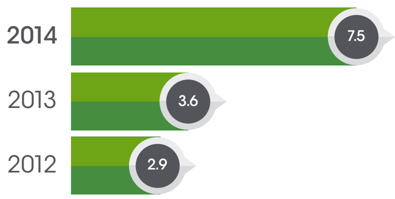
2013: £1.9m net debt


## Advanced Solutions

£7.5m

2013: £3.6m

↑ 108%




## Contents

## Global Integration

Building a truly global infrastructure to provide services in both mature Western Markets, as well as the Emerging Markets which have superior growth rates and competitive dynamics.

We have expanded our geographical footprint to 22 territories.

Read more on page **6**

Find out more about One Regenersis online at **www.regenersis.com/investors/strategy**

Technology Life Cycle Services



# Strategic Report

# Chairman's Statement



## **Significant progress** for the Group financially and in the execution of our strategy.

Overall, the year just ended was transformative in terms of the shape of the Group and its prospects for the future.

**Matthew Peacock**
Executive Chairman

I am pleased to be able to report a year of significant progress for the Group, both financially and in terms of the execution of our strategy. In the financial year just ended, Regenersis delivered a revenue increase of 10% and a Headline Operating Profit increase of 16%, making this the fifth consecutive year of double digit revenue and Headline Operating Profit growth. Strategically, the dominant feature of the year was the acquisition of Blancco, completed in April 2014.

Financial progress was delivered this year against the challenge of a strong pound sterling, and the need to build the senior management team to drive the next phase of growth (new senior roles included Group COO, MD Renew, Group CIO, and Director of Sales, Innovation and Marketing). In constant currency terms, revenue growth in the year was 18% while Headline Operating Profit before central costs increased by 33% to £15.6 million. We are continuing to invest as we grow.

The Emerging Markets and Advanced Solutions divisions delivered Headline Operating Profit growth of 14% and 108% respectively — and in combination generated 91% of Group divisional HOP. With this shift towards Advanced Solutions business, our divisional Headline Operating Profit margin (i.e. before central costs) increased to 7.9% (2013: 6.5%). The combination of predominantly organic profit growth in Advanced Solutions this year, and the Blancco acquisition (completed ten weeks before the year end) marks a major shift towards Advanced Solutions in the business mix of the Group going forward.

The acquisition of Blancco was clearly the headline event of the year just ended. The integration of the acquisition is proceeding according to plan and we are expecting strong growth in the coming year, led by exciting areas such as corporate data erasure management and virtual data erasure in cloud environments. I recommend viewing the Blancco information video now available in the investor relations section of our website.

I see Blancco as the anchor of an expanding portfolio of software products, leveraging its brand, client list and large direct sales force. This is taking our M&A activity in a new and exciting direction with significant value potential. In this vein, Regenersis recently expanded its investment in Xcaliber Technologies, the smartphone diagnostics and issue resolution specialist, to 49%. Typically clients requiring smartphone diagnostics, such as mobile operators when they take back devices from customers, also require data erasure. Similarly, clients buying smartphone data erasure today, such as the asset disposition partners of mobile operators, also perform functional checks on the devices manually — and are interested in automated diagnostic tests. Blancco and Xcaliber are therefore highly complementary businesses, so we are integrating some of their functions to maximise the potential synergies.

The recent acquisition of SafeIT is another complementary opportunity coming out of Blancco. SafeIT is the leader in cloud erasure, in effect, helping managers of remote, virtual data volumes to erase them with the same confidence as managers of physical hard drives. This is a relatively new and technically challenging field where SafeIT brings the capabilities and Blancco brings the distribution power to reach customers.

While the M&A focus was on software, there was organic Advanced Solutions growth in other areas. The In-field Tester (IFT) solution made good progress in Europe with Virgin Media and a new client, a major set top box manufacturer, and steady progress in the US, although we have yet to achieve the large breakthrough the Group hopes for. Virgin Media was during the year acquired by the international TV operator Liberty Global with the opportunity for increased volumes of business in continental Europe and a new project to develop a global testing solution deployable around the Liberty Global Group, in a development of the IFT programme.

"Overall, the year just ended was transformative in terms of the shape of the Group and its prospects for the future. The Group has become an exciting Advanced Solutions led business growing via organic progress and M&A. The formula for this development over the last few years has been our focus on the three "game changers" – people, global integration, and M&A – and we will continue to follow this approach next year and beyond. I am looking forward to further expanding a number of strong performing divisions (organically and via bolt-on M&A) which are demonstrating a proven track record of growth."

Our other Advanced Solutions businesses are Recommerce and Digital Care, where a mixed picture of performance and potential emerged. There were significant changes to the Recommerce market in 2014, with various OEMs, Mobile Operators, and large distributors each making aggressive moves to control the value of the market in pre-owned devices. As a result a decision was taken to reduce the size of the investment in Recommerce and in particular to remove stock risk from the business model. Regenersis is now focused on delivering service and value to existing clients with a sensible risk profile and large global OEM clients. Our Digital Care business had an outstanding year, winning the main mobile insurance business of three of the mobile operators in Poland with its innovative service proposition. This is now a platform for growth into other territories. The success of Digital Care also illustrates the important role our repair business continues to play as the foundation of our client relationships and credibility allowing us to bring new high-value services to market.

In line with our stated dividend policy, the Board is recommending a final dividend of 2.68 pence per ordinary share. This gives a full year dividend of 4.0 pence per ordinary share, which represents a 60% increase on the prior year and is a sign of the Board's on-going confidence.

Michael Peacock will retire as Non-executive Director and Senior Independent Director from the Board with effect from 26 November 2014. Michael joined the Board in 2011 and has played an important role in the continued growth of the Company. A search for a replacement Senior Independent Director has now been commenced. Regenersis would like to make an appointment as quickly as possible, recognising the importance of this position for maintaining best practice corporate governance. On behalf of the Board I would like to express our thanks to Michael Peacock for his valuable contribution during his time with us and wish him well for the future.

Finally, I would like to thank all of our employees and customers for their part in making this year a success.

I am looking forward in financial year 2015 to Advanced Solutions contributing the majority of the profits of the business for the first time.

## Outlook

- Current trading in local currency terms is in line with our expectations and the Group continues to target double digit growth in revenue and profitability;
- Strong sterling pressures felt in the last financial year have continued in the year to date;
- New business wins have progressed very well and are significantly ahead of the run rate at this stage for last year;
- Advanced Solutions as a proportion of Group revenue is expected to continue to increase rapidly; and
- Opportunities for global growth, both organically and by acquisition, remain strong.

**Matthew Peacock**
Executive Chairman
22 September 2014

# The Opportunity



At Regenersis, we believe that the aftermarket services sector offers outstanding opportunities for genuinely innovative companies. As a sector consolidator and integrator of good people, businesses and technologies, we believe that Regenersis will continue to **generate outstanding results** for all of its stakeholders.

## Three operational 'game changers'

### Global Integration

The globalisation and integration of our business.

Our clients are increasingly seeking partners who can deliver cost-effective and innovative aftermarket solutions on a global basis. Since 2011, Regenersis has expanded its geographical footprint from five territories to 16 territories. With the acquisition of Blancco in April 2014, this increased to 22 territories.


### People

Building the stand-out team in our sector.

Hiring and retaining the best talent available in order to support the anticipated business growth.

Read more in our CSR section on pages **26** to **29**

## M&A

Entering new geographies and adjacent service lines through acquisition and partnership.

### Advanced solutions

Introducing innovative services, which improve our clients' businesses and enhance Regenersis's position as a partner.

## Global Growth Opportunities

| | MOBILE & TABLET | | | MEDIA & ENTERTAINMENT | | B2B NICHE PRODUCTS | | ADVANCED SOLUTIONS | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Business locations | Repair & Refurbishment | Vendor Management Outsourcing / BPO | Service Network | STB Repair | TVs, Sat Nav, Laptops | Cash and Payment | Medical and Industrial | Digital Care | Remote Diagnostics | Refurbishment | Data Erasure |
| 1 UK | ● | ● | | ● | ● | ● | ● | | ● | ● | ◆ |
| 2 Germany | ● | | | | ● | ● | ● | | | ● | ◆ |
| 3 Poland | ● | ◆ | | | ● | ● | | ● | | ● | |
| 4 Romania | ● | | | ● | ● | | | | | ● | |
| 5 Russia | ● | ◆ | | | | ● | ● | | | | ◆ |
| 6 Nordics | ● | | | | | | | ● | | ● | ◆ |
| 7 USA | | | | | | ● | | | ● | | ◆ |
| 8 Turkey | | ● | | | ◆ | | | | | | |
| 9 South Africa | ● | | | ● | ● | ◆ | | | | | |
| 10 Spain | ● | ● | ● | | ● | | | | | ● | ◆ |
| 11 Mexico | ● | ● | ● | | | | | | | ● | |
| 12 Argentina | ● | | | | | | | | | | |
| 13 India | ● | | ● | | ● | ● | | | | ● | |
| 14 Portugal | ● | | | | | | | | | | |
| 15 Belgium | | | | ● | | | | | ● | | |
| 16 France | | | | | | | | | | | ◆ |
| 17 Italy | | | | | | | | | | | ◆ |
| 18 Canada | | | | | | | | | | | ◆ |
| 19 Japan | | | | | | | | | | | ◆ |
| 20 Australia | | | | | | | | | | | ◆ |
| 21 Czech Republic | | | | | ◆ | ◆ | | | | | |
| 22 Malaysia | | | | | | | | | | | ◆ |

KEY: ● Where we operate ◆ Progress in last 6 months

# Our Markets



Regenersis primarily serves large multinational telecommunications operators, mobile phone retailers, and mobile phone and IT device OEMs, with a range of aftermarket services i.e. services which occur past the point of original sale to a consumer.

These services include:

- Depot-based repair of non-functioning devices and refurbishment of devices;
- Device insurance and extended warranty provision (Digital Care);
- Diagnosis and resolution of device issues in the consumer's hands (IFT and Xcaliber); and
- Permanent certified erasure of data from devices (Blancco).

These markets present a range in terms of size, growth/maturity, and competitive intensity. However, in general, Regenersis is one of the leading players in the services and geographies in which it operates; and at a Group level Regenersis is among the top three global aftermarket services providers by revenue.

Regenersis seeks to position itself in the most attractive segments of the marketplace, exhibiting rapid growth and potential for strong profitability, as described in the strategy section on page 10.

# Our Business Model

Our business model is that **service** and i**nnovation** drive recurring income across multiple complementary lines of business, which enables us to **afford the best operating platform** in our sector (people, systems, R&D) while still delivering **attractive profitability** and **return on capital** employed for our shareholders.

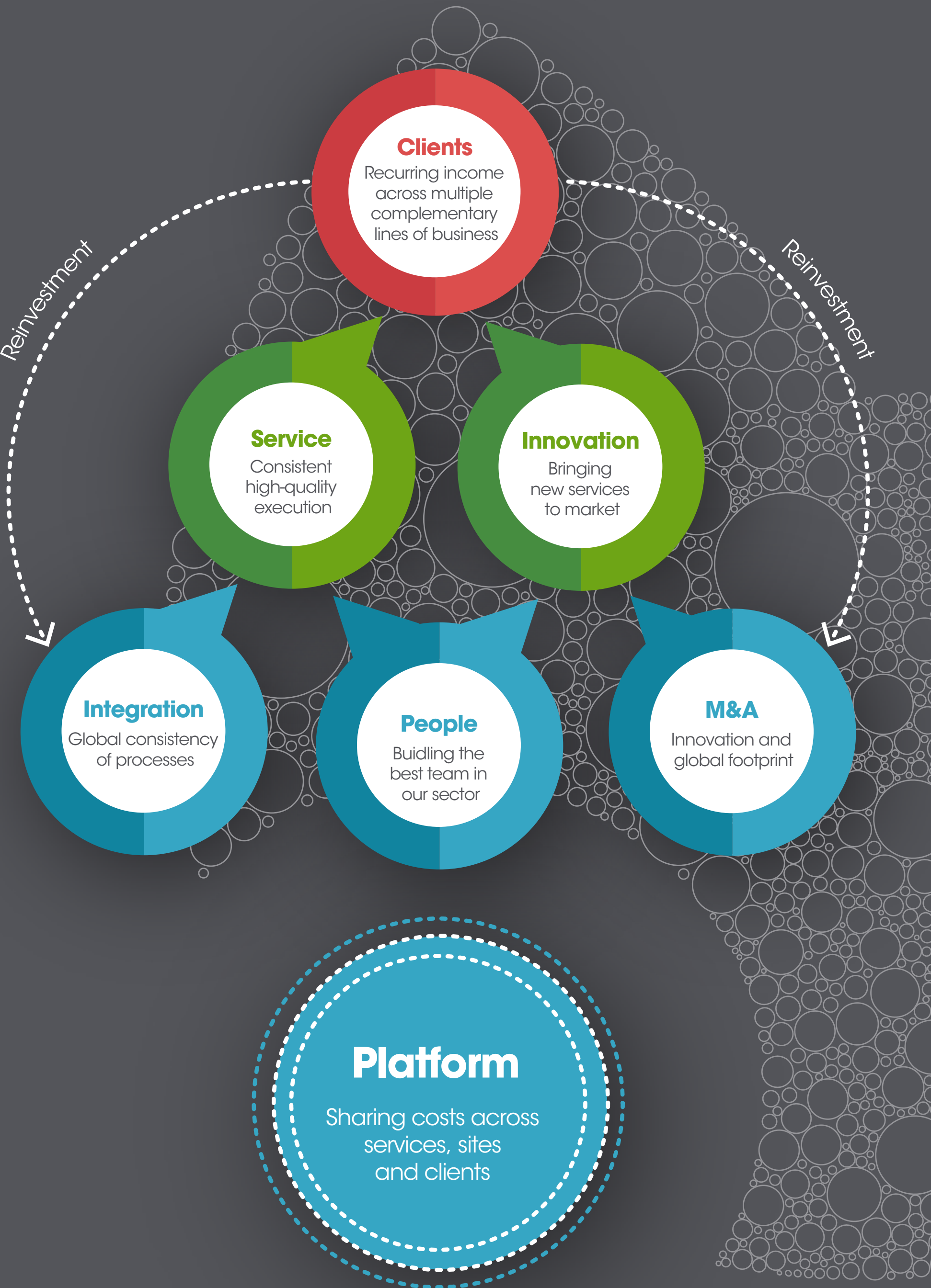
In order to capture this opportunity Regenersis is required to achieve two client deliverables:

- Deliver consistent high quality service across the world; and
- Introduce innovative services, which improve our clients' businesses and enhance Regenersis' position as a partner.

These two deliverables are challenging to achieve, providing a competitive advantage to a company like Regenersis which can build the scale and culture required. Regenersis has identified three capabilities required to achieve consistent quality and innovation, and which reliably provide competitive differentiation in their own right.

- Global integration of business methodologies, IT systems and operational processes;
- Hiring and retaining the best talent available in order to support the anticipated business growth; and
- M&A: acquiring businesses which improve our geographical and service capabilities.

By building up scale in geographical presence and expanding its range of services, Regenersis is able to replicate success and share costs across a broad base, to attract the best people, and to make M&A deals on the most attractive terms.



# Our Strategy

## Directing **innovation** towards areas which address attractive markets.

Our strategy is to direct our innovation organically and via M&A, towards areas which address attractive markets (large high growth and high margin) and which have synergies with existing business (in clients, operations and/or services):

This includes two main axes of development:

- Adding new Advanced Solutions to our portfolio; and
- Building the most attractive geographic footprint of operations to serve our large multinational clients.

### Depot Solutions

Our clients are global market leaders in their respective fields. Historically, they have outsourced their repair services to partners like Regenersis, but on a one country at a time basis. Increasingly, our customers are managing the delivery of the aftermarket services through either a regional or global basis.

As a result, our strategy is to build the most attractive geographic footprint of operations to serve our large multinational clients' growing international needs.

### Advanced Solutions

Advanced Solutions includes device insurance and extended warranty business (Digital Care), remote diagnosis and resolution business (IFT and Xcaliber) and most recently the data erasure business (Blancco).

The first Advanced Solutions service line to be developed was the In-field Tester technology (IFT), a disruptive solution for the CATV market (set top boxes) which eliminates returns ("no fault found") and reduces end-customer frustration and lost content. This product addresses a market of some 150 million set top boxes returned annually around the world.

### Service Lines

| TECHNOLOGY LIFE CYCLE MANAGEMENT | TECHNOLOGY, MEDIA & TELECOMMUNICATIONS SEGMENTS | | | |
|---|---|---|---|---|
| | Mobile Telecoms | Home Entertainment | Information Technology | B2B Infrastructure |
| Launch | Recommerce<br>Sales promotion<br>Data migration | Remarketing | Product configuration<br>Staging<br>Remarketing | Config & staging<br>Service network training & support |
| Protect | Insurance<br>Diagnostics<br>Swap stock | Swap stock | Preventative maintenance<br>Swap stock<br>Data erasure management | Preventative maintenance<br>Swap stock |
| Maintain | Diagnostics<br>Carry-In repair<br>Warranty repair<br>OOW repair | IFT & field service<br>Garage repair<br>Warranty repair<br>OOW repair | Field service<br>Carry-In repair<br>Warranty repair<br>OOW repair<br>Data erasure management | Field service<br>Warranty repair<br>OOW repair |
| Retire | Buy back<br>Certified Erasure<br>Parts salvage | Parts salvage | Buy back<br>Certified erasure<br>Parts salvage | Parts salvage |
| Reuse | Triage / QA<br>Refurbishment | Refurbishment | Refurbishment | Refurbishment<br>EOL component manufacture |

SmartChk · Blancco & SafeIT · Regenersis

The next wave of expansion included focus on new developments in Digital Care because it is a fundamentally larger and more valuable market than Repair.

Recently the front line has shifted to software services; specifically mobile diagnostics and repair avoidance which we have addressed via our investment in Xcaliber Technologies, and data erasure addressed via our acquisition of Blancco. These new software businesses have good synergies with existing divisions (for example: repair avoidance is a part of an integrated repair solution and data erasure customers are a very good channel to acquire devices for Recommerce).

## Putting our strategy into action

We have identified three "game changers" which form an integral part of the operating platform of the business.

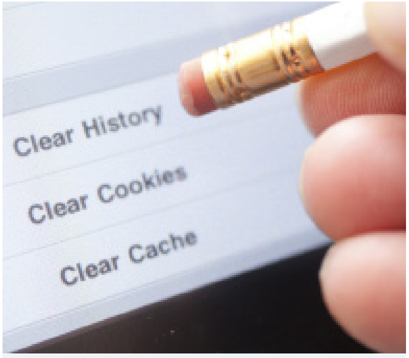
Focus on these three areas is the key to successfully delivering the service quality and innovation which fuels client satisfaction and recurring income. Examples of recent progress in these areas include:

- **Integration** — New global sales force and divisional operating structure;
- **People** — New senior management; and
- **M&A** — Investment in Xcaliber Technologies and acquisition of Blancco.

Within each of our service lines (for example Digital Care, Data Erasure and IFT) we have specific objectives and plans to win new business, improve profitability, and increase competitive advantage.

Case Study

### Blancco




Acquired all of the issued share capital of Blancco Oy Ltd and controlling stakes in its major sales offices (together comprising "Blancco").

Data erasure is an attractive market, which is expected to show strong growth over the next few years, and will complement Regenersis' Advanced Solutions business.

Blancco's software erases all the data on a device, with total accuracy across a whole range of devices.

Read more on page **19**

# At a Glance



The Group's management structure is split into **two divisions**:

## Advanced Solutions

### 1 The Renew business

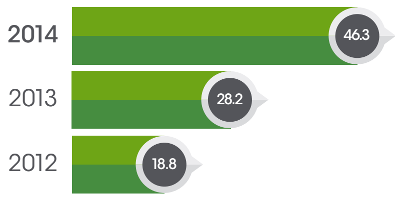
Which is made up of:

**Digital Care**
Operates in insurance and extended warranty activities.

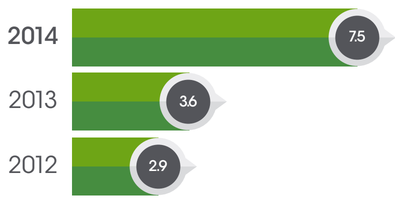
**Recommerce**
Offers client led refurbishment, repair and onward disposition of devices.

**Refurbishment activities**
Offers client led component level repair of screens, motherboards, and other items, to make them as good as new.

**Revenue**
£46.3m
2013: £28.2m




**Headline Operating Profit**
£7.5m
2013: £3.6m




### 2 The set top box activities in Glenrothes

Depot repair of set top boxes for digital television providers.

**Pictured:**
The 'Oktra System'

### 3 The Remote Diagnostics business

Made up of the In-field Tester ("IFT") business and new mobile diagnostics capabilities secured through the Group's strategic investment in Xcaliber.

**Pictured:**
The 'In-field Tester' equipment

### 4 Software

Regenersis Software business comprises Blancco, the global market leader in data erasure software, SafeIT, provider of software for erasure in live enterprise environments, and SmartChk, a leader in smartphone diagnostic software (via the Group's investment in Xcaliber Technology).

blancco
CERTIFIED DATA ERASURE

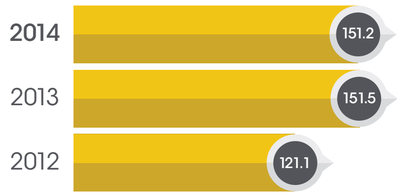
# Depot Solutions

Our international network of repair centres provides product repair, refurbishment, parts management and logistics services for mobile, IT and B2B infrastructure product vendors; and their sales channels, insurers, and end users. Our technically-advanced repair capabilities enjoy a solid reputation with our TMT sector clients, combining service excellence with continuous gains in cost efficiency.

**Revenue**

£151.2m

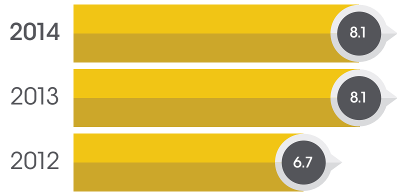
2013: £151.5m




**Headline Operating Profit**

£8.1m

2013: £8.1m




### Emerging Markets segment

- Poland and Romania are performing well, having won and implemented new and innovative solutions for new and existing customers in more complicated level repair service;
- Significant new business implementations have included: Nokia making use of our depot services in South Africa; a new contract with a German insurer supported through Poland; and a deal to support Vodafone in their sizeable German insurance programme through our Romanian facility;
- Russia changed from being a joint venture to a wholly owned subsidiary on 26 December 2013 but made no material profit contribution for the period. This acquisition was a strategic move to better serve pan-global customers;
- The most recent addition to the segment, India, has been integrated and is performing in line with the Board's expectations; and
- The other countries in this segment continue to perform in line with the Board's expectations.

### Western Europe segment

- The B2B business based largely in Germany continued to perform well despite having some pricing pressure from clients;
- The most recent addition to the segment was Bitronic Germany which has been successfully integrated and is performing in line with the Board's expectations;
- Spain is a key country in this segment and after an initially difficult start to the year is performing well again;
- Regenersis also won a multi-year, multi-service contract for a global mobile operator covering Iberia, which is the first significant business for the Group with this client;
- In April 2014 the B2B business entered the US market, with a new depot facility opened in Memphis on behalf of our customer Wincor Nixdorf; and
- The business experienced weak volume and margin pressure in the UK and Sweden.

# Business Review

## Another year of double digit revenue and **profit growth**.

### Results

The financial performance of the business has once again shows significant forward momentum with:

- Revenue of £197.5 million (2013: £179.7 million, growth 10%);
- Headline Operating Profit before corporate costs of £15.6 million (2013: £11.7 million, growth 33%);
- Headline Operating Profit after corporate costs of £11.0 million (2013: £9.5 million, growth 16%);
- Headline Operating Profit on constant currency bases of £11.6 million (2013: reported HOP £9.5 million, growth 22%);
- Headline Operating Profit margin of 5.6% (2013: 5.3%); and
- Operating profit was £0.5 million (2013: £7.1 million), lower as a result of significant exceptional acquisition and restructuring costs incurred in the year.

Headline operating cash flow was £4.5 million (2013: £12.9 million), with net cash at the end of the period of £20.6 million (June 2013: £1.9 million net debt) following the fund raising in April 2014.

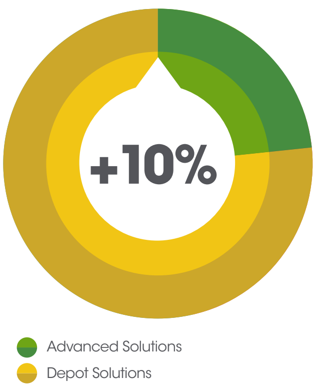
| **Key Financials** | **2014 £'m** | 2013 £'m |
|---|---|---|
| Revenue | 197.5 | 179.7 |
| Headline Operating Profit before corporate costs | 15.6 | 11.7 |
| Headline Operating Profit after corporate costs | 11.0 | 9.5 |
| Operating profit | 0.5 | 7.1 |
| Headline Operating Profit margin % before corporate costs | 7.9% | 6.5% |
| Headline Operating Profit margin % | 5.6% | 5.3% |
| Corporate costs % | 2.3% | 1.2% |
| Operating profit % | 0.3% | 3.9% |

Headline Operating Profit growth and margin improvement before corporate costs has outpaced revenue growth, as this profit growth has come from new, higher margin revenue streams in Advanced Solutions.

### Segmental Results

| | Revenue | | Headline Operating Profit | | | |
|---|---|---|---|---|---|---|
| | **2014 £'m** | 2013 £'m | **2014 £'m** | 2013 £'m | **2014 Margin %** | 2013 Margin % |
| Emerging Markets | 76.0 | 55.4 | 6.7 | 5.9 | 8.8% | 10.6% |
| Western Europe and North America | 75.2 | 96.1 | 1.5 | 2.2 | 2.0% | 2.3% |
| **Depot Solutions Division** | **151.2** | **151.5** | **8.1** | **8.1** | **5.4%** | **5.4%** |
| **Advanced Solutions Division** | **46.3** | **28.2** | **7.5** | **3.6** | **16.2%** | **16.8%** |
| **Total divisional** | **197.5** | **179.7** | **15.6** | **11.7** | **7.4%** | **6.5%** |
| Corporate costs | — | — | (4.6) | (2.2) | | |
| **Group** | **197.5** | **179.7** | **11.0** | **9.5** | **5.6%** | **5.3%** |

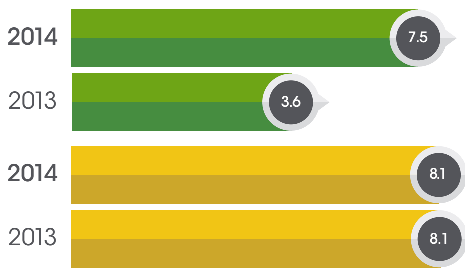
### Revenue




£46.3m
2013: £28.2m

£151.2m
2013: £151.5m

### Headline Operating Profit




£7.5m **+108%**
2013: £3.6m

£8.1m **0%**
2013: £8.1m

## Depot Solutions Division

The Depot Solutions division has shown flat revenue and Headline Operating Profit with an unchanged operating margin. During the year the regional operations were brought fully into an integrated Global Operations structure for the first time under the new COO.

The division comprises:

- Emerging Markets segment; and
- Western Europe and North America segment.

## Emerging Markets

The Emerging Markets segment includes Poland, Romania, Russia, South Africa, Turkey, Mexico, Argentina and India (from September 2013). Overall, revenue increased to £76.0 million. Headline Operating Profit increased by 14% to £6.7 million.

The operating margin declined to 8.8% (2013: 10.6%), primarily as a result of some transfer of margins between the Western Europe and North American segment and the Emerging Markets segment as part of a combined EMEA pricing approach.

Financial and operational highlights included:

- Poland and Romania are performing well, having won and implemented new and innovative solutions for new and existing customers in more complex repair services;
- Significant new business implementations have included: Nokia making use of our depot services in South Africa; a new contract with a German insurer supported through Poland; and a deal to support Vodafone in their sizeable German insurance programme through our Romanian facility. Russia changed from being a joint venture to a wholly owned subsidiary on 26 December 2013 but made no material profit contribution for the period. This acquisition was a strategic move to better serve pan-Global customers;
- The most recent addition to the segment, India, has been integrated well but is performing behind the Board's initial expectations. The growth opportunities remain significant; and
- The other countries in this segment continue to perform in line with the Board's expectations.

## Western Europe and North America

Overall, revenue decreased to £75.2 million. Headline Operating Profit decreased to £1.5 million. The Western Europe and North America segment includes UK (excluding Advanced Solutions) at Huntingdon and Normanton (closed in April 2014); Germany at Schloss Holte and Sommerda; Sweden; Spain; and new for the period was Portugal (from December 2013) and Memphis (from April 2014). Profitability at established sites was offset by start-up losses in new sites in the USA (Memphis) and Portugal.

The operating margin decreased to 2.0% (2013: 2.3%), primarily as a result of pricing pressure in the UK business.

Financial and operational highlights included:

- The B2B business based largely in Germany continued to perform well despite having some pricing pressure from clients;
- The most recent addition to the segment was Bitronic Germany which has been successfully integrated and is performing in line with the Board's expectations. The acquisition so far is delivering expected cost synergy (as it was based alongside our Sommerda operations) and access to new opportunities such as insurance repair and fulfilment;
- Spain is a key country in this segment and after an initially difficult start to the year is performing well again. During the year, a new contract was implemented to deliver an innovative solution for a major Spanish insurer in the management and supply of refurbished mobile handsets;

- Regenersis also won a multi-year, multi-service contract for a global mobile operator covering Iberia, which is the first significant business for the Group with this client. This started implementation in Spain during December 2013 and as a result, Regenersis also opened its first Portuguese depot facility in December 2013;
- In April 2014 the B2B business entered the US market, with a new depot facility opened in Memphis on behalf of our customer Wincor Nixdorf. This is very much in a ramp up phase and is performing in line with expectations; and
- The business experienced weak volume and margin pressure in the UK and Sweden.

### Advanced Solutions Division

Revenue increased by 64.0% to £46.3 million (2013: £28.2 million). Headline Operating Profit increased 108% to £7.5 million (2013: £3.6 million), generating a significant improvement in operating margin to 16.2% (2013: 12.8%).

The Advanced Solutions division includes:

- The Renew business – which is made up of the Digital Care, Recommerce and Refurbishment activities;
- The set top box activities in Glenrothes;
- The set top box Remote Diagnostics business – which is made up of the In-field Tester ("IFT") business and other remote diagnostics capabilities covering countries such as UK, South Africa and Belgium;
- The Mobile Remote Diagnostics business – which is made up of new diagnostics capabilities secured through the Group's strategic investment in Xcaliber; and
- From April 2014 the newly acquired Blancco business – providing data erasure software to recycling customers and global corporate customers around the world.

Financial and operational highlights included:

- Significant new business implementations such as: several new contracts with Nokia around the world covering motherboard repair and screen refurbishment activities; and closed loop refurbishment and insurance fulfilment activities from the Group's refurbishment facilities in Romania, UK and Sweden;
- New technical capabilities were introduced, including notably an advanced LCD screen delamination/relamination and refurbishment facility in Romania, Europe's first facility of this type;
- Digital Care won the principal smartphone insurance contract at each of the top three mobile operators in Poland, with its innovative service offer. These are expected to make a significant profit contribution in the coming year;
- Material profit growth from the set top box remote diagnostics business which benefited from the first full year of IFT royalty revenue from Virgin Media;
- Roll-out of an in-house developed Oktra set top box diagnostics system into our set top box repair facilities;
- Expansion of the set top box remote diagnostics offerings to clients in Europe, which will begin to make a profit contribution in the next financial year;
- Extension of the trial with a US based customer of the set top box remote diagnostics solution from two states to three states;
- The Xcaliber business undertook trials of its mobile remote diagnostic solution with a range of customers in Europe, although larger contracts are expected to be 12 months off;
- Installation of Xcaliber smartphone diagnostic systems in our largest mobile phone repair facilities;
- The Blancco business is in the process of being integrated and has performed ahead of management's initial expectations and the business is expected to show continued significant growth in the next financial year to 30 June 2015; and
- In April 2014, Blancco agreed a partnership with Kroll Ontrack, previously its largest competitor, whereby Kroll Ontrack promotes Blancco's data erasure software solutions. This partnership has started well and is already delivering new business.

## Corporate Costs

Corporate costs of £4.6 million (2013: £2.2 million) have increased primarily as a result of significant investment in senior management, the global sales force and re-focusing the resource base on the central global people with the necessary skills to support the continued ramp up of the business during the next phase of growth.

## Currency hedging activities and constant currency

One of the risks that the Group faces in doing business in overseas markets is currency fluctuations. The Group takes the following approach to managing currency fluctuations:

- The CFO conducts a quarterly review of the Group's currency hedging activities; and
- A formal recommendation for any changes is then made to the Board every half year.

The Group's hedging policy is the responsibility of the Board. The Group adopts the following hedging activities:

- We undertake a limited number of forward contracts for some payments and receipts, where the amounts are large, are not denominated in the local country's functional currency, where the timing is known in advance, and where the amount can be predicted with certainty;
- We undertake natural hedging between the cash and loan balances of different currencies;
- We undertake natural hedging by structuring and paying future earn-outs on acquisitions in the target company's local currency;
- We do not undertake any hedging activities in respect of tangible and intangible fixed assets, working capital such as stock, debtors, or creditors, or other balance sheet items, as these are generally small in nature in any one individual country; and
- We do not undertake any cash flow or profit hedging activities to insulate from currency movements in respect of overseas earnings, as the earnings cannot be assessed with a sufficiently high degree of accuracy in terms of timings and amounts.

During the year, we experienced significant headwinds in the translation of the Euro, US Dollar, South African Rand and Argentine Peso particularly in the second half of the year. The applicable exchange rates for the current and prior year ends are set out in the table below:

| | **2014** | 2013 | % Movement |
|---|---|---|---|
| Euro (EUR) | 1.25 | 1.17 | 6.8% |
| Indian Rupee (INR) | 102.20 | 104.1* | (1.2%) |
| Mexican Peso (MXN) | 22.09 | 20.01 | 10.4% |
| Polish Zloty (PLN) | 5.19 | 5.09 | 2.0% |
| Romanian Leu (RON) | 5.47 | 5.21 | 5.0% |
| US Dollar (USD) | 1.70 | 1.53 | 11.1% |
| South African Rand (ZAR) | 18.06 | 15.26 | 18.3% |
| Argentine Peso (ARS) | 13.85 | 8.22 | 68.5% |

* Rupee value is at acquisition date of Regenersis (India) Private Ltd

The Group has a good mix of business across 22 different territories and this does provide some degree of smoothing of currency movements in any one country through a portfolio effect. Nonetheless the continued strength of Sterling has resulted in continuing pressure (on translation of foreign earnings in to GBP) in the latter part of the year and this is expected to continue in the coming year.

In constant currency terms, Headline Operating Profit for the year would have been £0.6 million higher and operating profit £1.0 million higher if they had been restated at the average exchange rates that were expected to be in place for the year ended 30 June 2014. A reconciliation of actual results for 2014 to results restated in this way is set out below:

| | **Actual results 2014 £'m** | **Constant currency 2014 £'m** |
|---|---|---|
| Revenue | 197.5 | 212.6 |
| Gross profit | 46.3 | 49.8 |
| Headline Operating Profit | 11.0 | 11.6 |
| Operating profit | 0.5 | 1.5 |
| Basic EPS (pence) | 5.45 | 7.29 |

The cumulative effect of exchange rate movements on the Group's net assets is reflected in the Consolidated Statement of Comprehensive Income.

# A busy year pursuing **M&A opportunities**.

## Mergers and acquisition activity

The Group has been busy pursuing M&A opportunities. For the Depot Solutions division acquisitions have been completed in India and Russia. For the Advanced Solutions division, the Group has invested in Xcaliber and acquired Blancco.

## Acquisition of Digicomp

On 10 September 2013 the Group completed the acquisition of 80% of the issued share capital of Digicomp Complete Solutions Limited ("Digicomp") for a consideration of INR 451 million (£4.5 million). Key features of Digicomp include:

- A high-quality business in India with a 65% market share in approved laptop repair;
- One main depot facility in Bangalore with 92 owned and franchised stores in the major Indian cities;
- Key OEM customers, including Dell, HP, Lenovo and Acer and market leading accreditations with Foxconn and Pegatron;
- A unique laptop recovery offering, which is growing rapidly, and is similar to the Group's mobile Recommerce business; and
- The market penetration for laptops in India is less than 10% of the total population and less than 5% for smartphones — both presenting very significant growth opportunities for Digicomp.

The acquired business has been integrated well, but is performing behind the Board's expectations. The growth opportunities remain significant.

The initial consideration of INR 451 million (£4.5 million) cash was funded through the Group's existing revolving credit facility. In addition to the initial consideration, an earn-out could be payable in March 2015 based upon a fixed earnings multiple above a pre-defined level of profitability, using the annualised EBIT achieved in the 17 month period 1 August 2013 to 31 December 2014.

In September 2016, Regenersis will acquire the remaining 20% of the issued share capital of Digicomp, based upon a fixed earning multiple applied to the EBIT achieved in the 12 month period ending 31 March 2016.

## Investment in Xcaliber

On 21 November 2013 we completed the acquisition of 15% of the issued share capital of Xcaliber Technologies LLC and Xcaliber Infotech PVT Ltd (together "Xcaliber") for a consideration of US$1.2 million (£0.75 million).

Xcaliber is a US based software business with a market leading mobile diagnostic technology which adds to our existing diagnostic offering in Europe, the US and globally.

Regenersis will become Xcaliber's route to market around the world, with exclusivity in EMEA. This will build Regenersis' share of the economics of Xcaliber significantly beyond our equity stake.

Key features of Xcaliber:

- A developer of telecoms solutions primarily focused on remote diagnostics software for smartphones;
- Xcaliber's most important application is the SmartChk diagnostics software for Windows, Android and iOS platforms, which is designed to drive down 'No Fault Found' rates for operators and OEMs on smartphones; and
- As well as providing Xcaliber with finance to fund growth, the Group has also assisted by providing access to our global sales resources in the marketing of the SmartChk application by utilising our existing relationships with OEMs and operators. Regenersis has commenced use of this application within our own facilities in order to automate and increase the efficiency of the screening and quality assurance phases of our repair process.

The initial consideration of US$1.2 million cash was funded through the Group's revolving credit facility.

On 11 July 2014, the Group increased its investment in the issued share capital of Xcaliber Technologies LLC from 15% to 49% for a consideration of US$3.25 million (£2.0 million) funded through the Group's cash reserves.

This additional investment will be used to secure the growth of the business and the large potential contracts that already exist, as well as to progress a bundled diagnostic platform with Blancco and other growing Regenersis technologies.

## Acquisition of Regenersis Russia

On 26 December 2013 we completed the acquisition of the remaining 50% of the issued share capital of Regenersis Russia for a consideration of £0.4 million. This now becomes a wholly owned subsidiary and benefits from all of the Group's sales resource and efforts to grow further into this potentially significant emerging market.

The consideration of £0.4 million was funded through the Group's revolving credit facility.

## Acquisition of Blancco

On 17 April 2014, Regenersis completed the acquisition of all of the issued share capital of Blancco Oy Ltd and controlling stakes in its major sales offices (together comprising "Blancco"), for a consideration of €60 million on a debt-free basis comprising approximately €58.7 million (£48.6 million) in cash and €1.3 million (£1.0 million) in consideration shares.

Key features of Blancco include:

- A global market leader by revenue and number of accreditations in the provision of data erasure software. It was founded in 1997, has approximately 130 employees and is headquartered in Finland;
- Global presence with major sales offices in Finland, the United Kingdom, Germany and the United States and additional sales offices in Australia, Canada, France, Germany, Japan, Malaysia, South Korea, New Zealand, Mexico, Russia and Sweden;
- Key customers include blue chip corporates, government organisations, aftermarket operations and suppliers of telecoms operators and OEMs;
- Data erasure is an attractive market, which is expected to show strong growth over the next few years, that complements Regenersis' Advanced Solutions business;
- New European legislation is due to come into force in 2015, and is likely to make it mandatory for some companies to appoint a data protection officer, to adopt and keep records of a process-based approach to data protection compliance; and to introduce fines for data breaches of up to 5% of annual worldwide turnover; and
- Data erasure represents (increasingly as new rules come into force) a large corporate risk but a very small cost – this suggests that Blancco's strong market position is likely to become increasingly valuable as clients seek credible options to deal with data erasure problems.

The Board believes that the acquisition will provide:

- A new way to leverage the Regenersis global sales team and its relationships with major global mobile operators and OEMs, supplementing a locally driven sales approach; and
- A one stop solution to Regenersis' existing repair clients for accredited repair/refurbishment and erasure solutions.

Of the €60 million consideration paid for Blancco, €58.7 million was funded through the Placing of new shares.

## Placing

On 17 April 2014, the Group raised £100 million (before expenses) through a Placing of 28,986,000 new ordinary shares at a price of 345 pence per share. The new ordinary shares (and the shares issued as part of the consideration for Blancco) ranked in full for all dividends and other distributions declared, made or paid on ordinary shares by reference to record dates falling after their date of issue and otherwise ranked pari passu in all respects with the existing ordinary shares, save that they did not entitle the holder to receive the interim dividend of 1.32 pence per ordinary share payable in respect of the six months to 31 December 2013 declared on 17 March 2014.

## The Operating Matrix

The Group now has a footprint of 21 depot sites, runs 217 "retail units" in 22 territories and employs over 4,200 people. Seven of these countries were opened and one new service was established in the last 12 months. We have continued to fill the operating matrix with 33 new product/service line combinations in the last 12 months, achieving a total of 70 combinations.

This matrix of geographies and products is important, firstly, because it is how we leverage and build on our strengths, assets and relationships and, secondly, it is how we translate our strategy for growth in Emerging Markets and Advanced Solutions into action on the ground.

The operating matrix diagram is shown on page 7.

## Exceptional acquisition and restructuring costs

Acquisition costs amounted to £5.0 million (2013: £1.9 million) with the largest costs relating to the acquisitions of Blancco and Digicomp.

Exceptional restructuring costs amounted to £4.4 million (2013: £nil) and related primarily to:

- Right sizing and refocusing the senior management resource towards the Advanced Solutions division.
- Delayering middle management in the Depot Solutions division to produce a more centrally controlled structure, to better serve our global clients on a consistent basis; and
- Refocusing the resource base on the central global people with the necessary skills to support the continued ramp up of the business during the next phase of growth.

## Amortisation of intangible assets

Other costs excluded from Headline Operating Profit included the amortisation of acquired intangible assets amounting to £0.6 million (2013: £0.1 million). These increased in the year due to the acquisition of Blancco and the amortisation of the acquired Blancco brand and Intellectual Property.

## Share based payments

Share based payments amounting to £0.7 million (2013: £0.5 million) were also excluded from Headline Operating Profit. These increased in the year due to the issue of new awards under Incentive Share Plan 3, which is outlined in more detailed in the Directors' Remuneration Report on pages 49 to 54.

## Net financing income

Net financing income was £2.4 million (2013: £1.4 million net charge). The main changes in the year have arisen from the unwind of the discount factor on the Digicomp contingent consideration and revaluation of the HDM contingent consideration; further details are included in note 10 to the accounts.

## Taxation

The total tax credit was £0.4 million (2013: £1.0 million charge). The Group has a permanent benefit from being in territories where the local taxation rates are lower than the UK rate, for example in Poland and Romania. The blended underlying corporation tax rate on Headline Operating Profit for the year for the Group in 2014 was 14% (2013: 17%). The tax credit in the period was primarily due to one-off tax deductions obtained on share option payments and exceptional acquisition costs.

## Earnings per share

Adjusted earnings per share decreased 3.8% to 16.16 pence (2013: 16.80 pence), due to the Placing of 28,986,000 new ordinary shares on 17 April 2014. Had this not occurred adjusted EPS would have been 18.19 pence, which would represent growth of 8.3% over the 2013 adjusted EPS.

Basic EPS decreased by 48.2% to 5.45p (2013: 10.53p), primarily as a result of exceptional acquisition and restructuring costs noted above, as well as the impact of the Placing.

## Cash flow

| | 2014 £'m | 2013 £'m |
|---|---|---|
| Operating cash flow before movement in working capital and exceptionals | 14.1 | 11.9 |
| Movement in working capital and exceptionals | (8.6) | 2.2 |
| Movement in provisions | (1.0) | (1.2) |
| **Headline Operating Cash Flow** | **4.5** | **12.9** |
| Net interest payments | (0.7) | (0.4) |
| Tax paid | (0.8) | (0.8) |
| Acquisition and other exceptional payments | (8.7) | (1.8) |
| Operating cash flow | (5.7) | 9.9 |
| Net capital expenditure | (6.7) | (4.3) |
| Acquisition of subsidiaries, associates and other investments, net of cash acquired | (51.1) | (7.5) |
| Net cash flow from share issues, option vesting and dividend payments | 89.3 | 3.3 |
| (Repayment)/Drawdown of borrowings | (3.3) | 0.2 |
| **Net increase in cash and cash equivalents** | **22.5** | **1.6** |
| **Net cash/(debt)** | **20.6** | **(1.9)** |

Headline Operating Cash Flow of £4.5 million (2013: £12.9 million) and operating cash outflow of £5.7 million (2013: inflow of £9.9 million) are both lower than previous periods primarily due to working capital investments made in the rapidly growing Advanced Solutions division. In addition, there was a timing issue caused by a significant customer receipt being received early in June 2013 instead of July 2013, which inflated the June 2013 cash conversion and deflated the June 2014 cash conversion.

Net cash at the end of the period was £20.6 million (30 June 2013: £1.9 million net debt and December 2013: £13.8 million net debt) following the fund raising in April 2014.

Working capital increased by £8.6 million due to an increase in the size of the business. The key working capital metrics that are monitored are:

- Debtor days which increased to 64 days (2013: 42 days);
- Stock days which decreased to 28 days (2013: 30 days);
- Creditor days which increased to 47 days (2013: 37 days); and
- Tax paid was £0.8 million (2013: £0.8 million), and this is in line with the prior period.

Net interest paid was £0.7 million (2013: £0.3 million) and is higher than the prior year due to increased use of the revolving credit facility during the first half of the year primarily to fund the acquisitions of Digicomp, Xcaliber and Regenersis Russia.

Capital expenditure increased to £6.7 million (2013: £4.3 million). Within this, expenditure on intangible assets amounted to £3.9 million (2013: £2.5 million) and comprised further investment in:

- R&D investment in the next phase of IFT;
- Investment in depot automation, and diagnostic technology;
- Development of Refurbishment technology; and
- Development of bespoke IT systems to support the Digital Care business.

Expenditure on tangible assets amounted to £2.8 million (2013: £1.8 million) and comprised leasehold improvements and technical equipment.

## Banking facility

In December 2013, the Group increased its banking facility with HSBC from £23 million to £39 million, to support Regenersis' growth plans both organically and through acquisitions. The term of the facility has been extended from October 2015 to October 2016, which gives Regenersis clear certainty of funding over the next two years. The costs of borrowing and the covenants remain unchanged.

All banking covenants have been passed and show significant headroom for the foreseeable future.

## Net cash

Year end net cash comprised gross borrowings of £0.7 million, in Sterling, South African Rand and Euros (2013: £6.5 million), cash and cash equivalents of £20.8 million (2013: £4.5 million) and the deferred arrangement fees of £0.5 million (2013: £0.2 million).

# Business Review continued

## Full year dividend of 4.0 pence — **60% increase**.

### Key performance indicators

The Group has a range of performance indicators, both financial and non-financial, to monitor and manage the business and ultimately to improve performance. These are set at the individual customer level and for business units as well as for the Group as a whole. The Group's key performance indicators ("KPIs") are outlined below:

| KPI | Target | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Headline Operating Profit (£'m) | Double digit growth year on year | 11.0 | 9.5 | 7.8 | 6.3 |
| Headline Operating Cash flow (£'m) | | 4.5 | 12.9 | 5.9 | 3.3 |
| Adjusted EPS (pence) | | 16.16 | 16.80 | 13.50 | 12.26 |
| ROCE | In excess of 70% | 64% | 96% | 101% | 68% |
| Mix of Advanced Solution to the rest of the business (Headline Operating Profit) | In excess of 50% | 48% | 31% | 30% | 29% |
| Health & Safety RIDDOR* reportable incidents (number) | Zero | — | 4 | 3 | 4 |

* Or local country equivalent.

### Dividend

In line with our stated dividend policy, the Board is recommending a final dividend of 2.68 pence per ordinary share to be paid on 5 December 2014 to shareholders on the register on 7 November 2014. This gives a full year dividend of 4.0 pence per ordinary share, which represents a 60% increase on the prior year.

### Post balance sheet events

#### Acquisition of SafeIT

On 2 September 2014, the Group completed the acquisition of 100% of the share capital of SafeIT Security Sweden AB ("SafeIT"), for a consideration of SEK 16.0 million (£1.4 million). SafeIT is a specialist data erasure business in the field of virtual and server data erasure management. Its services and solutions help clients to identify and permanently erase data in complex cloud environments. This acquisition extends Blancco's market leading position in data erasure into the rapidly growing cloud storage market.

#### Additional investment in Xcaliber

On 11 July 2014, the Group increased its investment in the issued share capital of Xcaliber Technologies LLC from 15% to 49% for a consideration of US$3.25 million (£2.0 million). This additional investment will be used to secure the growth of the business and the large potential contracts that already exist, as well as to progress a bundled diagnostic platform with Blancco and other growing Regenersis technologies.

#### Buy out of non-controlling interest in Blancco Sweden

On 2 September 2014, the Group acquired the share capital it did not already own in Blancco Sweden for a consideration of SEK 2.8 million (£0.2 million). The acquisition increased the equity stake in the company from 75% to 100% and demonstrates the Group's continued commitment to grow the newly acquired Blancco Group.

### Conflict minerals

Regenersis recognises the risks of significant adverse impacts which may be associated with extracting, trading, handling and exporting minerals from conflict affected areas. The sale of conflict minerals can be used to fund rebel armies, fuelling conflict and human rights abuses.

Our aim is for all products, which are manufactured, or contracted to be handled by Regenersis to be DRC Conflict-Free.

Where Regenersis finds products that contain conflict minerals, we will work with suppliers towards removal of conflict minerals from the product. Additionally, Regenersis may suspend purchasing new products from the supplier until the issue is resolved. If a supplier refuses to cooperate and take action towards removal of the conflict mineral source(s) from the products supplied to Regenersis, we may suspend our relationship with the supplier.

As part of the Regenersis process for the implementation of new suppliers, our supplier evaluation checklist helps ensure that materials we purchase do not contain conflict minerals and a self-declaration is also required that the full supply chain process of the suppliers has been examined to confirm this.

In addition, we have also reviewed our existing supply base, and there was no indication that any products handled by Regenersis contained conflict minerals.

## Risk Management

The Board is responsible for determining the nature and extent of the risks it is willing to take in delivering Regenersis' strategic objectives, and is in the process of setting up an enhanced framework to manage these risks, called the Regenersis Risk Management Framework.

This enhanced framework is being created as a result of the increasing size and complexity of the Group's operations, which is giving rise to an increased number and scale of risks.

### Risk agenda

Regenersis' new risk agenda is to be delivered through an appropriate and embedded risk management culture and framework. This will help to ensure that appropriate and proportionate resources are allocated to risk management, in order to ensure the activities of risk assessment, response, communication and governance are further embedded in Regenersis' processes going forward.

### Risk assessment

In identifying risks we will consider both the external factors, arising from the environment in which we operate; and the internal factors arising from the nature of our business, our controls and processes and our decision making.

Business Unit Managing Directors will own their respective risks and, with support from the newly established Internal Audit function, will be required to record the causes and consequences, together with mitigating factors to reduce the risks that they have identified. Each risk will be evaluated based on its likelihood of occurrence and severity of impact (on strategy, profit, regulatory compliance, reputation and/or people) and positioned on a risk ranking matrix that is in the process of being established.

This approach is expected to allow the easy identification of the significant material risks, and allow management to consider the effect of any mitigating actions that they may be able to put in place. Each risk will also be assessed as to whether it is within the Group's risk appetite.

After this initial assessment, which will be completed shortly, the objective is that strategic risk appetite for the business will be reviewed annually as part of the annual budgeting process by the Board. The Board will be asked to assess whether risks are within the business's risk appetite.

### Risk response

As a result of this assessment and recording of risks, management will formulate an appropriate response for each risk, i.e. whether to tolerate, treat, or terminate the threat to the business.

Appropriate actions will be agreed, for example to mitigate, transfer (through insurance), or eliminate (by ceasing) the risk. The objective will be to continually challenge the efficiency and effectiveness of controls.

### Regenersis Risk Management Framework

The new Risk Management Framework will operate as follows:

- The Board — Will annually undertake a formal review of the effectiveness of the Regenersis Risk Management Framework, policy and procedures, and performance of the newly established Risk Management Committee. Twice yearly the Board will review the key risks in the Group's risk register, thereby allowing it the opportunity to review the level of risk that the Board is prepared to accept in pursuit of the Group's strategic objectives;
- The Risk Management Committee — The Board will be supported in its responsibilities by the newly established Risk Management Committee, which is chaired by the Chief Operating Officer, and is responsible for ensuring that all significant Management and Operational risks facing the Group are reduced to an acceptable level. During

the course of the year, the Committee met twice. This Committee comprises the Head of Internal Audit, and other senior management team members;

- The Audit Committee — Reviews the Group's system of internal control, including financial, operational, compliance and risk management, as well as reviewing the system's effectiveness. Such a system is primarily designed to mitigate risk to an acceptable level, support compliance with laws and regulations, and protect against material misstatement or loss; and
- Internal Audit — During the year the Group created an internal audit function and appointed a Head of Internal Audit who reports to the CFO and has a dotted line to the Audit Committee Chairman. The Internal Audit function will support the Audit Committee in its review of the effectiveness of the system of internal control. There is a rolling programme of Internal Audit review carried out across the Group. During the course of the year the Internal Audit function undertook eight reviews.

## Principal Risks

It is recognised that the Group's strategic objectives can only be achieved if risks are taken and managed effectively. The risks below are those considered principal to delivering our strategy and are specific to the nature of our business, although there are other risks that may occur and impact the Group's performance.

| Risk Area | Mitigation |
|---|---|
| **Commercial contract risks** | Given the potential for onerous terms in customer contracts it is essential that Regenersis continues to contract for business at acceptable rates and with appropriate commercial balance. This also includes consideration of the cash flow impact of each customer contract. The Group has a contract approval process in which key customer contracts are approved by either the CFO or Executive Chairman and if needed the Group Board. |
| **System risks** | As data management is an essential platform of our service offering, the flexibility and reliability of the systems is critical to the ongoing development of the Group. The integrity of our systems is maintained through regular backup testing and robust disaster recovery planning.<br>We have implemented policies and procedures to efficiently and safely manage all our operations and to maintain our supply of products to our customers. We have in place robust and comprehensive business continuity plans which are regularly reviewed and monitored to ensure their continued effectiveness. |
| **Market and economic risks** | The Group's activities support a broad range of customer orientated and technology rich products. There is a strong correlation between the volume of consumer sales and the number of service events arising as a result of those sales. The Group has been developing a diversified service capability and expanding capacity in low cost service locations to ensure a balanced portfolio of customers, services and locations. |
| **Financing risks** | The Group has maintained a prudent approach to the management of cash flow. The Group has good access to cash reserves and a revolving credit facility providing finance until October 2016. |
| **Customer concentration risks** | The Board is conscious of this ongoing risk and seeks to reduce this further through the development of new customers and the creation of more dependent relationships with its existing customers.<br>A number of customers are significant in the context of the Group as a whole. However, no single customer accounts for more than 14% (2013: 16%) of the revenue, and the top ten customers represent 71% (2013: 73%) of the Group's revenue. |
| **Operational efficiency risks** | Operational efficiency is vital to the profitability of the Group and to customer service. The Group is currently giving this area great focus and has strengthened the operational management, is more than 65% of the way through the roll-out of the ERP system to all of the sites, and is implementing a continuous improvement and standardized operations procedures methodology called Kaizen. |

| Risk Area | Mitigation |
|---|---|
| **Compliance risks** | Some of the Group's business relies on the compliance with and enforcement of legislation consistent with the WEEE Directive. The Group maintains government approved licenses to manage the collection, treatment and export of electrical waste.<br>In addition, Regenersis handles equipment holding personal data and is mindful of the implications of the Data Protection Act. The Group maintains internal processes to ensure appropriate guidelines are followed.<br>In addition, Regenersis has a range of policies and procedures to ensure the guidelines in respect of Safety, Health and Environmental matters are monitored and adhered to. |
| **Foreign exchange rate volatility** | The widening geographic spread of the Group means that financial results can, increasingly, be affected by movements in foreign exchange rates. The risk presented by currency fluctuations may affect business planning and product procurement costs. The Group monitors foreign exchange exposure closely and, when a transactional exposure is not covered through a natural hedge, will consider entering into a hedge arrangement. |
| **Employee engagement** | Staff engagement is essential to the successful delivery of service to customers and longer term the overall business strategy. Considerable effort has been devoted to communicating the business strategy so employees are clear on our business objectives and their role in the strategy. The employee appraisals process and setting of personal objectives operate within the framework of our corporate objectives. This is then reinforced by the employee incentivisation process. |
| **Corporate social responsibility and sustainability** | The Board continues to identify business ethics, sustainability, employees and the local community as the main building blocks in this area. To mitigate risks associated with these issues, Regenersis has implemented Group-wide policies and training for all staff. The Board is committed to managing all risks associated with these activities, on an ongoing basis. |
| **Recruitment and retention of the right people** | We continue to invest in the development of our people through clear employee objectives and development plans, aligned to our strategy. We have succession plans in place for key roles and continue to work in developing our future leaders so that we are able to promote internally as well as sourcing talent externally. We operate an equal opportunities policy and regard this as a commitment to make full use of the talents and resources of all our employees, and to provide a healthy environment which will encourage good and productive working relationships within our global organisation. |

## Cautionary statement

Regenersis' business and share price may be affected by a number of risks, trends, factors and uncertainties, not all of which are in our control. The process Regenersis has in place for identifying, assessing and managing risks is set out in the Risk Management section of the Report on page 23.

This review has been prepared solely to provide additional information to shareholders to assess the Group's strategy and the potential of that strategy to succeed and should not be relied upon by any other party or for any other purpose. It contains certain forward-looking statements with respect to the financial condition, results, operations and businesses of Regenersis Plc.

These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that may occur in the future.

There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this review should be construed as a profit forecast.

**Matthew Peacock**
Executive Chairman

**Jog Dhody**
Chief Financial Officer

# Corporate Social Responsibility and Sustainability



Our solutions help consumers and businesses by **supporting** them to transition towards more **sustainable** circular business models and move away from 'take, make, dispose' processes and lifestyles.

Providing repair, refurbishment, and recovery solutions, we feel we are in the business of 'closing the loop', effectively circularising value chains within our sector. We believe this is an inherently sustainable business model that also contributes to the delivery of a nationally and globally circular economy. This is vastly more sustainable than a traditional linear economy, minimising resource consumption and reducing negative environmental and social impacts from manufacturing, consumption and disposal.

A portion of our refurbished products make their way into secondary markets in some of the less developed areas of the globe. It is our hope that these affordable electronic devices in some way support social and economic advancement, facilitating the transfer of information and connectivity to more parts of the globe.

## Our responsibilities

We recognise that whilst delivering a business model with a strong sustainable premise we have a duty to ensure that our day-to-day business practices are undertaken ethically, environmentally and in a socially responsible manner. This obligation is to society as a whole and to our employees, customers and shareholders. By exhibiting high standards of sustainability stewardship we achieve cost-efficiencies, increase customer and employee loyalty, win new business and mitigate our risks.

## Ethics and values

The Board believes our business should be operated only through ethical policies and practices. Our Code of Conduct Policy, Anti-bribery and Corruption Policy and Whistle-blowing Policy form key parts of staff induction and ongoing training. The Whistle-blowing hotline is monitored by a third party specialist call handler compliant with the Private Security Industry Act requirements for interviewing callers. They provide a confidential and independent global service for staff to report concerns, which are then escalated immediately to the Executive Chairman and CFO for appropriate action.

### Compliance and risk management

As handlers of in-use or pre-owned electronic devices, we have a legal and moral duty to handle personal data with the utmost integrity and security. To this end, we have advanced quality control and assurance programmes in place to ensure we have a robust approach. Our quality management systems are certified to ISO 9001 and we are compliant in all related aspects with data protection laws in all of the countries in which we have significant operations. Electronic devices often contain restricted and hazardous material, which explains in part why our operations are governed by a large body of environmental legislation. Management of our environmental and legal risks is undertaken through our ISO 14001-certified Environmental Management Systems (EMS). These systems operate at all of our material repair and refurbishment facilities. Through these systems we track compliance to environmental regulations and implement strategies to exceed compliance. We see our EMSs as a key pillar in our risk management strategy, which is why they are backed wholeheartedly by the Board.

### Employee well-being, health and safety

We recognise our talented and diverse workforce as a key business asset. Their development and well-being is critically important to the continued success of our business. We have significantly increased employee numbers in the last year, reflecting ongoing investment and continued success across our business. Average employee numbers have risen over the course of the year by 1,531 to a total of 4,212 in 2014.

Regenersis is committed to the following:

- Seeking out, retaining and developing the highest calibre employees to maximise business growth and performance;
- Delivering a comprehensive induction process to everyone joining Regenersis. This programme is tailored to the requirements of individual roles and each business area. This includes establishing performance and development goals for all staff which are aligned to the KPIs and goals of the business;

- Assessment of ongoing training needs comprises a key element of the annual appraisal process;
- Operate an equal opportunities policy and regard this as a commitment to make full use of the talents and resources of all our employees;
- Provide a clean, safe working environment which meets all legislative requirements and to provide all the necessary training support for employees to operate safely within it;
- Provide appropriate remuneration for work carried out and equal opportunities for development and career advancement;
- Be intolerant of any unacceptable working practices such as any form of discrimination, bullying or harassment. We have implemented a Dignity at Work Policy and a Discipline Policy across the Group;
- Prohibit the illegal use of drugs on our sites and encourage anyone with any form of addiction to seek help;
- Be intolerant of any corrupt practices by any level of employee and encourage whistle-blowing (through our formal procedure) if such practices are encountered. In particular, improper payments are prohibited and no gift, whose value is material and could be interpreted as a form of inducement, should be offered or accepted by any employee;
- Encourage employee involvement. Several of the Group's operations have implemented Kaizen, where every employee is encouraged to come up with improvement suggestions on a regular basis. Kaizen is based on making changes anywhere in the business. It involves setting standards and then creating a process to continually improve those standards;
- Pursue a policy of providing, wherever possible, the same employment and training opportunities to disabled persons as to other employees. Where existing employees become disabled, to provide continuing employment under normal terms and conditions, wherever possible; and
- Provide regular staff briefing sessions both online and through newsletters from the Executive Chairman to provide updates on business performance, strategy and developments affecting the business and to obtain feedback and suggestions on the development and growth of the business.

The following tables show the composition of the Group's workforce at the end of the year:

| | Board | Senior Management | Other Staff | Total | % |
|---|---|---|---|---|---|
| **Gender** | | | | | |
| Female | — | 27 | 1,390 | 1,417 | 34 |
| Male | 5 | 70 | 2,720 | 2,795 | 66 |
| **Total** | **5** | **97** | **4,110** | **4,212** | **100** |

Largely as a result of the above approach, Regenersis has low voluntary employee turnover. Staff turnover for the reported year, by segment and division, was:

| | Staff Turnover (%) |
|---|---|
| Emerging Markets | 5 |
| Western Europe and North America | 27 |
| **Depot Solutions** | **12** |
| **Advanced Solutions** | **1** |
| Head office | — |
| **Total Group** | **9** |

Our Health and Safety record continues to be good with no serious reported incidents during the year. All our operational staff receive the appropriate level of health and safety training. Every operational site has an established structure in place to deal with health and safety matters. The Board monitors Health and Safety RIDDOR reportable (or local country equivalent) incidents as a key performance indicator. This KPI is used continually to manage the business, improve performance and compare results against target.

| | 2014* | 2013* | 2012* | 2011* | 2010* |
|---|---|---|---|---|---|
| Fatalities (number) | **0** | 0 | 0 | 0 | 0 |
| Health and Safety RIDDOR reportable incidents (number) | **0** | 4 | 3 | 4 | 4 |

* calendar year

# Corporate Social Responsibility and Sustainability continued



We have a duty to ensure that our day-to-day business practices are undertaken **ethically**, **environmentally** and in a socially **responsible** manner.

## Resource efficiency

### Energy

The use of fossil fuels, carbon emissions and energy security are critical issues for the globe. Legislators are seeking to wean society off traditional forms of energy, encouraging both reduced consumption and a switch to low and zero carbon renewables. As a costly commodity, there are also cost efficiency benefits to be gained from reducing energy consumption. As such, there are strong environmental, social, regulatory and economic drivers for us to take action to improve the energy profile of our products and operations.

We see our repair, refurbishment and recycling business as helping to reduce the energy footprint of both our sector and society, closing the loop on product and material life cycles.

At the facility level, we leverage the requirements of our ISO14001-certified management systems to promote the implementation of energy reductions targets and initiatives.

## Waste and materials

Resource shortages present a growing risk to economy and society. Furthermore, the world's producers and consumers are collectively responsible for generating an unsustainable volume of waste each year, resulting in significant social and environmental degradation. There are therefore strong motives for businesses to streamline operations and seek resource and waste efficiency gains wherever possible.

Our solutions extend the productive life of consumer electronics, avoiding the need for further resource consumption. Where we can't repair or refurbish a product we recover and recycle its component materials; put succinctly, our services reduce resource consumption and mitigate waste arising.

At our facilities, our management systems are geared to drive continual improvements in waste reduction and landfill avoidance. Many of our waste reduction efforts rely on our engagement and partnerships with third parties.

## Climate change

It is generally agreed that man-made greenhouse gas emissions initiated, and continue to perpetuate, changes to our global climate. These emissions increase average surface temperatures, though it's the climatic knock-on effects that are the major cause for concern, such as more frequent extreme weather events and increased global sea levels. Governments, businesses and people must now act to mitigate further change by cutting emissions and adapting to change by preparing for its effects.

Our efficiency initiatives around energy, water, waste and materials form the basis for mitigating our climate change impacts. With regard to adaptation we recognise that as a business with a network of sites and facilities we must understand any material risks from climate change, particularly flooding events. Therefore, we are working to future proof our operations, incorporating flood risk assessment in the due diligence procedures of our facility acquisitions.

## Suppliers

We recognise that, in a globalised world, the opportunity to improve social and environmental outcomes extends far beyond the front gates of our facilities. We work with our customers and suppliers to deliver innovative solutions that mitigate any impacts and deliver cost efficiencies. Our Supplier Checklist has been distributed to provide due diligence information to support the procurement decisions at our operations. This includes consideration of a supplier's environmental management arrangements.

We are also keenly aware of the damaging role played by the trade in conflict minerals. We understand the role of our sector in the eradication of conflict minerals and to this end are rolling out a supplier engagement programme to ensure we are not contributing to this issue.

## Community investment

The communities in which we operate are key stakeholders of our business. Our employees live in these communities, our suppliers can be located in them and they are the most immediate witnesses to our corporate behaviour; it is from them that we obtain our 'social licence to operate'.

We aim to be a responsible partner in the communities in which we operate. We seek to make positive local contributions, offering local labour, training and volunteering opportunities and investing through charitable donations.

At our facility in Sommerda, Germany we have partnered with Stiftung Finneck since 2010 to provide work opportunities to adults with disabilities. Further, we offer summer work experience placements to around 10–15 students.

## Our performance

We are committed to monitoring the environmental impacts of our operations. Our ability to capture data varies across our facilities, partly in relation to our differing lease arrangements. Our performance in terms of the principal environmental impacts of our business is presented for a selection of our facilities, by calendar year.

## People

Integrity, Knowledge, Skill and Experience that's what sets us apart. With almost 4,200 employees in 22 territories, we work together to ensure that our customers' experience is the best it can be.

Every day, we work hard to earn and keep the trust of our customers, delivering the best value, the highest quality, and outstanding customer service.

Read more on page **26**

# Our Governance



# Directors & Advisers



The Board expects **new acquisitions** in the year to improve the profitability of the business and continue to deliver **double digit** revenue and profit **growth**.

## Matthew Peacock

**Executive Chairman**

Matthew Peacock joined the Board in February 2011. He is the founding partner of Hanover Investors Management LLP which is a shareholder of Regenersis. Hanover Investors is a specialist turnaround and 'Change for Growth' investment firm. Matthew has led investments for over 24 years in, amongst other sectors, manufacturing, outsourced business services, chemicals, financial services, textiles and logistics. Prior to this, he ran the international M&A team in London at Barclays de Zoete Wedd, having started his career at Credit Suisse First Boston in New York.

## Jog Dhody

**Chief Financial Officer**

Jog Dhody joined the Board in April 2012. He has significant financial management experience, particularly within ambitious, growth-oriented businesses. Prior to joining Regenersis, Jog was Chief Financial Officer of the Esporta Group, a position he held for four years. During that time, he played a key role in the successful restructuring and turnaround of the business, which had been the subject of a private equity-backed refinancing, and the ultimate sale of the business. Prior to this, Jog was Group Financial Controller of Phones4u Group.

## Tom Russell

**Executive Director**

Tom Russell joined the Board in March 2011. He is also a partner at Hanover Investors. Prior to this he spent nine years at Mercer Oliver Wyman, where he specialised in the Communications, Information and Entertainment sector, advising on strategy and operations.

## Michael Peacock

**Senior Independent Non-executive Director**

Michael Peacock joined the Board in February 2011. He was most recently the Finance Director at Victrex plc. Victrex is a global manufacturer of innovative, high performance thermoplastic polymers, working with customers and end users to deliver technology driven solutions to the challenges and opportunities they face. Michael was formerly with Barclays de Zoete Wedd's corporate finance department before moving into industry as a Finance Director. Michael is also a Non-executive Director of Blackrock Smaller Companies Trust plc.

## Rob Woodward

**Independent Non-executive Director**

Rob Woodward joined the Board in June 2013. He is also Chief Executive of STV Group plc and has significant experience in the Technology, Media and Telecommunications (TMT) industry, notably with STV, as the Commercial Director of Channel 4 Television, as a Managing Director with UBS Corporate Finance and the lead partner for Deloitte's TMT industry group in Europe.

### Registered office

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### Company number

05113820

### Auditor

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

### Nominated adviser and joint broker

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One New Change
London EC4M 9AF

### Joint broker

Cenkos Securities
6–8 Tokenhouse Yard
London EC2R 7AS

### Bankers

HSBC
4th Floor, 120 Edmund Street
Birmingham B3 2QZ

### Registrars

Computershare Investor Services plc
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

### Lawyers

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Primrose Street
London EC2A 2HS

Pinsent Masons
3 Colmore Circus
Birmingham B4 6BH

### Financial public relations

Tavistock Communications
131 Finsbury Pavement
London EC2A 1NT

### Company Secretary

Lorraine Young Company
Secretaries Limited
190 High Street
Tonbridge
Kent TN9 1BE

# Directors' Report



The Directors present their report together with the audited financial statements for the year ended 30 June 2014.

## Strategic Report

Pursuant to sections 414A-D of the Companies Act 2006, a Strategic Report is set out on pages 3 to 29 and incorporates the Chairman's Statement, Business Review and Corporate Social Responsibility and Sustainability Report. The Strategic Report includes details of expected future developments in the business of the Group, principal risks and uncertainties and details of key performance indicators deployed by management.

In addition to the Strategic Report, the Corporate Governance Report on pages 37 to 40, the Audit Committee Report on pages 41 to 46, the Report on other Group Committees on pages 47 to 48 and the Directors' Remuneration Report on pages 49 to 54 are incorporated into this report by reference.

The Group is not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations as amended in 2013 which enhanced reporting requirements for the Directors' Remuneration Report. However, the aforementioned Report does set out the policy on remuneration and shareholders are asked to vote on this report at the Annual General Meeting.

The Strategic Report has been prepared to provide the Company's shareholders with a fair review of its business and a description of the principal risks and uncertainties facing it. It should not be relied upon by anyone, including the Company's shareholders, for any other purpose.

## Results and dividends

The audited accounts for the Group for the year ended 30 June 2014 are set out on pages 62 to 119. The Group profit for the year after taxation was £3.25 million (2013: £4.69 million). The Board recommends the payment of a final dividend of 2.68 pence per ordinary share. If approved, the final dividend will be paid on 5 December 2014 to shareholders on the register at the close of business on 7 November 2014.

## Directors

Biographical details of all Directors are set out on pages 32 to 33. Matthew Peacock and Tom Russell retire by rotation and are offering themselves for re-election at the AGM. Michael Peacock is stepping down from the Board at the end of this year's AGM.

Details of Directors' service agreements are set out in the Directors' Remuneration Report on pages 49 to 54.

The interests of the Directors in the shares of the Company are set out on page 54.

## Directors' liability insurance and indemnities

The Company maintains liability insurance for the Directors and officers of all Group companies.

Indemnities are in force under which the Company has agreed to indemnify the Directors to the extent permitted by applicable law and the Company's articles of association in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities as Directors of the Company or any of its subsidiaries.

Neither the Group's liability insurance nor indemnities provides cover in the event that a Director or officer is proved to have acted fraudulently or dishonestly.

## Related party transactions

The details of transactions with Directors and other related parties are set out in note 35 to the financial statements.

## Share capital

The issued share capital of the Company at 30 June 2014 was £1,580,504, comprising 79,022,599 ordinary shares of two pence each.

On 17 April 2014, the Group raised £100 million (before expenses) through a Placing of 28,986,000 new ordinary shares at a price of 345 pence per share. The new ordinary shares (and the shares issued as part of the consideration for Blancco) ranked in full for all dividends and other distributions declared, made or paid on ordinary shares by reference to record dates falling after their date of issue and otherwise ranked equally in all respects with the existing ordinary shares, save that they did not entitle the holder to receive the interim dividend of 1.32 pence per ordinary share payable in respect of the six months to 31 December 2013 declared on 17 March 2014.

Other than the above exception, holders of ordinary shares are entitled to receive dividends when declared, receive the Company's report and accounts, to attend and speak at General Meetings of the Company, to appoint proxies and to exercise voting rights.

There are no restrictions on transfer or limitations on the holding of ordinary shares and no requirements to obtain prior approval to any transfer.

No ordinary shares carry any special rights with regard to control of the Company and there are no restrictions on voting rights except that a shareholder has no right to vote in respect of a share unless all sums due in respect of that share are fully paid.

The Directors will be seeking shareholder approval at the AGM of the renewal of their authority to allot shares, disapply pre-emption rights and of the authority for the Company to purchase its own shares. Full details are contained in the Notice of Annual General Meeting on pages 121 to 126.

## Substantial shareholdings

As at 30 June 2014, based on the latest disclosures received by the Company under the Disclosure Rules and Transparency Rules, the following shareholders owned more than 3% of the issued share capital of the Company:

| | % of issued share capital | Number of shares |
|---|---|---|
| M&G Investment Funds | 12.84 | 10,144,928 |
| Hanover Investors Partners | 6.33 | 5,005,651 |
| Impax Asset Management Limited | 5.04 | 3,982,250 |
| Hargreave Hale | 3.21 | 2,539,000 |
| Investec Asset Management | 3.10 | 2,450,000 |
| NFU Mutual Insurance Society | 3.91 | 3,092,225 |

## Fixed assets

In the opinion of the Directors, there is no material difference between the book value and the current open market value of the Group's interests in land and buildings.

## Going concern

As highlighted in note 27 to the financial statements, the Group meets its day-to-day working capital requirements through cash reserves and a revolving credit facility which is due for renewal on 31 October 2016.

Further information on the Group's business activities, together with the factors likely to affect its future development, performance and position is set out within the Business Review on pages 14 to 19. Further information on the financial position of the Group, its cash flow, liquidity position and borrowing facility is given within the Business Review on pages 20 to 22. In addition, note 29 to the financial statements details the Group's objectives, policies and processes for managing its capital and its exposures to credit risk and liquidity risk.

The Group's forecasts and projections, taking account of possible changes in trading performance, show that the Group should be able to operate within the level of its current revolving credit facility. The Board therefore has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

## Subsequent events

These are detailed on page 108.

## Annual General Meeting

The AGM of the Company will be held at 12 noon on Wednesday 26 November 2014 at Panmure Gordon & Co, One New Change, London, EC4M 9AF. The Notice setting out details of the business to be considered at the meeting is included on pages 121 to 126.

## Financial instruments

Information on the Group's financial risk management objectives and policies and its exposure to credit risk, liquidity risk, interest rate risk and foreign currency risk can be found on pages 98 to 102.

## Auditor

KPMG LLP have indicated their willingness to continue in office as auditor and a resolution for their reappointment will be proposed at the AGM.

## Disclosure of information to the auditor

As required by Section 418 of the Companies Act 2006, each Director serving at the date of approval of the financial statements confirms that:

- to the best of their knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditor is unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

Words and phrases used in this confirmation should be interpreted in accordance with Section 418 of the Companies Act 2006.

By order of the Board

**Jog Dhody**
Chief Financial Officer

22 September 2014

# Corporate Governance Report



We as a Board of Directors are committed to the principles of **good governance**. We believe these principles form the foundations for the **long-term success** of the Company, enabling us to achieve our strategy and growth aims for the future.

As the Company is listed on the Alternative Investment Market, it is not required to follow the provisions of any particular governance code. However, the Board of Directors considers the UK Corporate Governance Code ("the Code") issued by the Financial Reporting Council as a suitable benchmark for the Company and has applied this when determining its governance arrangements. The Code can be found at www.frc.org.uk. The most recent update to the Code brought some additional reporting and compliance requirements. These include consideration of matters such as Board diversity and extra reporting requirements for Audit Committees. We have given these issues appropriate attention at Board and Committee meetings.

This report, together with the Strategic Report on pages 3 to 29, the Directors' Report on pages 34 to 36, the Audit Committee Report on pages 41 to 46, the Report on other Group Committees on pages 47 to 48, and the Directors' Remuneration Report on pages 49 to 54 describes how the Company has applied the relevant provisions of the Code.

## The Role of the Board

The role of the Board is to provide entrepreneurial leadership and the Directors are collectively responsible for the long-term success of the Group. The Board also acts as custodian of the Company's values and of its long-term vision and provides strategic direction and guidance for the Group.

In discharging its responsibilities, the Board also seeks to set, promote and demonstrate adherence to our values and ethical standards. It remains mindful of the need for the Directors to observe their legal duties, as well as to promote the success of the Group in a sustainable way, not only for our shareholders, but also for our stakeholders, which include our employees, suppliers, customers and the wider community.

The Executive Chairman is responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its role. He is also responsible for creating the right Board dynamic and for promoting a culture of openness and debate, in addition to ensuring constructive and productive relations between Executive and Non-executive Directors. The Executive Chairman is an ambassador for the Company to shareholders and other stakeholders and specifically to ensure there is sufficient and effective communication with shareholders and to understand their issues and concerns.

The Executive Directors are responsible for the running of the business. The Non-executive Directors are responsible for exercising independent and objective judgement in respect of Board decisions, developing corporate strategy with senior management and for scrutinising and constructively challenging the actions of senior management.

Michael Peacock is the current Senior Independent Non-executive Director to whom concerns may be conveyed by shareholders if they are unable to resolve them through existing mechanisms for investor communications or where such channels are inappropriate. The search for a replacement Senior Independent Director is currently under-way, as Michael Peacock will be retiring in November.

The responsibilities of the Executive Chairman, the Senior Independent Non-executive Director and the Company Secretary have been agreed by the Board and are set out in writing.

Details of the terms of appointment of both the Executive and Non-executive Directors are set out in the Directors' Remuneration Report, which refers to Executive service contracts and Non-executive terms of appointment, copies of which are available for inspection at the Company's registered office and which will be available for inspection at the AGM.

## Compliance with the Code

The Group has complied with the provisions of the Code throughout the year, with the following exception:

- Matthew Peacock, as Executive Chairman, has responsibilities for both the organisation of the Board and running of the Group's business. Whilst this does not meet the criteria set out in provision A.2 of the Code, the objectivity of the Board and its independence from management is strengthened by the designation of a Senior Independent Non-executive Director, Michael Peacock (no relation), to convene or chair sessions of the Non-executive Directors if required.

## The Board

### Structure and composition

As at 30 June 2014, the Board comprised three Executive and two Non-executive Directors:

| | | Audit Committee | Remuneration Committee | Nominations Committee |
|---|---|---|---|---|
| Matthew Peacock | Executive Chairman | — | — | Chairman |
| Jog Dhody | Chief Financial Officer | — | — | — |
| Tom Russell | Executive Director | — | — | — |
| Michael Peacock | Non-executive Director | Chairman | Chairman | Member |
| Rob Woodward | Non-executive Director | Member | Member | Member |

Biographies of all the Directors at the date of this report, including those offering themselves for re-election at this year's Annual General Meeting are set out on pages 32 to 33.

### Board diversity

Regenersis has a strong and balanced Board, with a range of complementary skills to support the strategic and operational direction of the Group. We recognise the importance of diversity at Board level and our Board members comprise members with a wide range of skills and experiences from a variety of business backgrounds, including international and industrial expertise.

Whilst the Company pursues diversity, including gender diversity, throughout the business, the Board is not committing to any specific targets. Instead, the Board will continue to pursue a policy of appointing talented people at every level to deliver high performance.

The composition of the Board is intended to ensure that its membership represents a mix of backgrounds and experience that will enhance the quality of its deliberations and decisions. Diversity in board composition is an important driver of board effectiveness. In considering the composition of the Board, consideration is given to the skills required by the Board at that time and the need to address longer-term succession and business priorities.

The formal annual evaluation of the Board, Board committees and individual Directors takes Board diversity into account and is instrumental in identifying any new skill requirements, as well as possible shortcomings, or gaps.

Further information on the number of men and women in our workforce is provided within the Corporate Social Responsibility and Sustainability Report on page 27.

### Board process

The Directors ensure the effectiveness of the Board through regular meetings and by having open lines of communication between Board members.

During the year, the Board made one visit to the Group's operating sites, and believes that the benefit of its collective experience is a valuable asset to the business. On joining the Board, new Directors are provided with a tailored induction programme. They are given background information describing the Group and its activities. Meetings with principal shareholders and advisers are also arranged as appropriate.

Details of attendance at scheduled Board and Board Committee meetings in this annual cycle are as follows:

| | Board | | Audit Committee | | Remuneration Committee | | Nominations Committee | |
|---|---|---|---|---|---|---|---|---|
| | Eligible to attend | Attended | Eligible to attend | Attended | Eligible to attend | Attended | Eligible to attend | Attended |
| Matthew Peacock | 13 | 13 | — | 3* | — | 4* | — | — |
| Michael Peacock | 13 | 13 | 3 | 3 | 4 | 4 | — | — |
| Tom Russell | 13 | 13 | — | — | — | — | — | — |
| Rob Woodward | 13 | 13 | 3 | 3 | 4 | 4 | — | — |
| Jog Dhody | 13 | 13 | — | 3* | — | 4* | — | — |

* Attended by invitation.

If Directors are unable to attend Board or Committee meetings they review the relevant papers and provide comments to the Executive Chairman or Committee Chairman.

The Board has agreed a schedule of matters reserved specifically for its decision which include:

- Overall strategy and objectives;
- Approving interim and annual financial statements;
- Approving annual budget and medium term projections;
- Reviewing operational and financial performance;
- Acquisitions and disposals;
- Approval of major customer contracts;
- Major divestments and capital expenditure;
- Reviewing the Group's systems and capital expenditure;
- Reviewing the environmental and health and safety performance of the Group;
- Approving appointments to the Board including the Company Secretary;
- Approving policies proposed by the Remuneration Committee relating to Directors' remuneration and the severance of Directors' contracts; and
- Ensuring that a satisfactory dialogue takes place with shareholders.

The Board is supplied in a timely manner with the appropriate information to enable it to discharge its duties, including providing constructive challenge to, and scrutiny of, management.

Procedures are in place for Directors to take independent professional advice, when necessary, at the Company's expense. No such advice was sought during the year under review.

If Directors have concerns that cannot be resolved regarding the running of the Group or a proposed action, they are encouraged to make their views known and these are recorded in the Board minutes.

### Directors' conflicts of interest

Under the Companies Act 2006, a Director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The Company's articles authorise the Directors to approve any such situational conflicts which may arise, should they consider it appropriate to do so.

During the year, the Group introduced a Conflicts Register, which is a record of all the actual and potential conflicts for each of the Directors. It is reviewed at the beginning of each Board meeting. Where an actual or potential conflict exists there are safeguards which apply when Directors decide whether to authorise a conflict or potential conflict.

First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and second, in taking the decision, the Directors must act in a way which they consider, in good faith, will be most likely to promote the Group's success. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

# Corporate Governance Report continued

Directors are required to notify the Company Secretary of any additional conflict situation or if there is a material change in a conflict situation previously notified, giving sufficient details of the situation to allow the Board to make an informed decision when considering authorisation.

The Company has complied with these procedures during the year and the Board believes that they operate effectively. During the year, details of any new actual or potential conflicts were submitted to the Board for consideration and, where appropriate, these were approved. Authorised actual or potential conflicts are reviewed by the Board on an annual basis.

### Board performance and evaluation

The Board carried out a formal self assessment process for the Board, its committees and individual Directors in respect of the year ended 30 June 2014. The evaluation process concluded that the Board as a whole and its committees had functioned effectively during the year and that each Director continued to make a valuable contribution.

The Board leads a strong governance framework throughout the business, supported by the Audit, Nominations and Remuneration Committees.

## Relations with shareholders

### Dialogue

The Board is committed to maintaining good communications with shareholders. Other than during close periods, the Executive Chairman and Chief Financial Officer maintain a regular dialogue with institutional shareholders throughout the year and give presentations to institutional shareholders and analysts immediately after the announcement of the Group's half year and full year results. The Group also encourages communications with private shareholders throughout the year and welcomes their participation at shareholder meetings.

The Group maintains a corporate website (www.regenersis.com), which complies with AIM Rule 26 and contains a range of information of interest to institutional and private investors including the Group's annual and half year reports, trading statements and press releases and all regulatory announcements relating to the Group.

### Constructive use of the AGM

The Board wishes to encourage the constructive use of the Company's AGM for shareholder communication.

The Executive Chairman of the Board and the chairmen of the Audit, Remuneration and Nominations Committees will be available to answer questions at the AGM. As with previous practice, separate resolutions will be proposed on each substantive issue and the details of the numbers of proxy votes cast for and against each resolution will be available at the meeting.

# Audit Committee

## Role of the committee and responsibilities

The Audit Committee is chaired by Michael Peacock and its other member is Rob Woodward. By virtue of his former Executive and current Non-executive roles, the Directors consider that Michael Peacock has recent and relevant financial experience. The Executive Chairman and Chief Financial Officer attend meetings of the Audit Committee by invitation. The Chairman and/or the Committee meets with the external auditor without any Executive Directors present whenever this is considered appropriate. The Chairman meets with the Head of Internal Audit without any Executive Directors present whenever this is considered appropriate.

The Committee's responsibilities include:

- Monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance, reviewing significant financial reporting judgements contained in them;
- Considering the appointment, reappointment and removal of the external auditor, approving the remuneration and terms of engagement of the external auditor and agreeing the scope of the audit engagement;
- Keeping under review the effectiveness of the Group's systems of internal financial control and reporting to the Board regarding such systems on an annual basis; and
- Reviewing the arrangements by which Group employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting (or other matters).

## Key areas of focus during the year

During this annual cycle, the Audit Committee met three times. It has an annual work plan, developed from its terms of reference, with standing items that the Committee considers at each meeting in addition to any specific matters on which the Committee has chosen to focus. The work of the Audit Committee covered the following areas:

### Risk management and internal controls

- Considered reports from the Head of Internal Audit on the newly developed Risk Management Framework that was being implemented during the year;
- Considered reports from the Head of Internal Audit on their work and ongoing assessment of the control environment;
- Considered reports from the external auditor on their assessment of the control environment;
- Considered the ongoing increase in the size and complexity of the Group, particularly overseas and the need to implement additional and appropriate controls to mitigate the higher levels of risk the Group is exposed to;
- Reviewed the preliminary output from the Risk Register and discussed the approach that executive management was expecting to adopt in the ensuing financial year to enhance mitigating actions;
- Reviewed the resources of the Internal Audit function and considered and approved the scope of the internal audit programme;
- Considered the effectiveness of the newly established Internal Audit function;
- Reviewed the newly developed whistle-blowing policy and oversaw its roll out; and
- Reviewed matters reported to the external whistle-blowing hotline and a report from the investigations department.

### External auditor

- Considered and approved the audit approach and scope of the audit work to be undertaken by the external auditor and the fees for the same;
- Reviewed reports on audit findings;
- Considered the independence of the auditor and their effectiveness, taking into account: (a) the nature and value of the non-audit work undertaken by the external auditor; (b) the approval process for non audit work over £20,000; (c) the tendering process undertaken where necessary for the provision of significant non audit work; (d) the knowledge, skills and experience of the auditor; and (e) the Committee's own assessment;
- Considered the recommendations in the Code regarding the fees of the external auditor; and
- Considered and approved the letter of representation issued to the external auditor.

### Accounting and financial reporting

- Reviewed the half year and annual financial statements and the significant financial reporting judgements;
- Considered the liquidity risk and the basis for preparing the Group half yearly and full year accounts on a going concern basis and reviewed the related disclosures in the Annual Report and Accounts;
- Reviewed an accounting matters update, including consideration of relevant accounting standards and underlying assumptions;
- Reviewed disclosures in the Annual Report and Accounts in order to advise the Board on whether, taken as a whole, it was fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's performance, business model and strategy; and
- Reviewed disclosures in the Annual Report and Accounts in relation to disclosures around internal controls, risk management, principal risks and uncertainties and the work of the Committee.

### Audit independence

The Audit Committee and the Board place great emphasis on the objectivity of the external auditor in their reporting to shareholders. The audit partner and senior manager are present at Audit Committee meetings as required to ensure full communication of matters relating to the audit. The overall performance of the auditor is reviewed annually by the Audit Committee, taking into account the views of management, and feedback is provided when necessary to senior members of KPMG LLP ("KPMG") unrelated to the audit. This activity also forms part of KPMG's own system of quality control. The Audit Committee also has discussions with the auditor, without management being present, on the adequacy of controls and on any judgemental areas. These discussions have proved satisfactory to date. The scope of the forthcoming year's audit is discussed in advance by the Audit Committee. Audit fees are approved by the Audit Committee after discussions between the businesses and KPMG.

Rotation of the audit partner's responsibilities within KPMG is required by their profession's ethical standards. There will be rotation of the audit partner and key members within the audit team as appropriate.

Assignments of non-audit work have been and are subject to controls by management that have been agreed by the Audit Committee so that audit independence is not compromised. In summary, these procedures are as follows:

- Audit related services: as auditor. If any additional support is required, this is considered competitively;
- Tax consulting: after considering competitive offers, in cases where they are best suited, the Group engages KPMG and its associates; and
- M&A advice and due diligence: after considering competitive offers, in cases where they are best suited, the Group engages KPMG and its associates.

Other than audit, the Board is required to give prior approval of work carried out by KPMG and its associates in excess of £20,000. Part of this review is to determine that other potential providers of the services have been adequately considered. These controls provide the Audit Committee with confidence in the independence of KPMG in their reporting on the audit of the Group.

As a result of their review, and confirmation from the auditor, of their independence and objectivity, the Audit Committee has concluded that KPMG is independent of the Company.

## Accounting and financial reporting matters considered by the Audit Committee

After discussion with both management and the external auditor, the Audit Committee determined that the key risks of mis-statement of the Group's financial statements related to:

- Recoverability of goodwill;
- Business combinations;
- Revenue recognition; and
- Tax.

These issues were discussed with management during the year and with the external auditor at the time the Committee reviewed and agreed the external auditor's audit plan, and also at the conclusion of the audit of the annual financial statements in September 2014.The Audit Committee placed significant reliance on the analyses presented by management and the results of the audit work presented by the external auditor.

| Risk factor considered | Sources of evidence and conclusions reached |
|---|---|
| **Recoverability of goodwill**<br>The Group has been particularly active in recent acquisitions and this has led to the creation of significant acquired goodwill. There is potential risk of irrecoverability of:<br>• Historically generated goodwill; and<br>• Goodwill newly created through acquisitions and business combinations.<br>This uncertainty arises due to the difficulty in forecasting and discounting future cash flows associated with the individual cash generating units that support the recoverability of the goodwill in the future.<br>The accounting policies of the Group are outlined in notes 1.5 and 2.2 to the Accounts. | Management highlighted to the Committee how they arrived at the key assumptions to estimate the future cash flows associated with each cash generating unit. This included:<br>• Budget and other underlying assumptions;<br>• Quality and integrity of the Group forecast P&L and cash flow models;<br>• Sensitivity analysis performed;<br>• Annual testing procedure;<br>• The discount rates used; and<br>• Benchmark analyses against the relevant peer group.<br>The Committee interrogated management's key assumptions to understand their impact. The Committee was satisfied that the assumptions used were appropriately scrutinised, challenged and sufficiently robust.<br>The Committee was further satisfied with the disclosures in the financial statements.<br>**The Committee concluded that:**<br>• **Impairment testing indicated continuing high levels of headroom on goodwill associated with the Emerging Market segment and the goodwill associated with the Advanced Solutions division.**<br>• **Headroom was tighter, but still comfortable in relation to the goodwill associated with the Western Europe and North America segment.** |

| Risk factor considered | Sources of evidence and conclusions reached |
|---|---|
| **Business combinations**<br>The Group has been particularly active in recent acquisitions and in particular in relation to certain acquisitions, there is a potential risk of mis-statement of:<br>• Contingent consideration for acquisitions;<br>• Fair value of net assets acquired, particularly in the case of the Digicomp and Blancco acquisitions;<br>• Fair value provisions; and<br>• Valuation of customer contracts, Intellectual Property and brands, particularly in the case of the Blancco acquisition.<br>This uncertainty arises due to the judgement required in assessing newly acquired assets and liabilities and in turn the goodwill. This uncertainty is increased when one considers the dispersed geographic nature of the acquired businesses.<br>The accounting policies of the Group are outlined in notes 1.5, 1.7 and 2.2 to the Accounts. | Management highlighted to the Committee how they arrived at the key assumptions to estimate the value of each acquired asset or liability, the fair value of consideration, valuation of the customer contracts, Intellectual Property and brands for the acquisitions and business combinations in the current and previous years. This included:<br>• Identification of all acquired assets and completeness of liabilities;<br>• Assessment of fair values of identified assets and liabilities;<br>• Underlying assumptions used;<br>• Sensitivity analysis performed;<br>• Benchmark analyses against the relevant peer group;<br>• Assessment of contingent consideration and assumptions behind it;<br>• Review of estimates of future cash flows associated with each acquired intangible asset including customer contracts, Intellectual Property and brands; and<br>• Results of work performed by external experts to value significant acquired intangibles.<br>The Committee interrogated management's key assumptions to understand their impact. The Committee was satisfied that the assumptions used were appropriately scrutinised, challenged and sufficiently robust.<br>The Committee was further satisfied with the disclosures in the financial statements.<br>**The Committee concluded that:**<br>• **In respect of the fair value of net assets acquired – it concluded that the treatment adopted by management was reasonable.**<br>• **In respect of the fair value assessments created or updated during the year – it concluded that the treatment adopted by management was reasonable.**<br>• **In respect of the valuation of the intangibles including the customer contracts, Intellectual Property and brands – based upon the analyses of the empirical data it concluded that the treatment adopted by management was reasonable.** |

| Risk factor considered | Sources of evidence and conclusions reached |
|---|---|
| **Revenue recognition**<br>The Group has developed or acquired new offerings and entered new contracts where revenue recognition is becoming more complex, particularly in the Advanced Solutions division.<br><br>There is potential risk of mis-statement of revenues associated with the following business units that have either separable elements to services being delivered or where judgement is required as to when the obligation under the service agreement was fulfilled:<br>• Recommerce buy back and customer profit sharing arrangements;<br>• In-field Tester licence income;<br>• Digital Care, insurance and warranty services; and<br>• Software licenses and value added services.<br><br>This uncertainty arises due to the requirement to identify the separable components of the revenue and the timing of the recognition of the revenue.<br><br>The accounting policies of the Group are outlined in note 1.10 to the Accounts. | Management highlighted to the Committee how they arrived at the key assumptions. This included:<br>• A summary of the main contract terms;<br>• The point of revenue recognition under the contract;<br>• Comparison of the payment profile with the revenue profile of key contracts; and<br>• Analyses of separable elements of the revenue streams where multiple service components are delivered to the customers.<br><br>The Committee interrogated management's key assumptions to understand their impact. The Committee was satisfied that the assumptions used were appropriately scrutinised, challenged and sufficiently robust.<br><br>The Committee was further satisfied with the disclosures in the financial statements.<br><br>**The Committee concluded that:**<br>• **In respect of the IFT contract – the amount allocated to the warranty and the allocation of click usage revenue and assumptions used were reasonable based upon empirical data and the treatment adopted by management was reasonable.**<br>• **In respect of the Digital Care contracts – the amounts allocated to the separate deliverables identified and assumptions used were reasonable based upon empirical data and the treatment adopted by management was reasonable.**<br>• **In respect of the Recommerce buyback and customer profit sharing arrangements – the assumptions used were reasonable based on the evidence indicating that the Group takes on as a principal the risks of stock ownership and credit risk and the treatment adopted by management was reasonable.**<br>• **In respect of the software and services element arrangements – the assumptions used were reasonable based upon empirical data and the treatment adopted by management was reasonable.** |

# Audit Committee continued

| Risk factor considered | Sources of evidence and conclusions reached |
|---|---|
| **Tax**<br>There is potential risk of mis-statement of:<br>• Taxation liabilities; and<br>• Deferred taxation assets and liabilities.<br>This uncertainty arises due to the difficulty in forecasting future profits and losses and therefore future tax receipts and payments within the individual tax jurisdictions.<br>The complexity in the Group's arrangements has also increased due to the addition of a significant number of new territories during the year, increasingly complex contracting arrangements, increasingly complex international tax legislation and higher value of cross-border trading between the legal entities in different tax jurisdictions.<br>There was no deferred tax asset recognised on development expenditure in the year, nor on temporary differences.<br>The accounting policies of the Group are outlined in notes 1.11 and 2.2 to the Accounts. | Management highlighted to the Committee how they arrived at the key assumptions to estimate the future liabilities in respect of taxation and recoverability of tax assets. This included:<br>• Underlying assumptions used;<br>• Sensitivity analysis performed; and<br>• Review of estimates of future tax cash flows associated with each tax jurisdiction.<br>The Committee interrogated management's key assumptions to understand their impact. The Committee was satisfied that the assumptions used were appropriately scrutinised, challenged and sufficiently robust.<br>The Committee was further satisfied with the disclosures in the financial statements.<br>**The Committee concluded that the assessments were reasonable.** |

## Conclusion in respect of the Annual Report and Financial Statements

The production and the audit of the Company's Annual Report and Financial Statements is a comprehensive process requiring input from a number of different contributors. One of the key governance requirements of the Company's Annual Report and Financial Statements is that they are fair, balanced and understandable. The Board has requested that the Audit Committee advise on whether it considers that the Annual Report and Financial Statements fulfil these requirements.

As a result of the work performed, the Committee has concluded that the Annual Report and Financial Statements for the year ended 30 June 2014, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy and has reported on these findings to the Board. The Board's conclusions in this respect are set out in the Statement of Directors' Responsibilities on page 55.

**Michael Peacock**
Chairman
Audit Committee

22 September 2014

# Other Committees

## Remuneration Committee

### Role of the committee & responsibilities

The Remuneration Committee is chaired by Michael Peacock. The Executive Directors are occasionally invited to attend meetings by invitation.

Under its terms of reference, the Remuneration Committee is responsible for:

- Considering and approving all aspects of the Company's remuneration policy for the Executive Directors (including the Executive Chairman), making recommendations to the Board as appropriate;
- Ensuring that the remuneration and conditions of service of the Executive Directors support corporate objectives and shareholders' interests, represent value for money and reflect the performance of the Company and the individual Directors as appropriate;
- Determining the individual remuneration packages for the Executive Directors and the Executive Chairman (including bonuses and other incentives);
- Recommending and monitoring the structure and level of pay for the senior management team;
- Agreeing a policy for the authorisation of expenses claimed by all Directors and reviewing annually a schedule of expenses claimed by the Directors in the preceding financial year; and
- Making whatever other recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

Full details of the role, policies and activities of the Remuneration Committee are set out in the Directors' Remuneration Report on pages 49 to 54.

## Nominations Committee

### Role of the committee and responsibilities

The Nominations Committee is chaired by Matthew Peacock. Under its terms of reference, the Nominations Committee is responsible for:

- Selecting the most suitable candidate or candidates for appointment to the Board;
- Plans for succession for both Executive and Non-executive Directors and in particular for the key roles of Executive Chairman and Senior Independent Non-executive Director;
- Membership of the Audit and Remuneration Committees, in consultation with the relevant Chairmen of those committees;
- The reappointment of any Non-executive Director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required; and
- The continuation, or not, in service of an Executive Director as an Executive or Non-executive Director.

The Committee meets as and when required and met after the year end to evaluate its own performance.

## Risk Management Committee ('RMC')

### Role of the committee and responsibilities

This Committee was newly formed during the year and is chaired by the Chief Operating Officer. In addition, it comprises the Head of Internal Audit and other members of senior management.

The RMC is responsible for ensuring that all significant operational and management risks facing the Group are reduced to an acceptable level. Full details of the way the Risk Management Framework operates at Regenersis are given on pages 47 to 48.

#### Key focus during the year

During the course of the year, the RMC met twice and reported to the Board formally once.

## Internal controls

The Board is responsible for maintaining a sound system of internal control to safeguard shareholders' investments and the Group's assets. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material mis-statement or loss.

Regenersis is committed to conducting its business responsibly and in accordance with all applicable laws and regulations. Employees are encouraged to raise concerns about fraud, bribery and other matters through a whistle-blowing procedure. All such concerns are referred to, and investigated by, the Executive Chairman or Chief Financial Officer, who then recommend appropriate remedial action. During the course of the year there were three reported incidents that were independently investigated and appropriately resolved. The nature and outcomes of these incidents were summarised and also reported to the Audit Committee.

The Group's financial reporting processes are detailed and regularly reviewed. The detailed reporting is reviewed at least each month end by the members of the Central Finance team, highlighting areas of concern and checking/confirming that the reasons for variations are valid. Quarterly reviews of each of the businesses are performed by the Chief Financial Officer covering both historic and forthcoming financial and business performance as well anticipating key future events.

In addition, each business unit is required to submit a monthly controls checklist which is signed locally to say that controls and reviews have been carried out both during the month and as part of the month end close process.

# Directors' Remuneration Report

## Remuneration Committee

The Committee determines on behalf of the Board the Company's policy on the remuneration and terms of engagement of the Executive Directors and Senior Managers. Executive Directors attend by invitation only when appropriate and are not present at any discussion of their own remuneration.

The members of the Remuneration Committee and details of attendance at the meetings are disclosed in the table within the Corporate Governance report on page 39.

The Committee members have no personal financial interest, other than as shareholders, in the matters to be decided. They have no conflicts of interest arising from cross-directorships or from being involved in the day-to-day business of the Group. Committee members do not participate in any bonus, share awards or pension arrangements.

## Remuneration policy

The Group operates in a highly competitive environment. For the Group to continue to compete successfully, it is essential that the level of remuneration and benefits offered achieves the objectives of attracting, retaining, motivating and rewarding the high calibre of individuals at all levels across the Group.

The Group therefore sets out to provide competitive remuneration to all its employees, appropriate to the business environment in the market in which it operates. To achieve this, each individual's remuneration package is based upon the following principles:

- Total rewards should be set to provide a fair and attractive remuneration package;
- Appropriate elements of the remuneration package should be designed to reinforce the link between performance and reward; and
- Executive Directors' incentives should be aligned with the interests of shareholders.

The remuneration strategy is designed to be in line with the Group's fundamental values of fairness, competitiveness and equity and also to support the Group's corporate strategy. A cohesive reward structure consistently applied, with links to corporate performance, is seen as critical in ensuring attainment of the Group's strategic goals.

The Group also seeks to align the interests of shareholders with those of Executive Directors and senior employees by giving the latter opportunities and encouragement to build up a shareholding interest in the Company through long term incentive plans.

## Remuneration of Executive Directors

### Elements of remuneration

The Executive Directors' total remuneration currently consists of:

- Fixed elements, comprising basic salary or fees, benefits and pensions; and
- Performance related elements comprising performance related bonus and long term performance arrangements satisfied primarily by share awards.

Each of the above elements of remuneration is explained below.

### Basic salary or fees

Basic salaries or fees are set by the Remuneration Committee on an annual basis after taking into consideration the performance of the individuals, their levels of responsibility and rate of salary or fees for similar positions in comparative companies.

### Benefits in kind

These principally comprise car benefits, life assurance and membership of the Group's healthcare insurance scheme or payment in lieu of these benefits. These benefits do not form part of pensionable earnings.

### Pensions

The Group makes defined contributions on behalf of the Chief Financial Officer into his individual pension plan.

The other Directors either are not entitled to any pension arrangements under their respective contracts or have opted out of the UK Pension Auto Enrolment scheme.

# Directors' Remuneration Report continued

The amounts paid in the financial year are set out in the Directors' emoluments table on page 53.

### Annual performance related bonuses

Performance related bonuses for the Executive Directors are contractual and are determined by reference to performance targets based on the Group's financial results and personal objectives set at the beginning of the financial year. Terms and conditions are based on the recommendations of the Remuneration Committee.

The Executive Directors are eligible to receive a cash bonus of up to the following amounts for the year ended 30 June 2014.

| | | Maximum % eligible of basic salary or fees | Actual % awarded of basic salary or fees |
|---|---|---|---|
| Matthew Peacock | Executive Chairman | 130% | 85% |
| Jog Dhody | Chief Financial Officer | 91% | 60% |
| Tom Russell* | Executive Director | – | – |

* Tom Russell did not participate in the bonus arrangements for the financial year.

### Long term incentive arrangements

#### Incentive Share Plan (ISP1)

On 1 July 2011, the Company established the Regenersis Incentive Share Plan ("ISP1") for the senior management team including Hanover Investors Management LLP. The terms of this scheme were disclosed in the financial statements for the year to 30 June 2013.

On 22 February 2013, the performance target was met and all of the awards under ISP1 (representing 11.85% of the increase in shareholder value) became available for vesting. Awards representing 11.31% of the increase in shareholder value vested and were exercised during the 2013 financial year. On 14 January 2014, awards in respect of 0.14% of the increase in shareholder value vested, were exercised and settled by a direct cash payment amounting to £156,503. As at 30 June 2014 outstanding awards in respect of 0.4% of the increase in shareholder value had not been exercised.

At 30 June 2014 there was no dilution to existing shareholders, from the exercise of the awards during the financial year.

#### Incentive Share Plan (ISP2)

On 14 March 2013, the Company established the Regenersis Incentive Share Plan ("ISP2") on similar lines to ISP1 for the senior management team and Directors including Hanover (Cayman) General Partner II L.P. The terms of this scheme were disclosed in the financial statements for the year to 30 June 2013.

At 30 November 2013, awards in respect of 11.66% of the increase in shareholder value had been granted under ISP2, including 1.06% to Jog Dhody and 7.0% to Hanover (Cayman) General Partner II L.P. Matthew Peacock and Tom Russell were indirectly interested in awards granted to Hanover (Cayman) General Partner II L.P. through their association with Hanover Investors Management LLP.

On 30 November 2013, the additional performance target requiring that the average mid-market closing share price over any 30 consecutive day period prior to 14 March 2016 was greater than 293.5 pence was met. The actual average mid-market closing share price for the 30 consecutive day period ended 30 November 2013 was 317.7 pence. This represented an increase of 64% over the share price when ISP2 was established. Accordingly, all of the awards under ISP2 became available for vesting.

On 14 January 2014, all of the awards granted under ISP2 (in respect of 11.66% of the increase in shareholder value) vested and were exercised. The awards were settled by: creating and issuing 66,117 new shares, transferring 474,923 existing shares from the Employee Benefit Trust (EBT) and direct cash payments amounting to £4,767,209. At 30 June 2014 the total dilution to existing shareholders, from the exercise of the awards during the financial year was 1.1%.

### New Incentive Share Plan (ISP3)

On 14 January 2014, the Company established the Regenersis Incentive Share Plan ("ISP3") on similar lines to ISP2, to incentivise management to achieve further shareholder value growth.

Under ISP3, employees (including Executive Directors), at the discretion of the Company, were granted rights to acquire shares at their par value, subject to continuing employment and the attainment of the applicable performance target. Equivalent rights were granted to Hanover General Partner II L.P. Matthew Peacock and Tom Russell are indirectly interested in awards granted to Hanover General Partner II L.P. through their association with Hanover Investors Management LLP.

The number of shares vesting from any award under ISP3 will be determined as follows:

- Following the end of the performance period, the Remuneration Committee will determine whether the applicable performance target has been satisfied and calculate the increase in shareholder value (adjusted for capital raises and other placings) since the date of grant to the individual holder; and
- Each award holder will be entitled to acquire shares at par, with a value equal to a specified percentage of that increase in shareholder value (adjusted for capital raises and other placings), provided that the performance target has been met — that value for each award holder is divided by the market value of a share at the end of the performance period to determine the number of shares to be awarded.

The awards granted under ISP3 will vest if any of the following performance targets are met:

- The basic target is met if the average mid-market closing share price over the 30 consecutive days immediately prior to 31 January 2017 is greater than 385 pence; or
- The additional target is met if the average mid-market closing share price over any 30 consecutive day period on or after 1 May 2015 but prior to 31 January 2017 is greater than 495 pence; or
- In the event of a successful offer for the Company.

Under ISP3, awards may be granted in respect of up to 12% of the increase in shareholder value.

In addition, the amount of the increase in shareholder value, that may be distributed under awards pursuant to ISP3, must be limited so that in the judgement of the Remuneration Committee the total dilution to the ordinary shareholders due to ISP3 when aggregated with the dilution that may occur under any existing or new share option schemes, and other awards made by reference to a calculation of the increase in shareholder value, does not exceed 12%.

Under all circumstances the increase in shareholder value, is adjusted for any capital raises or other share placings.

As at 30 June 2014 awards had been granted in respect of 10.75% of the increase in shareholder value, including 1.25% to Jog Dhody and 7.0% to Hanover General Partner II L.P. Matthew Peacock and Tom Russell are indirectly interested in the awards granted to Hanover General Partner II L.P. through their association with Hanover Investors Management LLP.

### Performance Share Plan

The Company had historically operated a Performance Share Plan ("PSP") in which members of senior management (excluding the Directors) were able to acquire shares at no cost, if certain performance criteria were achieved over a three year period.

On 1 July 2013, these performance criteria were achieved and awards were made to two employees. The awards were settled by: transferring 88,666 existing shares from the Employee Benefit Trust (EBT) and reserving 51,332 existing shares from the Employee Benefit Trust (EBT) for future transfer by 7 April 2016.

At 30 June 2014 the total dilution to existing shareholders, from the exercise of the awards during the financial year was nil. This scheme is now closed and only the reserved shares noted above remain unsettled.

## Service agreements

Executive Director's services are provided by way of rolling service contracts held between Regenersis and Hanover Investors Management LLP, providing six months notice on either side. Matthew Peacock and Tom Russell are both associated with Hanover Investors Management LLP.

Jog Dhody has a rolling Executive Director service agreement with Regenersis Plc and one of its subsidiaries that provides for 12 months' notice from the Company and six months' notice from him.

In the event that the Group serves notice to terminate the contract of any Executive Director, the Group may make a payment in lieu of notice, but is not obliged to do so. Such payments are restricted to the unexpired portion of the duration of the Executive's employment or entitlement to notice.

The dates of the contracts are as follows:

| | |
|---|---|
| Matthew Peacock | 3 October 2013 |
| Jog Dhody | 5 June 2013 |
| Tom Russell | 14 June 2013 |

The Remuneration Committee also determines the terms and conditions of employment of the Executive Directors.

## Non-executive Directors' remuneration

Non-executive Directors are appointed for a specified term, being an initial three year period subject to their re-election by shareholders at the first AGM after their appointment. The initial three year period may be extended for a further three year term, at the discretion of the Board and subject to the ongoing requirement for re-election by shareholders under the Company's articles. On termination, no compensation is payable other than outstanding fees.

The following are the Non-executive Directors with the dates they joined the Board:

| | |
|---|---|
| Michael Peacock | 8 February 2011 |
| Rob Woodward | 1 June 2013 |

The Non-executive Directors receive fees set at a level commensurate with their experience and ability to make a contribution to the Group's affairs and are set by the Board as a whole. No incentives, pensions or other benefits are available to the Non-executive Directors and, accordingly, they have opted out of the UK Pension Auto Enrolment scheme.

The Board may request Non-executive Directors to perform specific additional work at an agreed daily rate. It would be the intention of the Board that the Directors' independence is not prejudiced by the nature of any such additional work.

Details of the Directors' emoluments, share awards and shareholdings are given below and have been audited.

| | Salary, fees, benefits 2014 £'000 | Bonus 2014 £'000 | Pension contributions 2014 £'000 | Total 2014 £'000 | Total 2013 £'000 |
|---|---|---|---|---|---|
| **Executive** | | | | | |
| Matthew Peacock[1] | 350 | 255 | — | 605 | 650 |
| Jog Dhody | 199 | 110 | 28 | 337 | 294 |
| Tom Russell[1] | 35 | — | — | 35 | 35 |
| | **584** | **365** | **28** | **977** | **979** |
| **Non-executive** | | | | | |
| Michael Peacock | 51 | — | — | 51 | 40 |
| Rob Woodward (appointed 1 June 2013) | 43 | — | — | 43 | 3 |
| Kevin Bradshaw (resigned 25 April 2013) | — | — | — | — | 29 |
| | **94** | **—** | **—** | **94** | **72** |
| **Total** | **678** | **365** | **28** | **1,071** | **1,051** |

1 Matthew Peacock's and Tom Russell's fees are paid to Hanover Investors Management LLP or one of its connected parties for the provision of their services as Executive Chairman and Executive Director respectively.

## Long term incentives vested during the current financial year

The table below outlines awards made under ISP1 to Executive Directors which vested in the current financial year:

| Director | Vesting Date | Award Basis | Number of shares vested | Vesting price of award |
|---|---|---|---|---|
| Jog Dhody | 14 January 2014 | Share Price increase | * | £3.09 |

* Awards vested and exercised by Jog Dhody in the current financial year consisted of cash payments of £156,503.

The table below outlines awards made under ISP2 to Executive Directors which vested in the current financial year:

| Director | Vesting Date | Award Basis | Number of shares vested | Vesting price of award |
|---|---|---|---|---|
| Matthew Peacock | 14 January 2014 | Share Price increase | † | £3.25 |
| Jog Dhody | 14 January 2014 | Share Price increase | 100,591‡ | £3.25 |
| Tom Russell | 14 January 2014 | Share Price increase | † | £3.25 |

† Matthew Peacock and Tom Russell have an indirect beneficial interest in awards made to Hanover (Cayman) General Partner II L.P., through their association with Hanover Investors Management LLP. Awards vested and exercised by Hanover (Cayman) General Partner II L.P. in 2014 consisted of cash payments of £4,422,981.

‡ Awards vested and exercised by Jog Dhody consisted of 100,591 shares and cash payments of £344,228.

# Directors' Remuneration Report continued

## Long term incentives vested during the previous financial year

The table below outlines awards made under ISP1 to Executive Directors which vested in the previous financial year:

| Director | Vesting Date | Award Basis | Number of shares vested | Vesting price of award |
|---|---|---|---|---|
| Matthew Peacock | 14 March 2013 | Share Price increase | * | £1.90 |
| | 30 May 2013 | Share Price increase | * | £2.16 |
| Jog Dhody | 14 March 2013 | Share Price increase | 145,048 | £1.90 |
| Tom Russell | 14 March 2013 | Share Price increase | * | £1.90 |
| | 30 May 2013 | Share Price increase | * | £2.16 |

* Matthew Peacock and Tom Russell have an indirect beneficial interest in awards made to Hanover Participation Partnership LP, through their association with Hanover Investors Management LLP. Awards vested and exercised by Hanover Participation Partnership LP in 2013 consisted of 489,536 shares and cash payments of £2,404,604.

## Directors' beneficial interests in shares

The interests of the Directors who held office at 30 June 2014 and their connected parties in the ordinary share capital of the Company are as shown in the table below.

| | As at the date of this report Number | As at 30 June 2014 Number | As at 30 June 2013 Number |
|---|---|---|---|
| **Executive** | | | |
| Matthew Peacock | † | † | † |
| Tom Russell | † | † | † |
| Jog Dhody | 405,581 | 405,581 | 316,285 |
| **Non-executive** | | | |
| Michael Peacock | 3,000 | 3,000 | 3,000 |
| Rob Woodward | 4,459 | 4,459 | — |

† Matthew Peacock and Tom Russell have an indirect beneficial interest in the shares of the Group, through their association with Hanover Investors Management LLP. The combined holding of Hanover Investors Management LLP and its connected parties is 5,043,651 ordinary shares at 30 June 2014 (2013: 10,748,637).

This report has been approved by the Board and has been signed on its behalf by:

**Michael Peacock**
Chairman of the Remuneration Committee

22 September 2014

# Statement of Directors' Responsibilities

## in respect of the Annual Report and Accounts and Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent financial statements for each financial year. Under that law they have elected to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK accounting standards.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the Group at the end of the financial year and of their profit or loss for that period. In preparing those financial statements the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRSs as adopted by the EU;
- State for the Company financial statements whether applicable UK accounting standards have been followed; and
- Prepare the financial statements on a 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 Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

### Responsibilities statement

The Directors confirm to the best of their knowledge:

- The financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Directors are responsible for preparing the annual report in accordance with applicable law and regulations. Having taken advice from the Audit Committee, the Board considers the report and accounts, taken as a whole, as fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Neither the Company nor the Directors accept any liability to any person in relation to the annual report except to the extent that such liability could arise under English law.


## M&A

Entering new geographies and adjacent service lines through acquisition and partnership.

Read more on page **18**

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XCALIBER TECHNOLOGIES

Regenesis Technology Life Cycle Services



# Our Financials

# Independent Auditor's Report

to the members of Regenersis Plc only

## Opinions and conclusions arising from our audit

### 1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Regenersis Plc for the year ended 30 June 2014 set out on pages 62 to 119. 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 30 June 2014 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- The Parent Company financial statements have been properly prepared in accordance with UK Accounting Standards; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### 2 Our assessment of risks of material mis-statement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Recoverability of goodwill (£81.8 million)

Refer to page 43 (Audit Committee report), page 68 (accounting policy) and page 90 (financial disclosures).

- **The risk** — The recoverability of goodwill is considered to be a significant audit risk due to the high level of recent business combinations and the associated significant goodwill balance. The value in use of the cash generating units, which includes the goodwill asset and is the level at which goodwill is assessed for recoverability, is dependent on the related businesses generating sufficient cash flows in the future. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgemental areas that our audit is concentrated on.
- **Our response** — In this area our audit procedures included, among others, testing of the Group's budgeting procedures upon which the forecasts are based and the principles and integrity of the Group's discounted cash flow model. We evaluated the assumptions and methodologies used by the Group, in particular those relating to the forecast revenue growth and profit margins. We compared the Group's assumptions to externally derived data as well as our own assessments in relation to key inputs such as projected economic growth, competition, cost inflation and discount rates, as well as performing break-even analysis on the assumptions. We compared the sum of the discounted cash flows to the Group's market capitalisation to assess the reasonableness of those cash flows. We also assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill.

Business combinations (Additions to acquired intangible assets of £22.4 million, goodwill additions of £41.3 million, contingent consideration payable of £6.4 million)

Refer to page 44 (Audit Committee report), page 68 (accounting policy) and page 84 (financial disclosures).

- **The risk** — The Group has made a number of business combinations in the year, requiring the Directors to make significant judgements in the following areas:
  - — determining the valuation of intangible assets acquired, especially Intellectual Property rights and the value of the brand in the Blancco acquisition;
  - — in respect of the Digicomp and HDM acquisitions, determining the fair value of the contingent consideration payable (which forms a large proportion of the total consideration payable and relies on forecasting future earnings); and
  - — in respect of the Digicomp acquisition, identifying and determining the fair value of assets and liabilities acquired, which is complex given the large number of locations and their geographic spread across India.

- **Our response** — Our audit procedures included, among others:
  - — assessing the competency of the external experts used by the Group to value acquired Intellectual Property intangible assets and the value of the brand acquired with Blancco. We challenged, with the assistance of our own valuation specialist, the methodology and assumptions used, in particular those relating to the feasibility of products in development, growth and discount rates, to determine the present value of the cash flow projections which formed the basis of the valuation of the acquired intangible assets;
  - — challenging the key assumptions and methodologies used by the Group in determining contingent consideration payable in respect of Digicomp and HDM;
  - — challenging the key assumptions and methodologies used by the Group to identify the assets and liabilities acquired and to determine their fair values. We corroborated the explanations provided by comparing these assumptions to the facts and circumstances specific to the business acquired, our past experience of similar transactions and the Group's business plan supporting the acquisition;
  - — consideration of the appropriateness of the accounting for significant fair value adjustments in subsequent periods with reference to relevant accounting standards, and considered the presentation and disclosure of any material adjustments in the financial statements; and
  - — consideration of the adequacy of the disclosure of the acquisitions in the financial statements and the disclosure of the sensitivity of key estimates made.

Revenue recognition (£197.5 million)
Refer to page 45 (Audit Committee report), page 70 (accounting policy) and page 76 (financial disclosures).

- **The risk** — The Group has a number of revenue streams reflecting the diversity of services offered to its customers. Although the recognition of revenue for repairs is relatively straightforward, certain other income streams, particularly in the Advanced Solutions division, can be more complex.

  The sale and subsequent licensing of the In-field Testers, Digital Care services and software licence sales revenue streams can consist of a number of deliverables, on occasion contracted for within a single arrangement. Identifying the components and determining their relative fair values, based on which revenue is assigned to each deliverable, and stage of completion of each component, involves significant judgement.

  Recommerce revenue can include profit sharing arrangements with network operators; for these arrangements judgement is required to determine whether the related revenue should be presented gross or net of the related profit share amount.
- **Our response** — Our audit procedures included, among others, selecting contracts based on quantitative factors (for example, those with the greatest impact on the Group's financial results) and qualitative factors (for example, new contracts or services entered into during the financial year). We assessed the appropriateness of the Group's revenue recognition policies, with reference to relevant accounting standards, and considered whether revenue on the contracts selected was recognised in accordance with these policies. We considered the adequacy of the disclosure of these policies in the financial statements. We also challenged the amounts assigned to each deliverable by assessing the Group's delivery of its performance obligations with respect to contractual terms, particularly where the Group made estimates or applied judgements relating to the timing and value of revenue recognised.

Tax (current tax liability of £1.5 million, net deferred tax asset of £1.2 million)

Refer to page 46 (Audit Committee report), page 71 (accounting policy) and page 81 (financial disclosures).

- **The risk** — Tax provisioning and the recoverability of deferred tax assets are considered significant audit risks due to the Group operating in a number of tax jurisdictions, the complexities of international and local tax legislation and the time taken for tax matters to be agreed with the local tax authorities, as well as the cross-border nature of a number of the Group's contracts with customers. The Directors are required to make judgements and estimates in determining the liability for income taxes in the consolidated financial statements. The recoverability of deferred tax assets is further subject to uncertainties over future taxable profits in the respective tax jurisdictions.
- **Our response** — In this area our audit procedures included, among others, the use of our own international and local tax specialists to assess the Group's tax positions, its correspondence with the relevant tax authorities and analysis and challenge of the assumptions used to determine tax provisions based on our knowledge and experience of the application of the international and local legislation by the relevant authorities and courts.

  In relation to the recoverability of deferred tax assets we critically assessed the assumptions used in the preparation of the Group's budget upon which the Group's forecasts of future taxable profits are based. We evaluated the assumptions and methodologies used by the Group, in particular those relating to the forecast revenue growth and profit margins. We compared the Group's assumptions to externally derived data as well as our own assessments in relation to key inputs such as projected economic growth and cost inflation and assessed consistency with the assumptions underlying the value in use of goodwill as described above. We considered the adequacy of the disclosures in the financial statements.

## 3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £1,200,000. This has been determined with reference to a benchmark of Group revenue (of which it represents 0.6%) which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £60,000, in addition to other audit mis-statements below that threshold that we believe warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed by component auditors at the key reporting components in the following countries: Germany, Poland, South Africa, India, Finland and Spain, and in the UK by the Group audit team. Specified audit procedures were performed by the Group audit team for the reporting components in Argentina, Mexico, Romania, Russia, Portugal, Turkey, Sweden, US, and Japan. These Group procedures covered 99.8% of total Group revenue; 95.5% of Group profit before taxation; and 95.3% of Group total assets.

The audits undertaken for Group reporting purposes at the key reporting components of the Group were all performed to materiality levels set by, or agreed with, the Group audit team. These materiality levels were set individually for each component and ranged from £5,000 to £900,000.

Detailed audit instructions were sent to all the auditors in these locations. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team. The Group audit team visited the following locations: UK operating locations, Spain, India, Finland and Poland. Telephone meetings were also held with the auditors at these locations and the other locations that were not physically visited.

### 4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion 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.

### 5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Audit Committee report does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies Act 2006 we are required 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 specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of the above responsibilities.

## Scope of report and responsibilities

As explained more fully in the Statement of Directors' Responsibilities set out on page 55, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

**Stuart Smith (Senior Statutory Auditor)**
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
22 September 2014

# Consolidated Income Statement



for the year ended 30 June 2014

| | Note | 2014 £'000 | 2014 £'000 | 2013 £'000 | 2013 £'000 |
|---|---|---|---|---|---|
| **Group revenue** | 3 | | **197,482** | | **179,714** |
| **Headline Operating Profit** | | | **10,965** | | **9,507** |
| Acquisition costs | 6 | | (5,044) | | (1,874) |
| Exceptional restructuring costs | 7 | | (4,351) | | — |
| Amortisation of acquired intangible assets | 17 | | (589) | | (90) |
| Share-based payments | 32 | | (658) | | (471) |
| **Group Operating Profit** | | | **323** | | **7,072** |
| Share of results of jointly controlled entity | 19 | | (100) | | 6 |
| Profit on disposal of jointly controlled entity | | | 240 | | — |
| **Operating profit from continuing operations** | | | **463** | | **7,078** |
| Revaluation of contingent consideration | 29 | 4,695 | | — | |
| Other finance income | | 86 | | 30 | |
| Finance income | 10 | | 4,781 | | 30 |
| Unwinding of discount factor on contingent consideration | | (1,063) | | (539) | |
| Other finance costs | | (1,311) | | (898) | |
| Finance costs | 10 | | (2,374) | | (1,437) |
| **Profit before tax** | | | **2,870** | | **5,671** |
| Taxation | 11 | | 381 | | (978) |
| **Profit for the year** | | | **3,251** | | **4,693** |
| **Attributable to:** | | | | | |
| Equity holders of the Company | | | 2,975 | | 4,693 |
| Non-controlling interest | | | 276 | | — |
| **Profit for the year** | | | **3,251** | | **4,693** |
| **Earnings per share** | | | | | |
| Basic | 12 | | 5.45p | | 10.53p |
| Diluted | 12 | | 5.41p | | 10.46p |

# Consolidated Statement of Comprehensive Income

for the year ended 30 June 2014

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Profit for the year** | 2,975 | 4,693 |
| Other comprehensive income — Amounts that may be reclassified to profit or loss in the future: | | |
| Exchange differences arising on translation of foreign entities | (3,403) | (94) |
| **Total comprehensive (expense)/income for the year** | **(428)** | **4,599** |
| **Attributable to:** | | |
| Equity holders of the Company | (704) | 4,599 |
| Non-controlling interests | 276 | — |
| **Total comprehensive (expense)/income for the year** | **(428)** | **4,599** |

# Consolidated Balance Sheet

as at 30 June 2014

| | Note | 2014 £'000 | 2013 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | 16 | 81,791 | 40,441 |
| Other intangible assets | 17 | 28,479 | 4,588 |
| Investments in jointly controlled entities and associates | 19 | 10 | 100 |
| Other investments | 19 | 745 | – |
| Property, plant and equipment | 18 | 5,341 | 4,381 |
| Deferred tax | 30 | 1,182 | 3,447 |
| | | **117,548** | **52,957** |
| **Current assets** | | | |
| Inventory | 20 | 10,137 | 7,924 |
| Trade and other receivables | 21 | 37,742 | 26,054 |
| Cash | 22 | 20,795 | 4,519 |
| | | **68,674** | **38,497** |
| **Total assets** | | **186,222** | **91,454** |
| **Current liabilities** | | | |
| Trade and other payables | 23 | (44,330) | (32,949) |
| Provisions | 28 | (792) | (871) |
| Income tax payable | | (1,476) | (496) |
| | | **(46,598)** | **(34,316)** |
| **Non-current liabilities** | | | |
| Borrowings | 25 | (194) | (6,423) |
| Contingent consideration | 29 | (6,358) | (7,777) |
| Provisions | 28 | (2,659) | (3,540) |
| **Total liabilities** | | **(55,809)** | **(52,056)** |
| **Net assets** | | **130,413** | **39,398** |
| **Equity** | | | |
| Ordinary share capital | 31 | 1,581 | 994 |
| Share premium | 31 | 121,737 | 26,592 |
| Merger reserve | 31 | 4,034 | 3,088 |
| Translation reserve | 31 | (3,329) | 74 |
| Retained earnings | 31 | 5,820 | 8,650 |
| **Total equity attributable to equity holders of the Company** | | **129,843** | **39,398** |
| Non-controlling interest reserve | | 570 | – |
| **Total equity** | | **130,413** | **39,398** |

The financial statements were approved by the Board of Directors and authorised for issue on 22 September 2014.

They were signed on its behalf by:

**Matthew Peacock**
Executive Chairman

**Jog Dhody**
Chief Financial Officer

Company number: 05113820

# Consolidated Statement of Changes to Equity



for the year ended 30 June 2014

| | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Translation reserve £'000 | Retained earnings £'000 | Non-controlling interest reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Balance as at 30 June 2012** | **896** | **19,702** | **3,088** | **168** | **7,075** | **—** | **30,929** |
| **Comprehensive income:** | | | | | | | |
| Profit for the year | — | — | — | — | 4,693 | — | 4,693 |
| **Other comprehensive income:** | | | | | | | |
| Exchange differences arising on translation of foreign entities | — | — | — | (94) | — | — | (94) |
| **Transactions with owners recorded directly in equity:** | | | | | | | |
| Issue of share capital | 98 | 6,890 | — | — | — | — | 6,988 |
| Recognition of share based payments | — | — | — | — | 289 | — | 289 |
| Vesting of share options | — | — | — | — | (2,608) | — | (2,608) |
| Dividends paid | — | — | — | — | (799) | — | (799) |
| **Balance as at 30 June 2013** | **994** | **26,592** | **3,088** | **74** | **8,650** | **—** | **39,398** |
| **Comprehensive income:** | | | | | | | |
| Profit for the year | — | — | — | — | 2,975 | 276 | 3,251 |
| **Other comprehensive income:** | | | | | | | |
| Exchange differences arising on translation of foreign entities | — | — | — | (3,403) | — | — | (3,403) |
| **Transactions with owners recorded directly in equity:** | | | | | | | |
| Issue of share capital | 587 | 95,145 | 946 | — | — | — | 96,678 |
| Recognition of share based payments | — | — | — | — | 867 | — | 867 |
| Vesting of share options | — | — | — | — | (5,142) | — | (5,142) |
| Dividends paid | — | — | — | — | (1,530) | — | (1,530) |
| **Other transactions:** | | | | | | | |
| On acquisition of subsidiary | — | — | — | — | — | 294 | 294 |
| **Balance as at 30 June 2014** | **1,581** | **121,737** | **4,034** | **(3,329)** | **5,820** | **570** | **130,413** |

# Consolidated Cash Flow Statement

for the year ended 30 June 2014

| | Note | 2014 £'000 | 2013 £'000 |
|---|---|---|---|
| **Profit for the year** | | **3,251** | **4,693** |
| Adjustments for: | | | |
| Net finance (income)/charges | 10 | (2,407) | 1,407 |
| Tax (credit)/expense | 11 | (381) | 978 |
| Depreciation on property, plant and equipment | 18 | 1,619 | 1,536 |
| Amortisation of intangible assets | 17 | 1,563 | 798 |
| Impairment of intangible assets | 17 | 5 | — |
| Amortisation of acquired intangible assets | 17 | 589 | 90 |
| Share of JV loss/(profit) | | 100 | (6) |
| Gain on disposal of JV | | (240) | — |
| Gain on disposal of property, plant and equipment | | (5) | (2) |
| Share-based payments expense | | 658 | 471 |
| **Operating cash flow before movement in working capital** | | **4,752** | **9,965** |
| Acquisition costs | | 5,044 | 1,874 |
| Exceptional restructuring costs | | 4,351 | — |
| **Operating cash flow before movement in working capital and exceptionals** | | **14,147** | **11,839** |
| Increase in inventories | | (2,725) | (706) |
| (Increase)/decrease in receivables | | (9,227) | 294 |
| Increase in payables and accruals | | 4,025 | 2,648 |
| Decrease in provisions | | (1,049) | (1,186) |
| **Cash (used in)/generated from operations** | | **(4,224)** | **11,015** |
| Acquisition costs payments | | 4,679 | 1,874 |
| Exceptional restructuring payments | | 4,024 | — |
| **Headline operating cash flow** | | **4,479** | **12,889** |
| Interest received | | 86 | 30 |
| Interest paid | | (792) | (398) |
| Tax paid | | (816) | (795) |
| **Net cash (outflow)/inflow from operating activities** | | **(5,746)** | **9,852** |
| **Cash flow from investing activities** | | | |
| Purchase of property, plant and equipment | 18 | (2,814) | (1,764) |
| Purchase and development of intangible assets | 17 | (3,874) | (2,479) |
| Proceeds from sale of property, plant and equipment | | 231 | 62 |
| Acquisition of investment in an associate | 19 | (745) | — |
| Acquisition of subsidiary, net of cash acquired | 14 | (50,484) | (7,488) |
| **Net cash used in investing activities** | | **(57,686)** | **(11,669)** |
| **Cash flow from financing activities** | | | |
| Proceeds from issue of share capital (net) | 31 | 95,732 | 6,470 |
| Payment on vesting of share options | 32 | (4,924) | (2,405) |
| (Repayment)/drawdown of borrowings | 27 | (6,724) | 186 |
| Dividends paid | 24 | (1,530) | (799) |
| **Net cash inflow from financing activities** | | **82,554** | **3,452** |
| **Net increase in cash and cash equivalents** | | **19,122** | **1,635** |
| Other non-cash movements — exchange rate changes | | (2,846) | 157 |
| Cash and cash equivalents at the beginning of year | | 4,519 | 2,727 |
| **Cash and cash equivalents at end of year** | 22 | **20,795** | **4,519** |
| Cash and cash equivalents at end of year | | 20,795 | 4,519 |
| Bank borrowings | 25 | (194) | (6,423) |
| **Net cash/(debt)** | 26 | **20,601** | **(1,904)** |

# Notes to the Accounts

for the year ended 30 June 2014

## 1. General information

Regenersis Plc is a company incorporated in the United Kingdom under the Companies Act 2006. Details of its registered office are published on page 129, whilst the nature of the Group's operations and principal activities are set out in the Strategic Report on pages 3 to 29. These financial statements are presented in thousand pounds sterling, which is the functional currency of the Group and Parent Company. Foreign operations are included in accordance with the policies set out in note 1.4.

### 1.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with all International Financial Reporting Standards ("IFRS") as adopted by the EU ("Adopted IFRS").

The financial statements of the Parent Company have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and presented from page 111.

#### Changes in accounting policies

The standards, changes to existing standards and interpretations listed below have been enacted and adopted by the Group in the period in the preparation of these financial statements. They have not had a significant impact on the Group's accounting.

IFRS 13 'Fair value measurement' establishes a single framework for measuring fair value that is required by other standards. The standard applies to both financial and non-financial items measured at fair value. The standard defines fair value on the basis of 'exit price' and uses a 'fair value hierarchy', which results in a market-based rather than entity-specific measurement. The standard will impact upon the measurement of fair value for certain assets and liabilities as well as the associated disclosures. The adoption of this standard has no material impact on profit before tax, earnings per share or net assets in the year ended 30 June 2014.

At the date of approval of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

| | | Effective for periods beginning on or after: |
|---|---|---|
| IFRS 10 | Consolidated Financial Statements | 1 January 2014 |
| IAS 27 (2011) | Separate Financial Statements | 1 January 2014 |
| IFRS 11 | Joint Arrangements | 1 January 2014 |
| IFRS 12 | Disclosure of Interests in Other Entities | 1 January 2014 |
| IFRS 13 | Fair Value Measurement | 1 January 2014 |
| IAS 28 (2011) | Investments in Associates and Joint Ventures | 1 January 2014 |
| IFRS 9 | Financial Instruments | 1 January 2018 |
| IAS 32 | Off-setting Financial Assets and Financial Liabilities | 1 January 2014 |
| IAS 36 | Recoverable amount disclosures for non-financial assets | 1 January 2014 |
| IAS 39 | Continuing hedge accounting after derivative novations | 1 January 2014 |
| IAS 16/IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation | 1 January 2016 |

The Group does not consider the adoption of these standards will have any material impact on its financial statements. The financial statements are prepared under the historical cost convention, except where the measurement of balances at fair value is required as set out below. The accounting policies below have been consistently applied to all periods presented in these consolidated financial statements.

### 1.2 Going concern
As highlighted in note 25 to the financial statements, the Group meets its day-to-day working capital requirements through a revolving credit facility which is not due for renewal until October 2016.

Further information on the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Business Review on pages 14 to 25. Further information on the financial position of the Group, its cash flow, liquidity position and borrowing facility is also described in this review. In addition, note 29 to the financial statements includes the Group's objectives, policies and processes for managing its capital; and its exposures to credit risk and liquidity risk.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its revolving credit facility.

After making enquiries, the Board has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

### 1.3 Basis of consolidation
The consolidated financial statements aggregate the results, cash flow and balance sheets of Regenersis Plc ("the Company") and its subsidiary undertakings (together the "Group") drawn up to 30 June each year. A list of the Company's principal subsidiary undertakings is given in note 19. The results of subsidiary undertakings acquired during a financial year are included from the date of acquisition. The financial statements of subsidiaries are prepared in accordance with the Group's accounting policies and to coterminous balance sheet dates. Regenersis (Bucharest) SRL, Regenersis Russia, Regenersis Mexico and Blancco Oy Limited and its subsidiaries have a statutory year end of 31 December; Regenersis India Limited has a statutory year end of 31 March. Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions are eliminated in preparing the consolidated financial statements. On acquisition of a subsidiary, applicable assets and liabilities existing at the date of acquisition are reflected at their fair values.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the share of the changes in equity since the date of the combination. Losses applicable to the non-controlling interest that are in excess of the non-controlling interest in the subsidiary's equity, are allocated against the interests of the Group only if there is a binding obligation to fund the losses and the Group is able to make an additional investment to cover the losses.

Subsidiaries comprise the entities in which the Group has the right to control financial and operating policies and derive economic benefit from their activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until it ceases.

### 1.4 Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated into sterling at rates of exchange ruling at the balance sheet date. The income statements and cash flow of overseas subsidiaries are translated into sterling at the weighted average exchange rates applicable during the year and their assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of opening net assets of overseas subsidiaries, together with differences between profit and loss accounts at average and closing rates, are included within other comprehensive income. In addition, exchange differences arising on long-term intercompany loans are included within other comprehensive income.

All other exchange differences are accounted for within the income statement.

### 1.5 Goodwill and intangible assets

Goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a business at the date of the acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Goodwill and other intangible assets with indefinite useful lives are reviewed for impairment annually, or whenever there is an indication that they may be impaired, by comparing the carrying value of the asset, or group of assets, to its recoverable amount. Assets which do not generate cash inflows independent of other assets are aggregated into cash generating units (CGUs) and the recoverable amount of the CGU to which the asset belongs is estimated. The recoverable amount of an asset or CGU is the higher of its fair value less costs to sell and its value in use.

The value in use is estimated by calculating the present value of its future cash flow. Impairment charges are recognised in the income statement to the extent that the carrying value exceeds the recoverable amount in the period in which the impairment is identified.

Goodwill acquired in a business combination is allocated to each of the cash generating units that is expected to benefit from the synergies of the combination.

#### Separately identifiable intangible assets arising on business combinations

Other intangible assets, such as customer relationships, brand names and other Intellectual Property, are recognised on business combinations if they are separable or arise from a legal or contractual right. Separately identifiable intangible assets are amortised over their expected future lives unless they are regarded as having indefinite useful lives, in which case they are not amortised, but subject to an annual impairment test.

- Customer relationships are being amortised on a straight line basis over three to 12 years.
- Brand names are being amortised on a straight line basis over 14 years.
- Intellectual Property is being amortised on a straight line basis over ten years.

Development expenditure

Expenditure on research, certain development activities and IT systems developments is recognised as an expense in the period in which it is incurred. Any internally generated development costs (including software development) are recognised as an asset only if the following criteria are met:

- An asset is created that can be identified;
- It is probable, and intended, that the asset created will generate future economic benefits;
- The development costs of the asset can be measured reliably; and
- There is availability of adequate resources to complete the development.

Where no internally generated intangible asset can be recognised, the development expenditure is recognised as an expense in the period in which it is incurred. Internally generated intangible assets are amortised on a straight line basis over three to five years once the asset is available for use.

Software licences

Software licences are initially measured at cost. Cost includes the purchase price of the assets and the directly attributable cost of bringing the asset into its intended use. After initial recognition, the intangible asset is carried at cost, less accumulated amortisation, less any accumulated impairment losses. Amortisation is charged evenly over the assets' estimated useful lives, which are between three and five years.

### 1.6 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Subsequent costs are capitalised only when it is probable that they will result in future economic benefits flowing to the Group and when they can be measured reliably. Depreciation begins when the asset is available for use and is charged to the income statement on a straight line basis so as to write off the cost less residual value of the asset over its estimated useful life as follows:

| | | |
|---|---|---|
| Leasehold improvements | — | over the period of the lease or life of the improvements if less |
| Plant and machinery | — | 20% per annum |
| Computer equipment | — | 33% per annum |
| Motor vehicles | — | 25% per annum |
| Fixtures and Fittings | — | 20%–50% per annum |

Gains and losses arising on the disposal of an asset are determined as the difference between the sale proceeds and the carrying amount of the asset and are recognised in the income statement.

### 1.7 Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group undertakes an economic activity that is subject to joint control. Joint control exists when the strategic financial and operating policy decisions relating to the activity require the unanimous consent of the parties sharing control.

The Group's interest in jointly controlled entities is accounted for using the equity method. Under this method the Group's share of the profits less losses of jointly controlled entities is included in the consolidated income statement and its interest in their net assets is included in investments in jointly controlled entities in the consolidated balance sheet. Where the share of losses exceeds the interests in the entity the carrying amount is reduced to nil and recognition of further losses is discontinued. Interest in the entity is the carrying amount of the investment together with any long-term loan that, in substance, forms part of the net investment in the entity.

### 1.8 Inventories

Inventories and work in progress are stated at the lower of cost and net realisable value. The cost of inventories is based on the first in, first out principle and includes all direct expenditure and an appropriate proportion of attributable overheads that have been incurred in bringing the inventories and work in progress to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution. The amount of any write-down of inventories to net realisable value is recognised as an expense in the year in which the write-down occurs.

### 1.9 Accruals and provisions

A provision is recognised when there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions in respect of contingent consideration for acquisitions are made at the Board's best estimate of the likely consideration payable taking account of the performance criteria which affect the level of contingent consideration.

Provisions are determined by discounting the expected future cash flow at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount rate is recognised as a finance cost.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with the contract.

### 1.10 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is net of value added tax and other duties. Revenue is recognised when the delivery of services has taken place in accordance with the terms of the sales, and there is certainty on the value and recoverability and risk has transferred to the customer.

Revenue on software sales is recognised according to the terms of individual contracts, which fall into two types; either a volume or subscription basis. For sales of licences made under a subscription model revenue is deferred and recognised over the length of the user agreement. Revenue billed in advance is deferred within deferred income and billing in arrears is recognised in accrued income. Where Blancco software is sold on a volume basis a finite number of "uses" are delivered. Revenue is recognised on delivery as this is the point at which risk and reward is transferred to the customer and there are no continuing obligations to the Group.

Bundled sales or multiple-element arrangements require the Group to deliver hardware and/or a number of services under one agreement, or a series of agreements which are commercially linked. Under such agreements, an assessment is made over the ability to identify and account for each of the components separately. In order for these components to be identified it is determined whether the component has stand-alone value to the customer and whether the fair value of the component can be measured reliably. If these criteria are deemed to be met the components are accounted for separately.

Where these agreements are accounted for separately, the consideration received is allocated to each of the identifiable components based on the relative fair values. Fair values are determined on a hierarchical basis as follows:

- Evidence where the Group sells on a stand-alone basis.
- Evidence where the same or similar components are being sold by another third party.
- Best estimate of the selling price.

The amount of revenues allocated to the hardware or service element is accounted for in line with the policy for the sale of goods, and the amount allocated to services is accounted for in line with the policy for services.

Alternatively, where it is determined that either the component does not have stand-alone value or it is not possible for fair value to be determined reliably, revenue is recognised on the entire agreement on a straight line basis over the service period.

Revenue generated from revenue sharing agreements is recognised in full in revenue with the revenue share due to third parties recognised is a cost of sale.

Revenue share comprises amounts payable to network operators and other sources of product in respect of equipment which is sourced from them and which is sold by the Group to independent third parties.

The following factors are relevant to the accounting treatment for this revenue sharing business:

- The Group takes full title and ownership of the products prior to onward sale or Recommerce;
- The Group is sometimes exposed to the stockholding risks such as loss or damage. The Group also bears the some risk of stock obsolescence;
- The Group processes and decides on the best route to market for the equipment;
- The Group has full discretion in identifying customers for onward sale or Recommerce of products and establishes the selling price to these customers; and
- The Group bears the full credit risk of these sales.

Given the above factors the gross inflows are recognised as revenue.

### 1.11 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or 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 substantially enacted by the balance sheet 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 the taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the 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 taxable temporary differences arising on investments in subsidiaries and associates, and interest in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of the deferred tax asset is reviewed at each balance sheet 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 expected to apply in the period when the liability is settled or the asset is realised. 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 with in equity.

### 1.12 Employee benefits

#### Pensions

The Group offers defined contribution pension arrangements to certain employees. Payments to defined contribution pension schemes are expensed as incurred. The Group does not operate any defined benefit pension arrangements.

#### Share based payments

Some Directors and employees are granted share options which may, if certain performance criteria are met, allow these employees to acquire shares in the Company. The specific schemes are detailed in note 32 to the Accounts.

The fair value of options granted after 7 November 2002 are recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where variations are due only to share prices not achieving the threshold for vesting.

#### Cash settled option schemes

The Group grants options to certain employees which, on vesting, are settled in cash. These are detailed in note 32 to the Accounts and are referred to as Phantom Share Schemes. An option pricing model is used to ascertain the fair value of the option at each balance sheet date. A charge is recognised and included within share-based payments with a corresponding liability, based on the expected number of options to vest, prorated for the vesting period that has expired.

### 1.13 Own shares held by EBT

Transactions of the Company-sponsored Employee Benefit Trust (EBT) are treated as being those of the Company and are therefore reflected in the Parent Company and Group financial statements. In particular, the trust's purchases of shares in the Company are debited directly to equity.

### 1.14 Dividends on shares presented within equity

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

### 1.15 Leases

Lease arrangements entered into by the Group are assessed at the inception of the lease and classified as either an operating or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards of incidental ownership to the lessee. All other lease arrangements are classified as operating leases.

Rentals payable under operating leases are recognised in the income statement on a straight-line basis over the periods of the leases. Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown under creditors.

### 1.16 Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

#### Equity instruments

Equity instruments issued by the Group are initially recorded at the proceeds received, net of direct issue costs.

#### Non-derivative financial instruments

Non-derivative financial instruments include investments, cash and cash equivalents, trade and other receivables, trade and other payables and borrowings.

- Cash and cash equivalents comprise cash balances and short-term deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the consolidated cash flow statement.
- Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost.
- Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost.
- Bank borrowings: Interest-bearing bank loans and overdrafts are stated at the amount of the proceeds received, net of financing costs (including revolving credit facility fees and redemption premia). Financing costs are amortised over the expected term of the loan so as to produce a constant rate of return over the period to the date of expected redemption. In instances where the Company has an early redemption option, the term over which financing costs are amortised is the period to the earliest date the option can be exercised, unless there is no genuine commercial possibility that the option will be exercised.

### 1.17 Government Grants

Government grants are recognised on the balance sheet and released to the income statement over the term to which the grant relates.

### 1.18 Headline Operating Profit/Headline operating cash flow

'Headline Operating Profit' is the key profit measure used by the Board to assess the underlying financial performance of the operating divisions and the Group as a whole. 'Headline Operating Profit' is stated before amortisation or impairment of acquired intangible assets, acquisition costs, exceptional restructuring costs and share-based payments.

'Headline Operating Cash Flow' is a key internal measure used by the Board to evaluate the cash flow of the Group. It is defined as operating cash flow excluding taxation, interest payments and receipts, acquisition costs, and exceptional restructuring costs.

### 1.19 Adjusted earnings per share

An adjusted measure of earnings per share has also been presented, which the Board consider gives a useful additional indication of the Group's performance. Adjusted earnings are stated before amortisation or impairment of acquired intangible assets, amortisation of bank fees, exceptional restructuring costs, acquisition costs, share-based payments, unwinding of the discounted contingent consideration and adjustments to estimates of contingent consideration.

## 2. Critical judgements and estimations in applying the Group's accounting policies

### 2.1 Judgements

In the process of applying the Group's accounting policies, management makes various judgements that can significantly affect the amounts recognised in the financial statements. The critical judgements are considered to be the following:

- Recoverability of goodwill and carrying value and useful economic life of other intangible assets
- Assessment of the fair value of assets and liabilities acquired in business combinations
- Revenue recognition on new revenue streams in more complex areas of the business
- Underlying assumptions used in taxation and recoverability of any related deferred tax assets

### 2.2 Estimations

- Goodwill and other intangible assets
  Determining whether goodwill or other intangibles are impaired requires an estimation of the value in use of the cash generating units to which the goodwill or other intangible is allocated. The value in use calculation includes estimates about future financial performance and long-term growth rates and requires management to select a suitable discount rate in order to calculate the present value of those cash flows. The key assumptions used in the impairment review are disclosed in note 16 to the financial statements.

- Revenue Recognition
  The Group has developed or acquired new offerings and entered new contracts where revenue recognition is becoming more complex. The complexity arises around identification of the separable elements generating revenue within each contract and estimation of the fair value of those elements. Judgement is also required as to when the obligation under the service agreement was fulfilled and therefore the timing of when revenue may be recognised.

- Tax
  The Group has recognised deferred tax assets in respect of unutilised losses and other temporary differences arising in certain of the Group's businesses. This requires management to make decisions on the recoverability of such deferred tax assets based on future forecasts of taxable profits. If these forecast profits do not materialise, or there are changes in the tax rates or to the period over which the losses or temporary difference might be recognised, the value of the deferred tax asset will need to be revised in a future period.

  The Group has losses for which no value has been recognised for deferred tax purposes in these financial statements, as future economic benefit of these temporary differences is not probable. If appropriate profits are earned in the future, the temporary difference may result in a benefit to the Group in the form of a reduced tax charge in a future period.
- Customer relationships
  The assessment of the future economic benefits generated from acquired customer relationships, and the determination of the related amortisation profile, involves a significant degree of judgement based on management estimation of future potential revenue and profit and the useful lives of the assets.
- Contingent consideration
  The Directors use their judgement to determine the extent to which contingent consideration will be payable. To assist in making this estimation the Directors use all available information when preparing these financial statements.
- Current asset provisions
  In the course of normal trading activities, judgement is used to establish the net realisable value of various elements of working capital, principally inventory and trade receivables. Provisions are established for net realisable value and bad and doubtful debt risks. Provisions are based on the facts available at the time and may also be determined by using profiles, based upon past practice, applied to inventory and aged receivables.

  In estimating the net realisable value of inventory, judgement is required in assessing their likely value on realisation taking into account market and technological changes.

  In estimating the collectability of trade receivables, judgement is required in assessing their likely realisation, including the current creditworthiness of each customer and related ageing of past due balances. Specific accounts are assessed in situations where a customer may not be able to meet its financial obligations due to deterioration of its financial condition, credit ratings or bankruptcy.

  The judgement as outlined above is also used when acquiring a company and assessing the net assets acquired to ensure they are stated at their realisable value.

# Notes to the Accounts continued

for the year ended 30 June 2014

## 3. Segmental reporting

### Advanced Solutions Division

This division focuses on new products and powerful propositions that are developed, and marketed to our global clients:

- The Renew business — which is made up of the Digital Care, Recommerce and Refurbishment activities.
- The set top box activities in Glenrothes.
- The set top box Remote Diagnostics business — which is made up of the In-field Tester ("IFT") business and other remote diagnostics capabilities covering countries such as the UK, South Africa and Belgium.
- The Mobile Remote Diagnostics business — which is made up of new diagnostics capabilities secured through the Group's strategic investment in Xcaliber.
- And from April 2014 the newly acquired Blancco business — covering data erasure software to global customers and other corporate customers around the world.

### Depot Solutions Division

This division provides the Group's geographic infrastructure and core repair service and whose focus is on continuous improvement, common operating practices, IT platforms and efficiency. It consists of the:

- Emerging Markets segment — including Poland, Romania, Russia, South Africa, Turkey, Mexico, Argentina and India (from September 2013).
- Western Europe and North America segment — including UK operations (excluding Advanced Solutions) at Huntington and Normanton (closed in April 2014); Germany (at Schloss Holte and Sommerda); Sweden; Spain; and new for the period in Portugal (from December 2013) and Memphis (from April 2014).

At the year end internal reporting was based on these three reporting segments — Advanced Solutions, Emerging Markets and Western Europe and North America — which reflected the way the business was managed and reviewed.

| | Revenue 2014 £'000 | Share of JV 2014 £'000 | Revenue 2014 £'000 | Revenue 2013 £'000 | Share of JV 2013 £'000 | Revenue 2013 £'000 |
|---|---|---|---|---|---|---|
| **Revenue from external customers** | | | | | | |
| Emerging Markets | 76,471 | (446) | 76,025 | 56,568 | (1,143) | 55,425 |
| Western Europe and North America | 75,170 | — | 75,170 | 100,471 | (4,412) | 96,059 |
| **Depot Solutions** | **151,641** | **(446)** | **151,195** | **157,039** | **(5,555)** | **151,484** |
| **Advanced Solutions** | **46,287** | **—** | **46,287** | **28,230** | **—** | **28,230** |
| | **197,928** | **(446)** | **197,482** | **185,269** | **(5,555)** | **179,714** |

Within Emerging Markets, Western Europe and Advanced Solutions there are three customers who individually account for more than 10% of the Group's revenue and had total revenues of: £28,264,525; £23,920,662; and £20,112,833 (2013: £28,874,000; £26,176,000 and £18,005,000 respectively). The revenues from the three largest customers were split across the segments as follows: Emerging Markets £49,728,105 (2013: £28,923,723), Western Europe £21,235,503 (2013: £44,211,858) and Advanced Solutions £1,334,412 (2013: £nil). These are significant in the context of the Group although we contract with them under several service agreements in several different countries.

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Headline segment profit** | | |
| Emerging Markets | 6,658 | 5,859 |
| Western Europe and North America | 1,454 | 2,227 |
| **Depot Solutions** | **8,112** | **8,086** |
| **Advanced Solutions** | **7,453** | **3,617** |
| | **15,565** | **11,703** |
| Corporate costs | (4,600) | (2,196) |
| **Headline Operating Profit** | **10,965** | **9,507** |
| Exceptional restructuring costs | (4,351) | — |
| Acquisition costs | (5,044) | (1,874) |
| Amortisation of acquired intangible assets | (589) | (90) |
| Share-based payments | (658) | (471) |
| **Group Operating Profit** | **323** | **7,072** |
| Share of results of jointly controlled entity | (100) | 6 |
| Profit on disposal of jointly controlled entity | 240 | — |
| **Operating profit from continuing operations** | **463** | **7,078** |
| Finance income | 86 | 30 |
| Revaluation of contingent consideration | 4,695 | — |
| Unwinding of discount factor on contingent consideration | (1,063) | (539) |
| Other finance costs | (1,311) | (898) |
| Net finance income/(expense) | 2,407 | (1,407) |
| **Profit before tax** | **2,870** | **5,671** |

| | Segment assets 2014 £'000 | Segment assets 2013 £'000 | Segment liabilities 2014 £'000 | Segment liabilities 2013 £'000 |
|---|---|---|---|---|
| Emerging Markets | 27,610 | 29,670 | 20,054 | 6,791 |
| Western Europe and North America | 34,808 | 33,928 | 28,618 | 15,563 |
| **Depot Solutions** | **62,418** | **63,598** | **48,672** | **22,354** |
| **Advanced Solutions** | **22,216** | **20,139** | **20,735** | **7,186** |
| | **84,634** | **83,737** | **69,407** | **29,540** |
| Corporate | 101,588 | 7,717 | (13,598) | 22,516 |
| | **186,222** | **91,454** | **55,809** | **52,056** |

| | Capital expenditure 2014 £'000 | Capital expenditure 2013 £'000 | Depreciation and amortisation 2014 £'000 | Depreciation and amortisation 2013 £'000 |
|---|---|---|---|---|
| Emerging Markets | 1,809 | 935 | 1,183 | 736 |
| Western Europe and North America | 1,733 | 957 | 679 | 824 |
| **Depot Solutions** | **3,542** | **1,892** | **1,862** | **1,560** |
| **Advanced Solutions** | **1,901** | **1,320** | **1,106** | **730** |
| | **5,443** | **3,212** | **2,968** | **2,290** |
| Corporate | 23,102 | 1,031 | 299 | 134 |
| | **28,545** | **4,243** | **3,267** | **2,424** |

### Geographical information

The following geographical information is based on the location of the business units of the Group:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Revenue from external customers** | | |
| UK | 56,427 | 87,854 |
| Germany | 27,469 | 21,819 |
| Poland | 44,717 | 29,235 |
| Spain | 33,508 | 13,489 |
| Rest of World | 35,807 | 32,872 |
| | **197,928** | **185,269** |
| Less: share of jointly controlled entity | (446) | (5,555) |
| | **197,482** | **179,714** |

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Inter-location revenue** | | |
| UK | 3,940 | 7 |
| Poland | 1 | 325 |
| Rest of World | 479 | 20 |
| | **4,420** | **352** |

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Non-current assets** | | |
| UK | 28,987 | 44,861 |
| Non-UK | 88,561 | 7,983 |
| | **117,548** | **52,844** |

## 4. Auditors' remuneration

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Fees payable to the Company's auditor for the audit of the Company's annual accounts | 19 | 45 |
| The audit of the Company's subsidiaries pursuant to legislation | 351 | 209 |
| **Total audit fees** | **370** | **254** |
| | | |
| Non-audit fees | | |
| Taxation compliance services | 41 | 34 |
| Taxation advisory services | 725 | 88 |
| Other assurance services | — | 9 |
| Transaction services | 432 | 262 |
| **Non-audit fees** | **1,198** | **393** |
| | **1,568** | **647** |

The Board considered the level of fees paid to the auditor and in particular the level of non-audit fees. Having considered their own view and the view of KPMG, the Board concluded appropriate safeguards were in place to ensure the independence of the auditor.

## 5. Operating profit

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Revenue | 197,928 | 185,269 |
| Less: share of jointly controlled entity | (446) | (5,555) |
| **Group revenue** | **197,482** | **179,714** |
| Cost of sales | (151,436) | (138,946) |
| **Gross profit** | **46,046** | **40,768** |
| Headline administrative expenses | (35,081) | (31,261) |
| **Headline Operating Profit** | **10,965** | **9,507** |
| Other administrative expenses | (10,642) | (2,435) |
| Profit on disposal of jointly controlled entity | 240 | — |
| Share of results of jointly controlled entity | (100) | 6 |
| **Operating profit** | **463** | **7,078** |
| Administrative expenses | 45,723 | 33,696 |

## 6. Acquisition costs

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Acquisition costs, aborted deal costs and other M&A related costs | **5,044** | **1,874** |

Acquisition costs relate to the M&A activity within the year, with the most significant relating to the acquisitions of Digicomp and Blancco.

## 7. Exceptional restructuring costs

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Redundancies and restructuring | 3,610 | — |
| Onerous lease and dilapidation provision | 741 | — |
| | **4,351** | **—** |

Exceptional redundancy and restructuring costs relate primarily to:

- Right sizing and refocusing the senior management resource towards the Advanced Solutions division.
- Delayering middle management in the Depot Solutions division to produce a more centrally controlled structure, to better serve our global clients on a consistent basis.
- Refocusing the resource base on the central global people with the necessary skills to support the continued ramp up of the business during the next phase of growth.

# Notes to the Accounts continued

for the year ended 30 June 2014

## 8. Profit for the year

Profit for the year has been arrived at after charging/(crediting):

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Depreciation of property, plant and equipment — owned | 1,619 | 1,536 |
| (Profit)/loss on disposal of property, plant and equipment | (5) | 2 |
| Amortisation of intangible assets | 2,152 | 888 |
| Cost of inventories recognised as an expense | 100,406 | 90,217 |
| Staff costs (note 9) | 59,142 | 49,959 |
| Net foreign exchange losses/(gains) | 241 | (248) |

The increase in the amortisation of intangible assets expense in the year is mainly as a result of the recognition of Intellectual Property, brand and customer list intangibles as part of the Blancco acquisition, in addition to the full year impact of the 2013 intangible additions.

## 9. Staff costs

| | 2014 Number | 2013 Number |
|---|---|---|
| **Average numbers employed** | | |
| Production | 3,515 | 2,214 |
| Sales and business development | 136 | 83 |
| Administration | 561 | 384 |
| | **4,212** | **2,681** |

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Aggregate employment costs** | | |
| Wages and salaries | 49,924 | 42,490 |
| Social security costs | 6,678 | 5,471 |
| Share based payments | 658 | 521 |
| Pension and other staff costs | 1,975 | 1,477 |
| | **59,235** | **49,959** |

Key management personnel have been identified as the main Board, the Depot Solutions Board, and the Advanced Solutions Board. Remuneration of key management personnel is as follows:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Key management personnel costs** | | |
| Short-term employee benefits | 2,565 | 2,571 |
| Post-employment benefits | 144 | 102 |
| Share-based payments | 658 | 258 |
| | **3,367** | **2,931** |

The remuneration of individual Directors is detailed in the Directors' Remuneration Report on pages 49 to 54.

## 10. Finance costs and finance income

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Bank interest receivable and similar income | 86 | 30 |
| Revaluation of contingent consideration (note 29) | 4,695 | — |
| **Total finance income** | **4,781** | **30** |
| Interest payable on borrowings: | | |
| Bank loans and overdrafts | 647 | 725 |
| Other finance costs | 664 | 173 |
| Unwind of discount factor on contingent consideration (note 29) | 1,063 | 539 |
| **Total finance costs** | **2,374** | **1,437** |
| **Net finance (income)/charge** | **(2,407)** | **1,407** |

The main changes in the year have arisen from the effect of the unwind of the discount factor on Digicomp contingent consideration and revaluation of the HDM contingent consideration.

The HDM contingent consideration is payable on an earn-out based on the EBIT as at 30 June 2015. The amount payable varies depending on reaching certain thresholds of EBIT at this date. As at 30 June 2014, the EBIT forecast for the year ended 30 June 2015 was reviewed and earn-out recalculated based on the current earnings projection. As a result, the fair value of the contingent consideration assessed at 30 June 2014 fell from £8,628,000 to £3,933,000 and the resulting movement of £4,695,000 is shown in the statement of comprehensive income.

## 11. Tax

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Current tax** | | |
| UK corporation tax | — | 71 |
| Overseas tax | 972 | 705 |
| Adjustments in respect of prior years | (542) | 255 |
| **Total current tax charge** | **430** | **1,031** |
| **Deferred tax** | | |
| UK | (221) | (326) |
| Overseas | (932) | 338 |
| Adjustments in respect of prior years | 342 | (65) |
| **Total deferred tax (credit) (note 30)** | **(811)** | **(53)** |
| **Tax (credit)/charge** | **(381)** | **978** |

UK Corporation tax is calculated at 22.5% (2013: 23.75%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The Group's total income tax charge for the year can be reconciled to the profit per the Consolidated Income Statement as follows:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Profit before tax | 2,870 | 5,671 |
| Tax at standard UK corporation tax rate of 22.5% (2013: 23.75%) | 646 | 1,347 |
| Effects of: | | |
| Permanent differences | 201 | 52 |
| Income not taxable | (1,120) | — |
| Rate differences | (275) | (248) |
| Adjustment in respect of previous periods | (200) | 202 |
| Brought forward losses no longer recognised | — | 106 |
| Current year losses not recognised | 633 | 62 |
| Relief on research and development costs | (266) | — |
| Other timing differences | — | (543) |
| | **(381)** | **978** |

### Factors that may affect future current and total tax charges

The 2013 Budget in March 2013 announced that the UK corporation tax rate will reduce to 20% by 2015.

A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012), 23% (effective from April 2013), 21% (effective from April 2014) and 20% (effective from April 2015) were substantively enacted on 26 March 2012, 3 July 2012, and 2 July 2013 respectively.

This will reduce the Group's future current tax charge accordingly and further reduce the deferred tax assets and liabilities recognised, which have been based on a tax rate of 20% (2013: 23%), as this was substantively enacted at the balance sheet date.

The Group's future tax charge is dependent on several factors which does not make it possible to quantify the full anticipated effect. Factors expected to effect the tax charge going forward include: the extent to which the UK carries out development work which qualifies for Research and development tax credits; income assigned to the 10% patent box regime (effective from 1 April 2013); the proportion of profits earned in higher or lower tax jurisdictions; and the ability to use tax losses.

## 12. Earnings per share (EPS)

| **EPS Summary** | 2014 Pence | 2013 Pence |
|---|---|---|
| Basic earnings per share | 5.45 | 10.53 |
| Diluted earnings per share | 5.41 | 10.46 |
| Adjusted earnings per share | 16.16 | 16.80 |
| Adjusted diluted earnings per share | 16.06 | 16.69 |

| | 2014 Pence per share | 2013 Pence per share | 2014 £'000 | 2013 £'000 |
|---|---|---|---|---|
| Profit for the year | 5.96p | 10.53p | 3,251 | 4,693 |
| Profit attributable to non-controlling interests | (0.51p) | — | (276) | — |
| Basic EPS/profit attributable to equity holders of the Company | 5.45p | 10.53p | 2,975 | 4,693 |
| Reconciliation to adjusted profit: | | | | |
| Amortisation of acquired intangible assets | 1.08p | 0.20p | 589 | 90 |
| Amortisation of bank fees | 0.91p | — | 495 | — |
| Acquisition costs | 9.24p | 4.20p | 5,044 | 1,874 |
| Share based payments | 1.21p | 1.06p | 658 | 471 |
| Unwinding of discount on contingent consideration | 1.95p | 1.21p | 1,063 | 539 |
| Adjustment to fair value of contingent consideration | (8.60p) | — | (4,695) | — |
| Exceptional restructuring costs | 7.97p | — | 4,351 | — |
| Disposal of jointly controlled entity | (0.44p) | — | (240) | — |
| Tax impact of above adjustments | (2.61p) | (0.40p) | (1,418) | (177) |
| Adjusted EPS/profit for the year | **16.16p** | **16.80p** | **8,822** | **7,490** |

| Number of shares | 2014 '000 | 2013 '000 |
|---|---|---|
| Weighted average number of ordinary shares | 55,438 | 46,009 |
| Treasury shares excluded | (854) | (1,419) |
| Weighted average number of ordinary shares (basic) | 54,584 | 44,590 |
| Effect of share options in issue | 359 | 284 |
| Weighted average number of ordinary shares (diluted) | **54,943** | **44,874** |

A Placing of 29.0 million shares was made on 17 April 2014. The effect on the weighted average number of shares and the earnings per share had the share Placing on 17 April 2014 not taken place was as follows:

Weighted average number of shares (without Placing):

| Number of shares | Basic '000 | Diluted '000 |
|---|---|---|
| Weighted average number of ordinary shares with Placing | 54,584 | 54,943 |
| Weighted average number of ordinary shares in Placing | (6,092) | (6,092) |
| Weighted average number of ordinary shares without Placing | **48,492** | **48,851** |

| EPS Summary | Without Placing (pence) | With Placing (pence) |
|---|---|---|
| Basic earnings per share | 6.14 | 5.45 |
| Diluted earnings per share | 6.09 | 5.41 |
| Adjusted earnings per share | 18.14 | 16.16 |
| Adjusted diluted earnings per share | 18.06 | 16.06 |

## 13. Acquisitions during the year

### Acquisition of Digicomp

On 10 September 2013 the acquisition of 80% of the issued share capital of Digicomp Complete Solutions Limited ("Digicomp") was completed, for a consideration of INR 451,000,000 (£4,500,000).

In the ten months to June 2014, this acquisition has contributed total revenue of £5,256,000 and Headline Operating Profit of £400,000. If the acquisition had been completed on the first day of the financial year, management estimates that the total revenue would have been £6,307,000 and the total Headline Operating Profit would have been £480,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition has occurred on 1 July 2013.

The book value and fair value of the assets acquired and liabilities assumed were as follows:

| | Book Value £'000 | IFRS alignment £'000 | Fair value adjustments £'000 | Fair Value £'000 |
|---|---|---|---|---|
| Intangible assets | 252 | (213) | — | 39 |
| Intangible assets — customer contracts | — | — | 242 | 242 |
| Property, plant and equipment | 793 | (429) | (216) | 148 |
| Deferred tax liability | (94) | — | 1 | (93) |
| Overdraft | (493) | — | — | (493) |
| Inventory | 597 | (404) | (146) | 47 |
| Trade and other receivables | 1,642 | (163) | (209) | 1,270 |
| Trade and other payables | (654) | (288) | (1,042) | (1,984) |
| Other long term payables | (113) | — | — | (113) |
| **Net assets acquired** | **1,930** | **(1,497)** | **(1,370)** | **(937)** |
| Goodwill | | | | 7,667 |
| **Total consideration** | | | | **6,730** |

| | |
|---|---|
| **Satisfied by:** | |
| Initial cash consideration | 4,517 |
| Contingent cash consideration | 2,213 |
| Contingent consideration for redeemable preference shares | — |
| **Total consideration** | **6,730** |

The adjustments relating to IFRS accounting alignment include intangibles not eligible for capitalisation under IFRS (£213,000), alignment of depreciation policies on property, plant and equipment (£429,000), alignment of stock provisioning on stock (£404,000), incorrectly applied accruals accounting on debtors (£21,000), provisions against doubtful debts and customer claims (£142,000), provision for onerous transactions (£206,000), incorrectly applied accruals accounting on payables (£76,000) and other provisions required by IFRS (£6,000).

In addition to the adjustments noted above, the Directors, identified a number of further fair value adjustments that were required to the book values, following a review of all balance sheet categories. These adjustments include write-off of obsolete property, plant and equipment and stock (£362,000), provision against doubtful debtors (£209,000), intangibles arising from customer contracts (£242,000) and provisions against litigations and claims and other unrecorded liabilities (£1,042,000).

Trade receivables acquired totalled £999,000 gross, which consisted of £865,000 net and bad debt provision of £134,000.

### Deferred cash consideration

The acquisition includes an earn-out based on the annualised EBIT for the period 1 August 2013 to 31 December 2014 and to be paid in March 2015. The estimated cash outflow at the time of settlement is expected to be nil based on forecast data.

In September 2016, Regenersis will acquire the remaining 20% of the issued share capital of Digicomp based on a fixed earning multiple applied to EBIT achieved in the 12 month period ending 31 March 2016. The terms of the share purchase included a put option on Regenersis available to Digicomp management which allows for anticipated acquisition method of accounting. The estimated cash outflow at the time of settlement is expected to be INR 340,000,000 (£3,400,000). A deferred liability of INR 224,000,000 (£2,213,000) has been established which represents the fair value at the acquisition date, using a discount rate of 15.5%. At 30 June 2014 the deferred liability was INR 245,000,000 (£2,425,000).

In accordance with IFRS3 “Business Combinations” the acquisition has been treated as an anticipated 100% acquisition from 10 September 2013, as such no non-controlling interest has been recognised and the only separately identifiable intangible asset arising from the acquisition relaters to customer contracts and relationships valued at £242,000. The remaining goodwill of £7,668,000 can be attributed to the anticipated profitability through the growth of the enlarged Group, synergistic benefits and workforce in place.

### Acquisition of Regenersis Russia

On 26 December 2013 Regenersis completed the acquisition of the remaining 50% of the issued share capital of Regenersis Russia Ooo for a consideration of £445,000. This now becomes a wholly owned subsidiary and benefits from all of the Group’s sales resource and efforts to grow further into this potentially significant emerging market.

In the six months to June 2014, this acquisition has contributed total revenue of £1,129,000 and headline operating loss of £20,000. If the acquisition had been completed on the first day of the financial year, the total revenue would have been £2,021,000 and the total Headline Operating Loss would have been £380,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition has occurred on 1 July 2013.

The book value and provisional fair value of the assets acquired and liabilities assumed were as follows:

| | Book Value £'000 | IFRS alignment £'000 | Fair value adjustments £'000 | Fair Value £'000 |
|---|---|---|---|---|
| Intangible assets | 15 | — | — | 15 |
| Property, plant and equipment | 61 | (37) | — | 24 |
| Deferred tax asset | 89 | — | (86) | 3 |
| Cash | 324 | — | — | 324 |
| Inventory | 170 | (34) | (99) | 37 |
| Trade and other receivables | 462 | (126) | (108) | 228 |
| Trade and other payables | (1,239) | (210) | (26) | (1,475) |
| **Net liabilities acquired** | **(118)** | **(407)** | **(319)** | **(844)** |
| Goodwill | | | | 1,529 |
| **Total consideration** | | | | **685** |

| | |
|---|---|
| **Satisfied by:** | |
| Initial cash consideration | 445 |
| Disposal proceeds | 240 |
| **Total consideration** | **685** |

A gain of £240,000 was recognised on the disposal of the 50% equity interest on 31 December 2013 which was required to be accounted for prior to the acquisition.

The adjustments relating to IFRS accounting alignment include property, plant and equipment accounting policies alignment (£37,000), revaluation of stock (£34,000), provision for irrecoverable debtors (£126,000) and incorrectly applied accruals accounting on payables (£210,000).

In addition to the adjustments noted above, the Directors identified a number of further adjustments that were required to the book values, following a review of all balance sheet categories. These adjustments include provision against recoverability of tax assets (£86,000), provision against unusable stock (£99,000), provision against doubtful debtors (£108,000) and provisions against litigations and claims and other unrecorded liabilities (£26,000).

Trade receivables acquired totalled £262,000 gross, which consisted of £65,000 net and bad debt provision of £197,000. The remaining goodwill of £1,529,000 can be attributed to the anticipated profitability through the growth of the enlarged Group, synergistic benefits and workforce in place.

### Acquisition of Blancco

On 17 April 2014, Regenersis completed the acquisition of all of the issued share capital of Blancco Oy Ltd and controlling stakes in its major sales offices (together comprising “Blancco”), for a consideration of €60,000,000 on a debt-free basis comprising approximately €58,700,000 (£48,558,000) in cash and €1,300,000 (£952,000) in consideration shares. Total shares issued to the vendors was 255,096 at a value of £3.73.

In the two months to June 2014, this acquisition has contributed total revenue of £2,489,000 and Headline Operating Profit of £530,000. If the acquisition had been completed on the first day of the financial year, management estimates that the total revenue would have been £14,934,000 and the total Headline Operating Profit would have been £3,180,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition has occurred on 1 July 2013.

The book value and provisional fair value of the assets acquired and liabilities assumed were as follows:

| | Book Value £'000 | IFRS alignment £'000 | Fair value adjustments £'000 | Fair Value £'000 |
|---|---|---|---|---|
| Intangible assets arising on consolidation | — | — | 22,120 | 22,120 |
| Goodwill recognised in subsidiaries' books | 1,899 | (1,899) | — | — |
| Property, plant and equipment | 69 | — | (27) | 42 |
| Investments in associates | 134 | (21) | (103) | 10 |
| Cash | 3,205 | — | — | 3,205 |
| External borrowings | (142) | — | — | (142) |
| Inventory | 57 | — | (57) | — |
| Trade and other receivables | 2,480 | (395) | (327) | 1,758 |
| Trade and other payables | (1,294) | (2,211) | (2,294) | (5,799) |
| Deferred tax | (147) | — | (3,227) | (3,374) |
| Total net assets | 6,261 | (4,526) | 16,085 | 17,820 |
| Net assets attributable to non-controlling interests | | | | (294) |
| **Net assets acquired** | | | | **17,526** |
| Goodwill | | | | 31,984 |
| **Total consideration** | | | | **49,510** |

| | |
|---|---|
| **Satisfied by:** | |
| Cash | 48,558 |
| Equity instruments issued | 1,952 |
| **Total consideration** | **49,510** |

The IFRS alignment and fair value adjustments relate to intangibles arising on consolidation (£22,120,000), true up of goodwill to Regenersis level (£1,899,000), write off of unusable property, plant and equipment (£27,000), correction of investment accounting (£21,000), write off of unprofitable investments (£103,000), write off of inventory (£57,000), correction of sub-consolidation accounting (£395,000), provision against doubtful debtors (£327,000), provisions against litigations and claims and other unrecorded liabilities (£4,505,000), and the deferred tax impact of the above (£3,227,000).

Trade receivables acquired totalled £2,158,000 gross, which consisted of £724,000 net and bad debt provision of £1,434,000.

Under IFRS 3 "Business Combinations" separately identifiable intangible asset arising from the acquisition have been capitalised. These relate to product development valued at £11,872,000, customer contracts and relationships valued at £7,360,000 and the Blancco brand name, valued at £2,888,000. The intangible assets were valued by an external valuer, Global View Advisors. The key assumption used was the discount rate for future cash flows which was estimated at 15%. The sensitivity of each asset's value to a change in the discount rate is summarised below:

| Sensitivity factor | Effect of +1% change in factor £ |
|---|---|
| Discount rate on product development | (296,000) |
| Discount rate on customer relationships | (271,000) |
| Discount rate on brand name | (142,000) |

The remaining goodwill of £31,984,000 can be attributed to the anticipated profitability through the growth of the enlarged Group synergistic benefits and workforce in place.

### Acquisitions in the year ended 30 June 2013

#### Acquisition of HDM

On 31 August 2012, the Group completed its acquisition of all of the issued share capital of Plataforma HDM Técnologica S.A. and Plataforma HDM Tecnologica S.A. de C.V and the trade and assets of HDM Plataforma Logística S.L., HDM Soluciones Integrales de Reparacion S.L. and HDM Moviltech Servicio Técnico S.L. together comprising the entire operations of the HDM Group of Companies ("HDM").

The book value and fair value of the assets acquired and liabilities assumed were as follows:

| | Book Value £'000 | Fair Value £'000 |
|---|---|---|
| Intangible assets | 438 | 438 |
| Intangible assets — customer contracts | — | 608 |
| Property, plant and equipment | 1,528 | 626 |
| Inventory | 608 | 410 |
| Trade and other receivables | 5,609 | 5,763 |
| Deferred tax asset | — | 1,218 |
| Trade and other payables | (3,420) | (3,906) |
| Provisions | (1,563) | (1,351) |
| **Net assets acquired** | **3,200** | **3,806** |
| Goodwill | | 9,630 |
| **Total consideration** | | **13,436** |
| | | |
| **Satisfied by:** | | |
| Cash | | 6,282 |
| Equity instruments issued | | 529 |
| Deferred cash | | 6,625 |
| **Total consideration** | | **13,436** |

The fair value adjustments relate to intangibles arising from customer contracts (£608,000), obsolete or unutilised property, plant and equipment (£902,000), obsolete inventory (£198,000), old credit balances in debtors (£139,000), other contingent liabilities (£486,000), and a reduction in an onerous lease provision (£212,000), together with the consequential deferred tax impact of the above.

In addition to the adjustments noted above, during the course of the due diligence period, the Directors, working with the Directors of HDM, identified a number of further adjustments that were required to the book values, including accounting policy alignments, following a review of all balance sheet categories. These adjustments include £1,563,000 in relation to onerous leases, £312,000 in relation to software licences, £624,000 in relation to other liabilities and £145,000 for unrecoverable accrued income, all of which were not previously identified by HDM in the course of preparing its management accounts.

Trade receivables acquired totalled £3,303,000 gross, which consisted of £3,186,000 net and bad debt provision of £117,000.

The deferred cash consideration of £6,625,000 was valued at the end of the 12 month hindsight period in accordance with IFRS 3 "Business Combinations", based on the EBIT forecasts provided by management.

At 30 June 2013 the fair value of the contingent consideration had increased to £7,777,000 as a result of the unwinding of the discount factor. Based on the most recent management forecasts, the contingent consideration liability was revalued at 30 June 2014 to £3,933,000 which reflects the future cash outflow discounted at of 11%. The estimated cash outflow at the time of settlement is expected to be £4,340,000.

As the 12 month fair value hindsight period since acquisition has now elapsed, the movement in the fair value of the consideration has been shown in the consolidated income statement.

### Acquisition of Landela and Bitronic

On 25 April 2013 Regenersis acquired all of the issued share capital of Landela Electronics (Proprietary) Ltd ("Landela"); on 1 November 2012 Regenersis acquired the remaining 50% shareholding in Digital Care Sweden; and on 14 May 2013 Regenersis acquired the trade and specific assets of Bitronic European Service Centre GmbH and Bitronic Sommerda Hardware Service GmbH ("Bitronic").

The book value and fair value of the assets acquired and liabilities assumed were as follows:

| | Book Value £'000 | Fair Value £'000 |
|---|---|---|
| Intangible assets | 14 | 14 |
| Intangible assets — customer contracts | — | 220 |
| Cash | 253 | 253 |
| Property, plant and equipment | 211 | 168 |
| Inventory | 321 | 256 |
| Trade and other receivables | 387 | 387 |
| Deferred tax asset | — | 736 |
| Trade and other payables | (3,053) | (3,407) |
| **Net assets acquired** | **(1,867)** | **(1,373)** |
| Goodwill | | 3,379 |
| **Total consideration** | | **2,006** |

| | |
|---|---|
| **Satisfied by:** | |
| **Cash** | **2,006** |

The fair value adjustments relate to intangibles arising from customer contracts (£220,000), obsolete or unutilised property, plant and equipment (£36,000), obsolete inventory (£65,000), onerous contracts (£191,000), other liabilities (£164,000) and the reclassification of goodwill (£212,000) on Bitronic's balance sheet at the date of acquisition to Regenersis' balance sheet under the requirements of IFRS, together with the consequential deferred tax impact of the above.

In addition to the adjustments noted above, the Directors, working with the administrators of Bitronic, identified a number of further adjustments that were required to the book values, including accounting policy alignments, following a review of all balance sheet categories. These adjustments relate to contingent liabilities identified during the due diligence so as to properly reflect the position of the business in its insolvency process (£2,246,000).

Trade receivables acquired totalled £201,000 gross, which consisted of £201,000 net and bad debt provision of £nil.

# Notes to the Accounts continued

for the year ended 30 June 2014

## 14. Cash flow — acquisition of subsidiaries net of cash acquired

Within the consolidated cash flow statement, the cash flow relating to acquisitions, net of cash acquired is reconciled as per the table below:

| | £'000 |
|---|---|
| Digicomp acquisition — initial cash consideration | 4,517 |
| Digicomp acquisition — overdraft acquired | 493 |
| Russia acquisition — cash consideration | 445 |
| Russia acquisition — cash acquired | (324) |
| Blancco acquisition — cash consideration | 48,558 |
| Blancco acquisition — cash acquired | (3,205) |
| **Net cash flow – acquisition of subsidiaries, net of cash acquired** | **50,484** |

## 15. Other acquisition

### Investment in Xcaliber

On 21 November 2013 we completed the acquisition of 15% of the issued share capital of Xcaliber Technologies LLC and Xcaliber Infotech PVT Ltd (together "Xcaliber") for a consideration of US$1.2 million (£0.75 million).

Xcaliber is a US based software business with a market leading mobile diagnostic technology which adds to our existing diagnostic offering in Europe, the US and globally.

The initial consideration of US$1.2 million cash was funded through the Group's revolving credit facility.

A further investment was made on 11 July 2014 to acquire an additional 34% of the equity and to bring the Group's total stake in the equity of Xcaliber of 49%. Full details of this transaction are outlined in the subsequent events note on page 108.

## 16. Goodwill

| | Total £'000 |
|---|---|
| **Cost** | |
| At 1 July 2012 | 33,517 |
| Acquisitions | 13,029 |
| Effect of movement in exchange rates | 476 |
| At 30 June 2013 | 47,022 |
| Acquisitions | 41,350 |
| Effect of movement in exchange rates | 23 |
| **At June 2014** | **88,372** |
| **Accumulated impairment losses** | |
| At 1 July 2012, 30 June 2013 and 30 June 2014 | **6,581** |
| **Net book value** | |
| **At 30 June 2014** | **81,791** |
| At 30 June 2013 | 40,441 |
| At 30 June 2012 | 26,936 |

The recoverable amount of each cash generating unit (CGU) has been determined from the value in use, calculated with reference to the net present value of its future cash flow.

Cash flow projections are based on the latest budget for each CGU approved by the Board. Beyond this, the projections extend to 20 years using a long-term growth rate for each CGU which the Executive Directors considers to be specific to the business. This is not considered to exceed the post-war real annual average growth in GDP, in the markets the Group serves and the assessment to impairment is not considered sensitive to changes in this assumption.

In establishing the discount factor for each CGU, the Group's weighted average cost of capital was calculated and then flexed according to CGU geographical spread, customer concentration, length of customer contracts and risk of loss, breadth of services offered, longer term profitability trend, unique selling points, expected business change and growth opportunity.

The Board believes that, even in the current economic conditions, any reasonable change in the key assumptions on which the recoverable amounts are based would not cause the CGUs' carrying amount to exceed the recoverable amount.

| | **2014 Carrying value £'000** | 2013 Carrying value £'000 |
|---|---|---|
| Emerging Markets | 24,616 | 15,352 |
| Western Europe and North America | 14,431 | 14,329 |
| Advanced Solutions | 42,744 | 10,760 |
| **Total Goodwill** | **81,791** | **40,441** |

The average long-term growth rates and pre-tax discount rates applied are as follows:

| | **2014 Growth rate %** | **2014 Discount rate %** | 2013 Growth rate % | 2013 Discount rate % |
|---|---|---|---|---|
| Emerging Markets | 6% | 14% | 5% | 12% |
| Western Europe and North America | 5% | 11% | 4% | 15% |
| Advanced Solutions | 8% | 13% | 4% | 11% |

Management has undertaken sensitivity analysis on a number of the key assumptions in the value-in-use calculations. Sensitivity analysis on the discount rate shows that the discount rate would have to increase to a minimum of 23.1% for Emerging Markets, to a minimum of 12.8% for Western Europe and North America and to a minimum of 17.0% for Advanced Solutions before an impairment was triggered in any CGU. Sensitivity analysis was applied to the cash flows used to determine the value in use by reducing growth rates to 4.0% shrinkage, 2.0% growth and 4.0% growth respectively. On the basis of the sensitivity analysis undertaken in relation to cash flows, Group management concluded that there is a more than adequate amount of headroom in the value-in-use calculations before an impairment would be triggered.

## 17. Other intangible assets

| | Brand Name £'000 | Intellectual Property £'000 | Customer contracts £'000 | Development expenditure £'000 | Software licences £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **At 30 June 2012** | **—** | **—** | **2,605** | **3,024** | **2,391** | **8,020** |
| Additions | — | — | — | 952 | 1,527 | 2,479 |
| On acquisitions | — | — | 828 | — | 601 | 1,429 |
| Disposals | — | — | — | (1,593) | (592) | (2,185) |
| Exchange movement | — | — | 32 | (2) | 101 | 131 |
| **At 30 June 2013** | **—** | **—** | **3,465** | **2,381** | **4,028** | **9,874** |
| Additions | — | — | — | 2,928 | 946 | 3,874 |
| On acquisitions | 2,888 | 11,872 | 7,601 | — | 92 | 22,453 |
| Disposals | — | — | (106) | (3) | (62) | (171) |
| Exchange movement | — | — | — | (29) | (158) | (187) |
| **At 30 June 2014** | **2,888** | **11,872** | **10,960** | **5,277** | **4,846** | **35,843** |
| | | | | | | |
| **Accumulated amortisation** | | | | | | |
| **At 30 June 2012** | **—** | **—** | **2,605** | **1,735** | **2,049** | **6,389** |
| Charge for the year | — | — | 90 | 410 | 388 | 888 |
| On acquisitions | — | — | — | — | 149 | 149 |
| Disposals | — | — | — | (1,593) | (592) | (2,185) |
| Exchange movement | — | — | — | (2) | 47 | 45 |
| **At 30 June 2013** | **—** | **—** | **2,695** | **550** | **2,041** | **5,286** |
| Charge for the year | 43 | 247 | 299 | 896 | 667 | 2,152 |
| On acquisitions | — | — | — | 13 | 18 | 31 |
| Disposals | — | — | — | — | (22) | (22) |
| Impairment | — | — | — | 5 | — | 5 |
| Exchange movement | — | — | — | (11) | (77) | (88) |
| **At 30 June 2014** | **43** | **247** | **2,994** | **1,453** | **2,627** | **7,364** |
| | | | | | | |
| **Net book value at 30 June 2014** | **2,845** | **11,625** | **7,966** | **3,824** | **2,219** | **28,479** |
| | | | | | | |
| Net book value at 30 June 2013 | — | — | 770 | 1,831 | 1,987 | 4,588 |
| Net book value at 30 June 2012 | — | — | — | 1,289 | 342 | 1,631 |

During the year the Group recognised identifiable intangible assets of £22.2 million as part of the acquisition of Blancco, consisting of £2.9 million brand name, £11.9 million Intellectual Property, and £7.4 million of customer relationships. These values were independently valued by an external valuation company.

The Group capitalised development expenditure of £3.8 million (2013: £1.0 million) predominantly in the continued development of in-field testing, remote diagnostics and development of new IT systems for the Recommerce and Digital Care businesses.

## 18. Property, plant and equipment

| | Leasehold improvements £'000 | Plant and machinery £'000 | Computer equipment £'000 | Motor vehicles £'000 | Fixtures and fittings £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **At 30 June 2012** | **3,025** | **7,076** | **4,596** | **9** | **2,319** | **17,025** |
| Additions | 844 | 300 | 441 | 56 | 122 | 1,763 |
| On acquisitions | 487 | 1,100 | 454 | 39 | 406 | 2,486 |
| Disposals | (53) | (49) | (69) | (24) | (9) | (203) |
| Exchange movement | 40 | 81 | 57 | 4 | 70 | 252 |
| **At 30 June 2013** | **4,344** | **8,508** | **5,478** | **84** | **2,908** | **21,322** |
| Additions | 581 | 872 | 891 | 48 | 422 | 2,814 |
| On acquisitions | 137 | 410 | 422 | 28 | 133 | 1,130 |
| Disposals | — | (79) | (82) | (39) | (35) | (235) |
| Exchange movement | (200) | (370) | (180) | (14) | (133) | (897) |
| **At 30 June 2014** | **4,862** | **9,341** | **6,529** | **107** | **3,295** | **24,134** |
| **Accumulated depreciation** | | | | | | |
| **At 30 June 2012** | **1,972** | **6,008** | **4,051** | **7** | **1,581** | **13,619** |
| Charge for the year | 359 | 519 | 424 | 14 | 220 | 1,535 |
| On acquisitions | 120 | 804 | 353 | 33 | 382 | 1,692 |
| Disposals | (15) | (46) | (71) | (8) | (4) | (144) |
| Exchange movement | 36 | 96 | 67 | 2 | 36 | 237 |
| **At 30 June 2013** | **2,472** | **7,382** | **4,823** | **48** | **2,215** | **16,940** |
| Charge for the year | 461 | 332 | 532 | 6 | 288 | 1,619 |
| On acquisitions | 121 | 383 | 311 | 28 | 167 | 1,010 |
| Disposals | — | (52) | (60) | (32) | (14) | (158) |
| Exchange movement | (118) | (273) | (130) | (5) | (92) | (618) |
| **At 30 June 2014** | **2,936** | **7,772** | **5,476** | **45** | **2,564** | **18,793** |
| **Net book value at 30 June 2014** | **1,926** | **1,569** | **1,053** | **62** | **731** | **5,341** |
| Net book value at 30 June 2013 | 1,871 | 1,125 | 655 | 35 | 695 | 4,381 |
| Net book value at 30 June 2012 | 1,053 | 1,066 | 545 | 2 | 739 | 3,405 |

There are no assets held under finance leases.

## 19. Investments

The Group's principal subsidiary undertakings and investments, as determined by significance to the Group's result, are as follows:

| Company name | Principal activity of the company | Ownership percentage by the Group as at 30 June 2014 | Country of incorporation |
|---|---|---|---|
| **Held directly by the Company** | | | |
| Regenersis (Bucharest) SRL* | Technical repair, customer support services and product end of life management for mobile phones and electronic equipment | 100% | Romania |
| Regenersis Istanbul Teknoloji Danısmanlığı Limited Şirketi | Customer support services for mobile phones | 100% | Turkey |
| Regenersis (Nederland) BV | Intermediate holding company | 100% | Netherlands |
| Regenersis Recommerce Ltd | Offers client led buy-back, repair and onward resale of devices | 100% | England and Wales |
| **Held indirectly by the Company** | | | |
| Regenersis (Glenrothes) Ltd | Technical repair, repair avoidance, diagnostic testing services and software development | 100% | England and Wales |
| Regenersis (Warsaw) Sp.z.o.o. | Technical repair, customer support services and product end of life management for mobile phones and electronic equipment | 100% | Poland |
| Regenersis (Sommerda) GmbH | Technical repair, customer support services and product end of life management for electronic equipment | 100% | Germany |
| Regenersis Digital Care Sp.z.o.o. | Extended warranty and insurance services | 100% | Poland |
| Regenersis Spain 1, S.L. | Technical repair and repair avoidance | 100% | Spain |
| Regenersis (India) Private Ltd† | Repairing IT and telecom products | 100% | India |
| Blancco Oy Ltd* | Data erasure and computer reuse solutions | 100% | Finland |

* Year end date is 31 December.
† Year end date is 31 March.

All investments are in the ordinary share capital of the subsidiaries.

All subsidiaries are included in the consolidated results of the Group.

The Group held a 50% share in Russia until 26 December 2013 when it purchased the remaining 50%. The Group's share of joint venture assets, liabilities, income and expenses is as follows:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Current assets | — | 277 |
| Current liabilities | — | (180) |
| Non-current assets | — | 6 |
| Non-current liabilities | — | — |
| **Net assets/(liabilities)** | **—** | **103** |
| Income | 446 | 1,143 |
| Expense | (610) | (1,137) |
| **Net income/(expense) of joint ventures** | **(164)** | **6** |

The Group's liability is limited to the investment value in the legal entity; therefore, any losses are only recognised to the extent that they write the total investment down to nil. The share of loss attributable from Regenersis Rus has therefore been limited to £100,000.

The reconciliation of total investments is as follows:

| | Blancco ZAO 2014 £'000 | Regenersis Russia 2014 £'000 | Total 2014 £'000 | Regenersis Russia 2013 £'000 |
|---|---|---|---|---|
| At 1 July | — | 185 | 185 | 179 |
| Acquisition of investment | 10 | — | 10 | — |
| Retained (loss)/profit | — | (100) | (100) | 6 |
| Trade and other receivables eliminated on acquisition | — | (85) | (85) | — |
| **At 30 June** | **10** | **—** | **10** | **185** |

On 21 November 2013, the Group completed the acquisition of 15% of the issued share capital of Xcaliber for a consideration of US$1.2 million (£0.75 million). The investment is a financial instrument and therefore the Group does not take its share of profits through the consolidated income statement.

The Group's investments are presented in the following captions in the balance sheet:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Investments in jointly controlled entities and associates | 10 | 100 |
| Other investments | 745 | — |
| Trade and other receivables | — | 85 |
| | **755** | **185** |

## 20. Inventories

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Raw materials | 7,560 | 6,038 |
| Work in progress | 1,085 | 1,091 |
| Finished goods | 1,492 | 795 |
| | **10,137** | **7,924** |

## 21. Trade and other receivables

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Trade receivables | 26,652 | 19,534 |
| Less: provision for doubtful trade receivables | (534) | (159) |
| Trade receivables net of provision | 26,118 | 19,375 |
| Prepayments and accrued income | 11,624 | 6,679 |
| | **37,742** | **26,054** |

A reconciliation of the movement in the provision for doubtful trade receivables is as follows:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| At 1 July | 159 | 217 |
| Provision created | 379 | 126 |
| Amounts written off as uncollectable | — | (131) |
| Amounts recovered during the year | (4) | (53) |
| **At 30 June** | **534** | **159** |

## 22. Cash and cash equivalents

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Cash at bank and in hand | **20,795** | **4,519** |

On 17 April 2014, the Group raised £100 million (before expenses) through a Placing of new ordinary shares. The net proceeds of the Placing were used primarily to fund the acquisition of Blancco, for the repayment of the Group's Revolving Credit Facility and the balance was placed in high interest bearing deposit accounts.

## 23. Trade and other payables

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Trade payables | 15,562 | 11,549 |
| Other taxes and social security | 535 | 1,773 |
| Other payables | 7,070 | 4,138 |
| Accruals and deferred income | 21,163 | 15,489 |
| | **44,330** | **32,949** |

## 24. Dividends

| | 2014 £'000 | 2014 Pence per share | 2013 £'000 | 2013 Pence per share |
|---|---|---|---|---|
| Previous year final dividend | 885 | 1.83 | 489 | 1.10 |
| Current year interim dividend | 645 | 1.32 | 310 | 0.67 |
| | **1,530** | **3.15** | **799** | **1.77** |

## 25. Bank borrowings

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Due after more than one year:** | | |
| Secured bank loan | 194 | 6,423 |
| **Repayable:** | | |
| In the third to the fifth years inclusive | 194 | 6,423 |

The bank borrowing is secured on the majority of the Group's assets for the duration of the revolving credit facility. The total facility available to the Group as at 30 June 2014 totalled £39.0 million (2013: £23.25 million), of which £0.5 million (2013: £6.6 million) had been drawn down in cash, resulting in an unutilised facility of £38.5 million (2013: £16.65 million). Borrowing costs of £0.5 million (2013: £0.2 million) are set off against the amount owing at year end.

In December 2013, the Group increased its banking facility with HSBC from £23.25 million to £39.0 million, to support Regenersis' growth plans both organically and through acquisitions. The term of the facility has been extended from October 2015 to October 2016, which gives Regenersis clear certainty of funding over the next two years. The costs of borrowing and the covenants remain unchanged.

All banking covenants have been passed and show significant headroom for the foreseeable future.

## 26. Net cash/(debt)

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Cash | 20,795 | 4,519 |
| Bank borrowings (non-current) | (194) | (6,423) |
| | **20,601** | **(1,904)** |

## 27. Reconciliation of movement in net debt

| | Net debt at 1 July 2013 £'000 | Cash flow £'000 | Repayment of borrowings £'000 | Other non-cash items £'000 | Net debt at 30 June 2014 £'000 |
|---|---|---|---|---|---|
| Cash at bank and in hand | 4,519 | 20,135 | — | (3,859) | 20,795 |
| Borrowings | (6,423) | — | 6,724 | (495) | (194) |
| | **(1,904)** | **20,135** | 6,724 | **(4,354)** | **20,601** |

On 17 April 2014, the Group raised £100 million (before expenses) through a Placing of new ordinary shares. The net proceeds of the Placing were used primarily to fund the acquisition of Blancco, for the repayment of the Group's Revolving Credit Facility and the balance was placed in high interest bearing deposit accounts.

## 28. Provisions

| | Onerous leases £'000 | Dilapidations £'000 | Total £'000 |
|---|---|---|---|
| **At 1 July 2013** | **4,037** | **374** | **4,411** |
| Created during the year | 430 | 119 | 549 |
| Utilised during the year | (1,196) | — | (1,196) |
| Unused amounts released | (430) | — | (430) |
| Unwinding of discount factor | 117 | — | 117 |
| **At 30 June 2014** | **2,958** | **493** | **3,451** |

Provisions relate to a period of between one and eight years and are analysed between current and non-current as follows:

| | **2014 £'000** |
|---|---|
| Current | 792 |
| Non-current | 2,659 |
| | **3,451** |

Opening provisions relate to onerous lease and dilapidation provisions relating to the restructuring in Glasgow and onerous leases in Spain and Mexico. The remaining provision covers residual lease commitments which expire between 2017 and 2019 in Glasgow and between 2017 and 2020 in Spain and Mexico.

## 29. Financial instruments — risk management

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising return for stakeholders through the optimisation of the debt and equity balance.

The Group's capital structure is as follows:

| | **2014 £'000** | 2013 £'000 |
|---|---|---|
| Total borrowings | (194) | (6,423) |
| Cash and cash equivalents | 20,795 | 4,519 |
| **Net cash/(debt)** | **20,601** | **(1,904)** |
| Equity attributable to holders of the Company | 129,843 | 39,398 |
| **Gearing ratio (net debt to equity)** | **—** | **0.05 : 1** |

Debt is primarily used for financing acquisitions and working capital.

Under the revolving credit facility the Group is subject to certain financial covenants relating to:

- Leverage — the ratio of total net debt to EBITDA;
- Interest cover — the ratio of EBITDA to total debt costs; and
- Capital expenditure — any obligation treated as such under accounting principles.

The Group has complied with these financial covenants in the year and future forecasts indicate these will be met for the foreseeable future.

## Categories of financial instruments

The following assets and liabilities at carrying values meet the definition of financial instruments and are classified according to the following categories:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Assets carried at amortised cost** | | |
| Trade and other receivables | 37,742 | 26,054 |
| Cash | 20,795 | 4,519 |
| **Financial assets** | **58,537** | **30,573** |

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Liabilities carried at amortised cost** | | |
| Trade and other payables | 44,330 | 32,949 |
| Income tax payable | 1,476 | 496 |
| Borrowings | 194 | 6,423 |
| **Liabilities carried at fair value** | | |
| Contingent Consideration | 6,358 | 7,777 |
| **Financial liabilities** | **52,358** | **47,645** |

## Estimation of fair values

The table above analyses financial instruments, into a fair value hierarchy based on the valuation technique used to determine fair value.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Only the contingent consideration liability is considered a Level 3 instrument and therefore is carried at fair value, derived using a Level 3 valuation method. The movement in the fair value is shown below:

| | Digicomp £'000 | HDM £'000 | Total £'000 |
|---|---|---|---|
| **At 1 June 2013** | **—** | **7,777** | **7,777** |
| Created on acquisition | 2,213 | — | 2,213 |
| Unwinding of discount factor on contingent consideration | 212 | 851 | 1,063 |
| Revaluation of contingent consideration | — | (4,695) | (4,695) |
| **At 30 June 2014** | **2,425** | **3,933** | **6,358** |

The fair value of contingent consideration is most sensitive to movements in forecast EBIT. A 10% decrease in the forecast EBIT of the respective subsidiaries would reduce the fair value by £0.8 million.

For the other financial assets and financial liabilities, the carrying value and fair value are considered to be the same with the following assumptions:

For trade and other receivables/payables with a remaining life of less than one year, the carrying amount is deemed to reflect the fair value. For cash and cash equivalents, the amount reported on the balance sheet approximates to fair value. For borrowing at floating rates, the carrying value is deemed to reflect the fair value as it represents the price of the instrument in the marketplace.

### Financial risk management

The main risks arising from the Group's financial instruments were market risk (including foreign currency risks and interest rate risk), liquidity risk and credit risk. The Group seeks to minimise the effects of these risks by developing and consistently applying Board approved policies and procedures. Such policies and procedures are regularly reviewed for their appropriateness and effectiveness to deal with the changing nature of financial risks.

### Market risk — interest rate risk

The Group holds cash in a variety of currencies within the business units in order to meet working capital requirements.

During the year, the revolving credit facility attracted margins of between 2.00% and 2.75% above LIBOR (for GBP and ZAR amounts drawn down) and between 2.00% and 2.75% above EURIBOR (for EUR amounts drawn down) depending on the ratio of EBITDA to net debt. In the prior year, the margin also ranged from 2.00% and 2.75%, also depending in the ratio of EBITDA to net debt. The undrawn part of the revolving credit facility is subject to a charge during its availability computed at 40% of margin.

A change in the LIBOR rate of 1% would increase/decrease the annual interest charge on the GBP/ZAR revolving credit facility drawn down as at 30 June 2014 of £500,000 (2013: £3,400,000) by £5,000 (2013: £34,000).

A change in the EURIBOR rate of 1% would increase/decrease the annual interest charge on the revolving credit facility drawn down as at 30 June 2014 of £nil (2013: £3,200,000) by £nil (2013: £32,000).

The CFO continues to monitor the exposure to interest rate risk and the requirement to use an interest rate swap agreement or other financial instruments.

### Foreign currency risk

One of the risks that the Group faces in doing business in overseas markets is currency fluctuations. The Group takes the following approach to managing currency fluctuations:

- The CFO conducts a quarterly review of the Group's currency hedging activities; and
- A formal recommendation for any changes is then made to the Board once every half year.

The Group's hedging policy is the responsibility of the Board. The Group adopts the following hedging activities:

- We undertake a limited number of forward contracts for certain payments and receipts, where the amounts are large, are not denominated in the local country's functional currency, where the timing is known in advance, and where the amount can be predicted with certainty;
- We undertake natural hedging between the cash and loan balances of different currencies;

- We undertake natural hedging by structuring and paying future earn-outs on acquisitions in the target company's local currency; and
- We do not undertake any other hedging activities in respect of tangible and intangible fixed assets, working capital such as stock, debtors, or creditors, or other balance sheet items, as these are generally small in nature in any one individual country. We do not undertake any cash flow or profit hedging activities to insulate from currency movements in respect of overseas earnings, as the earnings cannot be assessed with any high degree of accuracy in terms of timings and amounts.

The Group has a good mix of business across 22 different territories and this does provide some degree of smoothing of currency movements in any one country through a portfolio effect. Over the last few periods this has resulted in a sensible and well managed position.

The table below shows the extent to which the Group had monetary assets and liabilities denominated in currencies other than the local currency of the company in which they are recorded.

| | ZAR denominated | | EUR denominated | | USD denominated | |
|---|---|---|---|---|---|---|
| | **2014 £'000** | 2013 £'000 | **2014 £'000** | 2013 £'000 | **2014 £'000** | 2013 £'000 |
| Monetary assets | 2,185 | — | 15,590 | 1,632 | 3,359 | 2,162 |
| Monetary liabilities | (4,344) | (1,358) | (11,460) | (8,781) | (3,640) | (442) |
| **Net monetary (liabilities)/assets** | **(2,159)** | **(1,358)** | **4,130** | **(7,149)** | **(281)** | **1,720** |

## Sensitivity analysis

This quantifies the impact of change in value of assets and liabilities denominated in a currency other than the functional currency of that business unit. A 10% appreciation/depreciation of the South African rand, the euro and the US Dollar against sterling, applied to the net exposures as at 30 June, would give rise to the following gain/(loss) in the retranslation of these balances:

| | ZAR denominated | | EUR denominated | | USD denominated | |
|---|---|---|---|---|---|---|
| | **2014 £'000** | 2013 £'000 | **2014 £'000** | 2013 £'000 | **2014 £'000** | 2013 £'000 |
| Profit/(loss) before tax — gain/(loss) | | | | | | |
| 10% appreciation of ZAR/EUR/USD | (216) | (136) | 413 | (715) | (28) | 172 |
| 10% depreciation of ZAR/EUR/ USD | 216 | 136 | (413) | 715 | 28 | (172) |

The analysis has been performed using the Group exchange rates at the 30 June 2014 reporting date of 18.06 ZAR/£ (2013: 15.26); 1.25 €/£ (2013: 1.17 €/£); and 1.70 US$/£ (2013: 1.53 US$/£). The Group is exposed to fluctuations in exchange rates on the translation of net assets and profits earned by its subsidiaries in Germany, Poland, Romania, Turkey, South Africa, Spain, Portugal, Russia, Finland, Argentina, Mexico, Sweden and the USA. These profits are translated at average exchange rates for the year, which is an approximation to the rates at the date of the transaction.

## Credit risk

The top ten customers (all of which are major international businesses) account for 71.2% (2013: 73.1%) of the Group's revenue and hence there is some customer reliance risk although the biggest single customer is 14.3% (2013: 16.1%) of revenue and is spread over many of our countries and several contracts. This is distinct from credit risk.

At the balance sheet date one customer made up of several contracts amounted to 13% (2013: 23%) of the Group's total trade receivables and accrued income balances. Over the past year ageing profile has remained strong and, as at the year end, 81% (2013: 90%) of our trade receivables balances were in terms and therefore the Board believes these balances do not present a significant credit risk which could lead to a loss for the Group.

Ageing of trade receivables, net of impaired balances, is as follows:

| | 2014 £'000 | 2014 % | 2013 £'000 | 2013 % |
|---|---|---|---|---|
| **Neither past due nor impaired** | 20,889 | 80% | 17,452 | 90% |
| **Past due but not impaired** | | | | |
| Less than 30 days overdue | 2,969 | 11% | 1,196 | 6% |
| 30 to 60 days overdue | 1,092 | 4% | 355 | 2% |
| More than 60 days overdue | 1,168 | 5% | 372 | 2% |
| | **26,118** | **100%** | **19,375** | **100%** |

The average credit period taken on sales is 64 days (2013: 42 days).

The Group has provided for specific trade receivables where the recoverability is uncertain. As at 30 June 2014 the doubtful debtors balance was £534,000 (2013: £159,000), of which £37,000 (2013: £1,000) was more than 90 days overdue. The Board believes there is no further provision required in excess of the allowance for doubtful debts.

Receivables are written off against the impairment provision when management considers the debt is no longer recoverable.

### Liquidity risk

The Group ensures that there are sufficient levels of committed facility, cash and cash equivalents to ensure that the Group is at all times able to meet its financial commitments.

The total facility available to the Group as at 30 June 2014 totalled £39 million (2013: £23.25 million), of which £0.5 million (2013: £6.6 million) had been drawn down in cash, resulting in an unutilised revolving credit facility of £38.50 million (2013: £16.65 million).

The table below summarises the contractual maturity profile of the Group's financial liabilities:

| | 2014 Effective interest rate (%) | 2014 Less than one year £'000 | 2014 One to five years £'000 | 2013 Effective interest rate (%) | 2013 Less than one year £'000 | 2013 One to five years £'000 |
|---|---|---|---|---|---|---|
| Trade and other payables | — | 44,330 | — | — | 32,949 | — |
| Income tax payable | — | 1,476 | — | | 496 | |
| Provisions | 5.0 | 645 | 2,805 | 5.0 | 871 | 3,540 |
| Bank borrowings | 2.5 | 194 | — | 3.2 | — | 7,282 |
| | **—** | **46,645** | **2,805** | **—** | **34,316** | **10,822** |

## 30. Deferred tax assets

| | At 1 July 2013 £'000 | Recognised in the income statement £'000 | Recognised upon acquisition £'000 | Exchange £'000 | At 30 June 2014 £'000 |
|---|---|---|---|---|---|
| Property, plant and equipment | 1,093 | 204 | 7 | — | 1,304 |
| Intangible assets | — | — | (4,424) | 82 | (4,342) |
| Short-term timing differences | 2,046 | (276) | 954 | 305 | 3,029 |
| Tax losses | 308 | 883 | — | 3 | 1,194 |
| | **3,447** | **811** | **(3,463)** | **390** | **1,184** |

| | At 1 July 2012 £'000 | Recognised in the income statement £'000 | Recognised upon acquisition £'000 | Exchange £'000 | At 30 June 2013 £'000 |
|---|---|---|---|---|---|
| Property, plant and equipment | 1,054 | 39 | — | — | 1,093 |
| Intangible assets | (17) | 17 | — | — | — |
| Short-term timing differences | 182 | (93) | 1,953 | 4 | 2046 |
| Tax losses | 324 | (16) | — | — | 308 |
| | **1,543** | **(53)** | **1,953** | **4** | **3,447** |

Deferred tax assets are recognised to the extent that they are considered recoverable against the future profits of the Group. No deferred tax asset has been recognised in relation to taxation on UK losses amounting to £2.7 million (2013: £1.0 million).

Certain deferred tax assets and liabilities have been offset to the extent permitted by IAS 12. The deferred tax asset balance as at 30 June 2014 is made up of a UK deferred tax asset balance of £0.9 million (2013: £0.6 million) and an overseas balance of £1.5 million (2013: £2.7 million).

## 31. Called up share capital

| | 2014 Number of shares | 2014 £'000 | 2013 Number of shares | 2013 £'000 |
|---|---|---|---|---|
| **Allotted, called up and fully paid:** | | | | |
| Ordinary shares of 2p | 79,022,599 | 1,581 | 49,715,386 | 994 |

The Company has one class of ordinary shares, which carry no rights to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

On 17 April 2014, the Group raised £100 million (before expenses of £4.3 million) through a Placing of 28,986,000 new ordinary shares at a price of 345 pence per share. The net proceeds of the Placing were used primarily to fund the acquisition of Blancco and the balance was used and for general corporate purposes including repayment of the Group's Revolving Credit Facility.

The new ordinary shares (and the shares issued as part of the consideration for Blancco) ranked in full for all dividends and other distributions declared, made or paid on ordinary shares by reference to record dates falling after their date of issue and otherwise ranked equally in all respects with the existing ordinary shares, save that they did not entitle the holder to receive the interim dividend of 1.32 pence per ordinary share payable in respect of the six months to 31 December 2013 declared on 17 March 2014.

### Share premium
This arises on issue of the Company's shares over and above the nominal value of the shares, less any expenses of issue incurred in issuing equity.

Movements within share premium this year relate primarily to the vesting of ISP2 options and from the share Placing completed in April 2014.

### Merger reserve
The merger reserve arises in respect of the premium arising on the ordinary shares issued as consideration for the acquisition of shares in another company.

The movement in the year relates to the premium of 371 pence on 255,096 shares issued to the vendors of Blancco on acquisition of the business.

### Translation reserve
The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

### Employee Benefit Trust (EBT)
Of the issued share capital at 30 June 2014, 853,497 shares (30 June 2013: 1,419,481) are held by the Employee Benefit Trust. During the year 565,984 shares were used to settle awards under the long-term incentive arrangements, further details are given in the Directors' Remuneration Report on pages 49 to 54.

### SM Incentive Arrangements
Outstanding options have been granted to the Directors and employees of the Group under the Incentive Share Plans over shares in Regenersis Plc. Further details of these are included within note 32. Details of the share plans and share options held by Directors are included in the Directors' Remuneration Report on pages 49 to 54.

## 32. Share-based payments
The terms of the Incentive Share Plans are disclosed in the Directors' Remuneration Report.

Share options have been granted to the Directors and employees under the following schemes:

### New Incentive Share Plan (ISP3)
On 14 January 2014, the Company established ISP3. The terms of this scheme are disclosed in the Directors' Remuneration Report on pages 49 to 54.

As at 30 June 2014 awards had been granted in respect of 10.75% of the increase in shareholder value, including 1.25% to Jog Dhody and 7.0% to Hanover General Partner II L.P. Matthew Peacock and Tom Russell are indirectly interested in the awards granted through their association with Hanover Investors Management LLP.

### Incentive Share Plan (ISP2)
On 14 March 2013, the Company established ISP2. The terms of this scheme are disclosed in the Directors' Remuneration Report on pages 49 to 54.

At 30 November 2013, awards in respect of 11.66% of the increase in shareholder value had been granted under ISP2, including 1.06% to Jog Dhody and 7.0% to Hanover (Cayman) General Partner II L.P. Matthew Peacock and Tom Russell were indirectly interested in awards granted to Hanover (Cayman) General Partner II L.P. through their association with Hanover Investors Management LLP.

On 30 November 2013, the additional performance target requiring that the average mid-market closing share price over any 30 consecutive day period prior to 14 March 2016 was greater than 293.5 pence was met. The actual average mid-market closing share price for the 30 consecutive day period ended 30 November 2013 was 317.7 pence. This represented an increase of 64% over the share price when ISP2 was established. Accordingly, all of the awards under ISP2 became available for vesting.

On 14 January 2014, all of the awards granted under ISP2 (in respect of 11.66% of the increase in shareholder value) vested and were exercised. The awards were settled by: creating and issuing 66,117 new shares, transferring 474,923 existing shares from the Employee Benefit Trust (EBT) and direct cash payments amounting to £4,767,209. At 30 June 2014 the total dilution to existing shareholders, from the exercise of the awards during the financial year was 1.1%.

As a consequence and in accordance with IFRS 2 “Share Based Payments”, the accounting for the cash settled options of ISP2 were modified from equity settled to cash settled.

ISP2 fully vested in the year and all options have been settled in the year, therefore no liability remains at 30 June 2014.

### Incentive Share Plan (ISP1)

On 1 July 2011, the Company established ISP1 for the senior management team including Hanover Investors Management LLP. The terms of this scheme were disclosed in the financial statements for the year to 30 June 2013.

On 22 February 2013, the performance target was met and all of the awards under ISP1 (representing 11.85% of the increase in shareholder value) became available for vesting. Awards representing 11.31% of the increase in shareholder value vested and were exercised during the 2013 financial year. On 14 January 2014, awards in respect of 0.14% of the increase in shareholder value vested, were exercised and settled by a direct cash payment amounting to £156,503. As at 30 June 2014 outstanding awards in respect of 0.4% of the increase in shareholder value had not been exercised.

At 30 June 2014, the outstanding liability of £421,000 was included in accruals and deferred income in respect of the outstanding awards under ISP1.

| | £'000 |
|---|---|
| Liability brought forward 30 June 2013 | 203 |
| Increase in liability post vesting | 375 |
| Cash settled | (157) |
| **Liability remaining at 30 June 2014** | **421** |

### Performance Share Plan

The Company had historically operated a Performance Share Plan (“PSP”) in which members of senior management (excluding the Directors) were able to acquire shares at no cost, if certain performance criteria were achieved over a three year period. The terms of this scheme are disclosed in the Directors’ Remuneration Report on pages 49 to 54.

During the financial year payouts under the scheme have been £153,222 (2013: £6,265). These were equity settled through transferring 88,666 shares from the Employee Benefit Trust. The Performance Share Plan has fully vested in the year and the scheme is now closed.

### Phantom Share Plan

The Company had historically operated a cash-based Phantom Share Scheme in which members of senior management (excluding the Directors) were able to participate from around the Group to receive an award in cash, calculated as the difference between the closing share price on the day that they vested compared to the historic grant price. The grant price was set with reference to the average share price over a three day period up to the date of the grant. The scheme is now closed.

Details of share options and Phantom Share Plan awards outstanding at the end of the year are as follows:

| Scheme | Performance Share Plan | Phantom Share Scheme | Phantom Share Scheme |
|---|---|---|---|
| Exercise price | 0.0p | 39.0p | 72.0p |
| Earliest year in which options are exercisable | 2013 | 2013 | 2014 |
| | Number of options | Number of options | Number of options |
| At 30 June 2012 | 375,000 | 66,668 | 66,668 |
| Granted | — | — | — |
| Exercised | — | (66,668) | — |
| Lapsed — leavers | — | — | — |
| At 30 June 2013 | 375,000 | — | 66,668 |
| Granted | — | — | — |
| Exercised | (139,998) | — | (66,668) |
| Lapsed — leavers | (235,002) | — | — |
| **At 30 June 2014** | **—** | **—** | **—** |

The number of shares vesting under the three Incentive Share Plans is determined as follows:

- Following the end of the performance period, the Remuneration Committee will determine whether the applicable performance target has been satisfied and calculate the increase in shareholder value since the date of grant to the individual holder; and
- Each award holder will be entitled to acquire shares at par, with a value equal to a specified percentage of that increase in shareholder value, provided that the performance target had been met — that value for each award holder is divided by the market value of a share at the end of the performance period to determine the number of shares to be awarded.

As the number of shares to be awarded is variable, it has not been included within the table above.

The fair values for the above options were calculated using the inputs and pricing models outlined in the table below:

| | Incentive Share Plan 2 | Incentive Share Plan 2 | Incentive Share Plan 2 | Incentive Share Plan 2 | Performance Share plan | Phantom Share Scheme |
|---|---|---|---|---|---|---|
| Date of grant | 14 June 2013 | 6 May 2013 | 25 April 2013 | 14 March 2013 | 17 September 2010 | 1 July 2011 |
| Option pricing model used | Monte Carlo | Monte Carlo | Monte Carlo | Monte Carlo | Monte Carlo | Black–Scholes |
| Fair value of options granted (per share) at date of grant | 30.5p | 30.3p | 30.7p | 31.1p | 25.6 | — |
| Fair value of options granted (per share) at 30 June 2013 | — | — | — | — | — | 133.0p |
| Expected volatility | 30% | 30% | 30% | 30% | 39% | 25% |
| Risk free interest rate | 0.3%–1.3% | 0.2%–0.9% | 0.2%–0.8% | 0.1%–1.0% | 1.2% | 1.4% |
| Exercise price (per share) | 2.0p | 2.0p | 2.0p | 2.0p | 0.0p | 72.0p |
| Expected dividends | — | — | — | — | — | — |
| Expected term (years) | 2.8 | 2.9 | 2.9 | 3.0 | 3.0 | 3.0 |
| Expected departures | — | — | — | — | — | — |
| Settlement | Equity | Equity | Equity | Equity | Equity | Cash |

| | Incentive Share Plan 3 | Incentive Share Plan 3 | Incentive Share Plan 2 | Incentive Share Plan 2 |
|---|---|---|---|---|
| Date of grant | 31 January 2014 | 14 January 2014 | 1 November 2013 | 23 September 2013 |
| Option pricing model used | Monte Carlo | Monte Carlo | Monte Carlo | Monte Carlo |
| Fair value of options granted (per share) at date of grant | 43.2p | 44.1p | 23.0p | 26.0p |
| Fair value of options granted (per share) at 30 June 2013 | — | — | — | — |
| Expected volatility | 27% | 27% | 327% | 27% |
| Risk free interest rate | 0.3%–2.2% | 0.3%–2.4% | 0.3%–1.4% | 0.3%–1.7% |
| Exercise price (per share) | 2.0p | 2.0p | 2.0p | 2.0p |
| Expected dividends | — | — | — | — |
| Expected term (years) | 2.8 | 3.0 | 2.4 | 2.5 |
| Expected departures | — | — | — | — |
| Settlement | Equity | Equity | Equity | Equity |

Total expense recognised in the income statement for each of the schemes and disclosed on the face on the income statement was as follows:

| | **2014 £'000** | 2013 £'000 |
|---|---|---|
| Performance Share Plan | (71) | 31 |
| Incentive Share Plans | 670 | 258 |
| Phantom Share Scheme | 59 | 182 |
| | **658** | **471** |

The final tranche of the Phantom Share Scheme has fully vested in the year; consequently the remaining liability is £nil (2013: £210,000), and the intrinsic value at 30 June 2014 was £nil (2013: £136,000).

# Notes to the Accounts continued

for the year ended 30 June 2014

## 33. Commitments

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Minimum lease payments under operating leases recognised as an expense in the year: | **4,090** | **3,783** |

The Group has outstanding commitments for total future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Not less than one year | 3,720 | 4,200 |
| Later than one year and not later than five years | 6,367 | 8,673 |
| Later than five years | 467 | 1,232 |
| | **10,554** | **14,105** |

The majority of the leases which the Group has entered into relate to land and buildings. Lease terms range from three months to seven years.

## 34. Subsequent Events

### Additional Investment in Xcaliber

On 11 July 2014, Regenersis provided a further US$3.25 million (£2.0 million) of funding to Xcaliber, taking its equity stake to 49%. This development capital will be used to secure the growth of the business and the large potential contracts that already exist, as well as to progress a bundled diagnostic platform with Blancco and other growing Regenersis technologies. The consideration of US$3.25 million cash was funded through the Group's cash reserves.

In the last six months, Xcaliber Technologies has contracted its first significant mobile diagnostics revenue and launched three important live pilots of its solutions with a major US mobile operator and a major US repair company.

### Acquisition of SafeIT

On 2 September 2014, the Group completed the acquisition of 100% of the issued share capital of SafeIT Security Sweden AB ("SafeIT"), for SEK 16.0 million (£1.4 million).

SafeIT is a specialist data erasure business in the field of the virtual and server data erasure management. Its services and solutions help clients to identify and permanently erase data in complicated cloud environments.

The consideration was funded through the Group's cash reserves.

Fair value calculations for this acquisition have not been completed due to the proximity of the acquisition to the published date of these accounts and as such have not been disclosed.

### Buy out of non-controlling interest in Blancco Sweden

On 2 September 2014, the Group acquired the share capital it did not already own in Blancco Sweden for a consideration of SEK 2.8 million (£0.2 million). The acquisition increased the equity stake in the company from 75% to 100% and demonstrates the Group's continued commitment to grow the newly acquired Blancco Group.

The consideration was funded through the Group's cash reserves.

## 35. Related party transactions

Transactions between Regenersis Plc and its 100% subsidiaries, which are related parties, have been eliminated on consolidation. No disclosure of these transactions is required under IAS 24.

During the year to 30 June 2010, Regenersis Plc advanced a loan of €100,000 to its jointly controlled entity Regenersis Rus, which remained outstanding at the date of acquisition of the remaining 50% of the share capital. The loan is eliminated on consolidation at 30 June 2014 (€100,000 outstanding at 30 June 2013).

Matthew Peacock, Executive Chairman, and Tom Russell, Executive Director, are associated with Hanover Investors Management LLP, and a fee is charged for their services as Executive Directors which is disclosed in the Directors' Remuneration Report. They also have an indirect beneficial interest in the shares of the Group. At 30 June 2014, the combined holding of Hanover Investors Management LLP and its connected parties is 5,043,651 (2013: 10,748,637) ordinary shares equating to 6.38% (2013: 21.62%) of the issued share capital of the Company.

During the year fees amounting to £790,000 were paid for acquisition related services provided by Hanover Investors Management LLP or its connected parties (2013: £350,000).

At 30 June 2014 £574,000 was outstanding in relation to these services (2013: £nil).

All transactions with Directors are included in the Directors' Remuneration Report on pages 49 to 54 and also in the key management personnel disclosures in note 9.

During the year, Regenersis Plc acquired a 15% interest in Xcaliber for US$1.2 million (£745,000) and then a further 34% for US$3.25 million (£2.1 million).

Fees amounting to £300,000 were received by Regenersis Plc during the year for management services provided to Xcaliber. At 30 June 2014, £300,000 was outstanding in relation to these services.

Regenersis Plc also made purchases from Xcaliber amounting to £100,000 for software in the year. At 30 June 2014, £nil was outstanding in relation to these services.

During the year, Regenersis Plc acquired the entire share capital of the Blancco Oy Limited Group, which included a number of part owned subsidiaries.

On acquisition, Regenersis Plc acquired a receivable from Blancco ZAO, a 20% subsidiary of Blancco Oy, of £13,000 which remains outstanding at 30 June 2014.

# Company Balance Sheet

as at 30 June 2014

| | Note | 2014 £'000 | 2013 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Fixed assets** | | | |
| Goodwill | 4 | 5,232 | 6,075 |
| Tangible assets | 5 | 903 | 1,016 |
| Investments in subsidiaries | 6 | 42,292 | 16,148 |
| | | **48,427** | **23,239** |
| **Current assets** | | | |
| Debtors | 7 | 78,453 | 36,019 |
| Cash | | 11,089 | — |
| | | **89,542** | **36,019** |
| **Creditors:** | | | |
| Amounts falling due within one year | 9 | (5,195) | (16,023) |
| Provisions | 12 | (645) | (636) |
| **Net current assets** | | **83,702** | **19,360** |
| **Total assets less current liabilities** | | **132,129** | **42,599** |
| **Creditors:** | | | |
| Amounts falling due after more than one year | 10 | (19) | (6,423) |
| Provisions | 12 | (1,268) | (2,519) |
| **Amounts falling due after more than one year** | | **(1,287)** | **(8,942)** |
| **Net assets** | | **130,842** | **33,657** |
| **Equity** | | | |
| Ordinary share capital | 15 | 1,581 | 994 |
| Share premium | 16 | 121,737 | 26,592 |
| Merger reserve | 16 | 4,034 | 3,088 |
| Profit and loss account | 16 | 3,490 | 2,983 |
| **Equity shareholders' funds** | | **130,842** | **33,657** |

The financial statements were approved by the Board of Directors and authorised for issue on 22 September 2014.

They were signed on its behalf by:

**Matthew Peacock**
Executive Chairman

**Jog Dhody**
Chief Financial Officer

Company number: 05113820

# Notes to the Company Accounts



for the year ended 30 June 2014

## 1. Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom, which have been applied on a consistent basis, and on a going concern basis.

Under Section 408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account.

## 2. Accounting policies

The significant accounting policies applied in the preparation of the Company financial statements are as follows:

### 2.1 Going concern

As highlighted in note 25 to the Group's financial statements, the Group meets its day-to-day working capital requirements through its cash reserves and a revolving credit facility which is due for renewal on 31 October 2016.

Further information on the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Business and Financial Review on pages 14 to 25. Further information on the financial position of the Group, its cash flow, liquidity position and borrowing facility is described in this review.

In addition, note 29 to the Group's financial statements includes the Group's objectives, policies and processes for managing its capital; and its exposures to credit risk and liquidity risk.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its cash reserves and credit facility.

After making enquiries, the Board has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the annual report and accounts.

### 2.2 Intangible assets and goodwill

Goodwill is calculated as the excess of the fair value of the purchase consideration over the fair value attributable to the separately identifiable assets and liabilities of the acquired business. Goodwill is capitalised on acquisition and amortised on a straight line basis over its estimated useful economic life. The life is determined after taking account of the nature of the business acquired and the nature of the markets in which it operates, and is typically between five and 20 years.

### 2.3 Impairment

Goodwill and other intangible assets are reviewed for impairment at the end of the first full financial year following acquisition and, together with tangible fixed assets, in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

The impairment review is performed by comparing the carrying value of the asset or Group of assets, with the recoverable amount. The recoverable amount is higher of net realisable value and the asset's value in use, which is estimated by calculating the present value of its future cash flow. Impairment charges are recognised in the profit and loss account to the extent that the carrying value exceeds the recoverable amount in the periods in which the impairment is identified.

### 2.4 Tangible fixed assets and depreciation
Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost less residual value of each asset on a straight line basis over the asset's estimated useful life as follows:

| | | |
|---|---|---|
| Leasehold improvement | — | over the period of the lease or life of the improvements if less |
| Computer equipment | — | 33% per annum |
| Fixtures and fittings | — | 20%–50% per annum |

### 2.5 Investments
Investments are stated in the balance sheet of the Company at cost less amounts written off. Amounts denominated in foreign currency are translated into sterling at historical exchange rates. Other investments are stated in the Company and Group balance sheets at cost less amounts written off.

### 2.6 Stock and work in progress
Stock and work in progress is stated at the lower of cost and net realisable value. Cost includes all direct expenditure and an appropriate proportion of attributable overheads that have been incurred in bringing the stock and work in progress to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution. The amount of any write-down of inventories to net realisable value is recognised as an expense in the year in which the write-down occurs.

### 2.7 Deferred taxation
Deferred tax is recognised in respect of all timing differences which have originated but not reversed at the balance sheet date where transactions or events which result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in these financial statements. Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary.

Deferred tax is measured at the average tax rates which are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws which have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted or where there are deferred tax liabilities against which the assets can be recovered.

### 2.8 Leases
Lease arrangements entered into by the Company are assessed at the inception of the lease and classified as either an operating or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards of incidental ownership to the lessee. All other lease arrangements are classified as operating leases.

Rentals payable under operating leases are recognised in the profit and loss account on a straight line basis over the periods of the leases. Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown under creditors.

### 2.9 Foreign currencies
Transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated into sterling at rates of exchange ruling at the balance sheet date. All other exchange differences are dealt with in the profit and loss account.

### 2.10 Pensions
The Company offers defined contribution pension arrangements to certain employees. Payments to defined contribution pension schemes are expensed as incurred. The Company does not operate any defined benefit pension arrangements.

### 2.11 Provisions
A provision is recognised when there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions in respect of deferred taxation are dealt with in the accounting policy above. Provisions in respect of contingent consideration for acquisitions are made at the Directors' best estimate of the likely consideration payable taking account of the performance criteria which affect the level of contingent consideration.

Provisions are determined by discounting the expected future cash flow at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount rate is recognised as finance cost.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with the contract.

### 2.12 Bank borrowings and financing costs
Interest-bearing bank loans and overdrafts are stated at the amount of the proceeds received, net of financing costs (including revolving credit facility fees and redemption premia), where the intention is to hold the debt instrument to maturity. Financing costs are amortised over the expected term of the loan so as to produce a constant rate of return over the period to the date of expected redemption.

In instances where the Company has an early redemption option, the term over which financing costs are amortised is the period to the earliest date the option can be exercised, unless there is no genuine commercial possibility that the option will be exercised.

### 2.13 Share based payments

The Company has operated three Incentive Share Plans, a Performance Share Plan and a cash-based Phantom Share Plan.

The share option programme allows employees to acquire shares of the Company. The fair value of options granted after 7 November 2002 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share awards that vest except where variations are due only to share prices not achieving the threshold for vesting.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity.

### 2.14 Own shares held by EBT

Transactions of the Company-sponsored EBT are treated as being those of the Company and are therefore reflected in the Parent Company and Group financial statements. In particular, the trust's purchases of shares in the Company are debited directly to equity.

## 3. Staff costs

Please see disclosure in the consolidated financial statements in note 9.

Disclosure of individual Directors' remuneration is included in the Directors' Remuneration Report on pages 49 to 54.

## 4. Goodwill

| | £'000 |
|---|---:|
| **Cost** | |
| 1 July 2012, 30 June 2013 and 30 June 2014 | 16,854 |
| | |
| **Amortisation** | |
| 1 July 2013 | 10,779 |
| Amortisation charge for the year | 843 |
| **30 June 2014** | **11,622** |
| | |
| **Net book value** | |
| **30 June 2014** | **5,232** |
| 30 June 2013 | 6,075 |

## 5. Tangible assets

| | Leasehold improvements £'000 | Computer Equipment £'000 | Fixtures and Fittings £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 July 2013 | 241 | 883 | 55 | 1,179 |
| Additions | 19 | 272 | 14 | 305 |
| Disposals | — | (150) | — | (150) |
| **At 30 June 2014** | **260** | **1,005** | **69** | **1,334** |
| **Depreciation** | | | | |
| 1 July 2013 | 51 | 100 | 12 | 163 |
| Charge for the year | 51 | 205 | 12 | 268 |
| **At 30 June 2014** | **102** | **305** | **24** | **431** |
| **Net book value** | | | | |
| **30 June 2014** | **158** | **700** | **45** | **903** |
| 30 June 2013 | 190 | 783 | 43 | 1,016 |

## 6. Fixed asset investments

| | Shares in subsidiary undertakings £'000 |
|---|---|
| **Cost** | |
| At 1 July 2013 | 25,925 |
| Additions | 26,737 |
| **At 30 June 2014** | **52,662** |
| **Impairment** | |
| 1 July 2013 | 9,777 |
| Charge for the year | 1,499 |
| Reversal of prior impairment | (906) |
| **At 30 June 2014** | **10,370** |
| **Net book value** | |
| **30 June 2014** | **42,292** |
| 30 June 2013 | 16,148 |

The additions within the year relate to investment in Regenersis Services Limited, Regenersis Mobile Diagnostics Inc, Regenersis (South Africa) (PTY) Ltd, Regenersis Russia and Regenersis Service GmbH.

During the year, the carrying value of the investment in Romania has been reassessed due to the change in focus towards a more service orientated business. The original carrying value of £968,000 is deemed supportable by expected future profitability. As a result, the prior impairment of £906,000 which was originally recorded in the year ended 30 June 2007 has been reversed.

## 7. Debtors

Amounts falling due within one year

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Trade receivables | 332 | — |
| Amounts due from subsidiaries | 75,640 | 34,264 |
| Deferred tax asset (note 8) | 430 | 289 |
| Prepayments, other debtors and accrued income | 2,051 | 1,466 |
| | **78,453** | **36,019** |

## 8. Deferred tax assets

| | Depreciation in excess of/ (less than) capital allowances £'000 | Other timing differences £'000 | Total £'000 |
|---|---|---|---|
| At 1 July 2013 | 37 | 252 | 289 |
| Credit/(charge) for the year | 20 | 121 | 141 |
| **At 30 June 2014** | **57** | **373** | **430** |

Deferred tax assets are recognised to the extent that they are considered recoverable against future profits of the Company. No deferred tax asset has been recognised in relation to tax losses amounting to £1.02 million (2013: £1.00 million).

## 9. Creditors — amounts falling due within one year

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Trade creditors | 462 | 201 |
| Bank overdraft | — | 10,877 |
| Amounts due to subsidiaries | 614 | 2,649 |
| Accruals and deferred income | 4,119 | 2,296 |
| | **5,195** | **16,023** |

## 10. Creditors — amounts falling due after more than one year

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Bank loans and other borrowings | **19** | **6,423** |

# Notes to the Company Accounts continued

for the year ended 30 June 2014

## 11. Bank and other borrowings

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Due after more than one year:** | | |
| Secured bank loan | 19 | 6,423 |
| **Repayable:** | | |
| In the third to fifth years inclusive | 19 | 6,423 |

The bank borrowing is secured on the majority of the Group's assets for the duration of the revolving credit facility. The total facility available to the Group as at 30 June 2014 totalled £39.0 million (2013: £23.25 million), of which £0.5 million (2013: £6.6 million) had been drawn down in cash, resulting in an unutilised facility of £38.5 million (2013: £16.65 million). Borrowing costs of £0.5 million (2013: £0.2 million) are set off against the amount owing at year end.

## 12. Provisions

| | Onerous Leases £'000 | Dilapidations £'000 | Total £'000 |
|---|---|---|---|
| **At 1 July 2013** | **2,781** | **374** | **3,155** |
| Unused amounts released | (430) | — | (430) |
| Unwinding of discount | 116 | — | 116 |
| Utilised in the period | (928) | — | (928) |
| **At 30 June 2014** | **1,539** | **374** | **1,913** |

Provisions are analysed between current and non-current as follows:

| | 2014 £'000 |
|---|---|
| Current | 645 |
| Non-current | 1,268 |
| | **1,913** |

Provisions relate to onerous lease and dilapidation provisions relating to the restructuring in Glasgow, covering residual lease commitments which expire between 2017 and 2019.

## 13. Operating lease commitments

| | 2014 Land & buildings £'000 | 2013 Land & buildings £'000 |
|---|---|---|
| **Lease expiry:** | | |
| Within one year | 115 | 66 |
| Between one and five years | 212 | 100 |
| Over five years | — | 264 |
| | **327** | **430** |

## 14. Share-based payments

The share options outstanding for the Company are the same as for the Group and are disclosed in note 32 to the consolidated financial statements.

## 15. Share capital

The movements on share capital are disclosed in note 31 to the consolidated financial statements.

## 16. Reserves

| | Share premium account £'000 | Merger reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 July 2013 | 26,592 | 3,088 | 2,983 | 32,663 |
| Shares issued within the year | 95,145 | 946 | — | 96,091 |
| Vesting of Share Options | — | — | (5,142) | (5,142) |
| Dividends issued | — | — | (1,530) | (1,530) |
| Retained profit for the year | — | — | 7,179 | 7,179 |
| **At 30 June 2014** | **121,737** | **4,034** | **3,490** | **129,261** |

# Notice of Annual General Meeting



Notice is given that the ninth Annual General Meeting of Regenersis Plc ("the Company") will be held at 12 noon on Wednesday 26 November 2014 at Panmure Gordon & Co, One New Change, London EC4M 9AF to consider the following resolutions, of which numbers 1 to 8 will be proposed as ordinary resolutions and numbers 9 and 10 as special resolutions:

1) To receive the Annual Report and Accounts for the year ended 30 June 2014.
2) To approve the Directors' Remuneration report for the year ended 30 June 2014.
3) To declare a final dividend of 2.68 pence per ordinary share.
4) To re-elect Matthew Peacock as a Director of the Company.
5) To re-elect Tom Russell as a Director of the Company.
6) To reappoint KPMG LLP as auditor of the Company to hold office until the conclusion of the next General Meeting at which accounts are laid before the members.
7) To authorise the Directors to determine the remuneration of the auditor.
8) That, under section 551 of the Companies Act 2006 ("the Act") and in substitution for all existing authorities under that section, the Directors be generally and unconditionally authorised to exercise all powers of the Company to allot shares in the Company or to grant rights to subscribe for, or to convert any security into, shares in the Company up to an aggregate nominal amount of £526,817.33 during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the next Annual General Meeting of the Company or on 31 December 2015, whichever is earlier, unless this authority is previously revoked, varied or renewed, provided that the Company may make an offer or agreement before the expiry of this authority which would or might require shares to be allotted or rights to be granted after such expiry and the Directors may allot shares or grant rights under any such offer or agreement as if this authority had not expired.
9) That, subject to the passing of resolution 8 above, the Directors be empowered under section 570 of the Act to allot equity securities (within the meaning of section 560 of the Act) as if section 561(1) of the Act did not apply to such allotment, provided that the power shall be limited to:

    (a) The allotment of equity securities in connection with an offer (whether by way of a rights issue, open offer or otherwise) to holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with equity securities representing fractional entitlements or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and

    (b) The allotment of equity securities for cash (otherwise than under paragraph (a) above) up to an aggregate nominal amount of £158,045.20;

    and shall commence on the date of the passing of this resolution and expire at the conclusion of the next Annual General Meeting of the Company or on 31 December 2015, whichever is earlier, unless this authority is previously revoked, varied or renewed, provided that the Company may make an offer or agreement before the expiry of this power which would or might require equity securities to be allotted for cash after such expiry and the Directors may allot equity securities for cash under such offer or agreement as if the power conferred by this resolution had not expired.

10) That the Company be generally and unconditionally authorised for the purposes of section 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 2 pence each in the capital of the Company ("Shares"), provided that:

   (a) The maximum number of Shares which may be purchased is 7,902,260;

   (b) The minimum price (exclusive of expenses) that may be paid for a Share is 2 pence;

   (c) The maximum price (exclusive of expenses) which may be paid for a Share is an amount equal to the higher of: (i) 105% of the average of the middle market quotations for the shares as derived from the Daily Official List for the five business days immediately preceding the day on which the purchase is made; and (ii) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System;

   (d) Unless previously revoked, varied or renewed, this authority shall expire at the conclusion of the next Annual General Meeting of the Company or on 31 December 2015, whichever is earlier; and

   (e) The Company may enter into a contract to purchase Shares before the expiry of this authority under which a purchase will or may be completed or executed wholly or partly after such expiry and may make a purchase of Shares under that contract as if the authority conferred by this resolution had not expired.

By order of the Board

**Lorraine Young**
For and behalf of Lorraine Young Company Secretaries Limited
Company Secretary

7 October 2014

**Registered Office**
4th Floor
32 Wigmore Street
London W1U 2RP

## Explanation of Business

### Resolution 1: To receive the report and accounts

Company law requires the Directors to present the Annual Report and Accounts of the Company to shareholders in respect of each financial year.

### Resolution 2: To approve the remuneration report

As the Company's shares are traded on AIM, it is not required to put the Remuneration Report to shareholders for approval. However, the Directors recognise the importance of adopting best practice corporate governance and are therefore putting the Remuneration Report to shareholders for approval voluntarily. The Remuneration Report is set out on pages 49 to 54 of the annual report. It describes the Group's policy on remuneration and gives details of Directors' remuneration for the year ended 30 June 2014. The vote is advisory and does not affect the actual remuneration paid to any individual Director.

### Resolution 3: To declare a final dividend

A final dividend of 2.68 pence per ordinary share is proposed. An interim dividend of 1.32 pence per ordinary share was paid during the year. If approved, the final dividend will be paid on 5 December 2014 to shareholders on the register at the close of business on 7 November 2014.

### Resolutions 4 and 5: To re-elect Directors

Matthew Peacock and Tom Russell retire by rotation under the articles of association and offer themselves for re-election. Directors' biographical details are given on pages 32 to 33 of the annual report.

### Resolutions 6 and 7: To reappoint the auditor and authorise the Board to determine their remuneration

The Company is required to reappoint the auditor at each General Meeting at which accounts are laid before the members. The Audit Committee has reviewed the effectiveness, independence and objectivity of the external auditor, KPMG LLP, on behalf of the Board and recommends their reappointment.

Resolution 7 authorises the Directors, in accordance with standard practice, to negotiate and determine the remuneration of the auditor. In practice, the Audit Committee will consider the audit fees for recommendation to the Board.

### Resolution 8: Directors' authority to allot shares

At the 2013 Annual General Meeting, the Directors were given authority to allot shares in the Company and Resolution 8 seeks to renew that authority until the conclusion of the next Annual General Meeting or 31 December 2015, whichever is earlier. The resolution would give the Directors authority to allot ordinary shares, and grant rights to subscribe for or convert any security into shares in the Company, up to an aggregate nominal value of £526,817.33. This amount represents one-third of the issued ordinary share capital of the Company as at 30 September 2014, the latest practicable date prior to the publication of this document. The Directors have no present intention to allot new shares other than in connection with employee share and incentive plans.

### Resolution 9: Disapplication of pre-emption rights

If Directors of a Company wish to allot shares in the Company, or to sell treasury shares, for cash (other than in connection with an employee share scheme) company law requires that these shares are offered first to shareholders in proportion to their existing holdings.

The purpose of Resolution 9 is to authorise the Directors to allot ordinary shares in the Company, or sell treasury shares, for cash (i) in connection with a rights issue; and, otherwise, (ii) up to a nominal value of £158,045.20, equivalent to 10% of the total issued ordinary share capital of the Company as at 30 September 2014 without the shares first being offered to existing shareholders in proportion to their holdings. This level of authority is required in order to give the Company flexibility in the event of acquisition opportunities and major shareholders will be consulted in advance of the authority being exercised.

The Directors do not intend to issue more than 7.5% of the total issued ordinary share capital of the Company for cash on a non-pre-emptive basis within any rolling three-year period without prior consultation with shareholders.

### Resolution 10: Authority to buy back shares

Under company law, the Company requires authorisation from shareholders if it wishes to purchase its own shares. Resolution 10 seeks to renew the authority given at the last Annual General Meeting. The resolution specifies the maximum number of shares that may be purchased (approximately 10% of the Company's issued share capital) and the highest and lowest prices at which they may be bought.

If the Company buys back its own shares it may cancel them immediately or hold them in treasury. Treasury shares may be sold for cash, cancelled or used to satisfy awards under employee share schemes. The Directors believe that it is desirable for the Company to have this choice as it will give flexibility in the management of its capital base. It is therefore likely that the Company would hold any shares purchased under this authority in treasury. However, in order to respond properly to the Company's capital requirements and prevailing market conditions, the Directors would need to assess the most appropriate course of action at the time of any actual purchase.

The Directors have no present intention of exercising this authority but will keep under review the Company's potential to buy back its shares, taking into account other investment and funding opportunities. The authority will only be used if in the opinion of the Directors this will result in an increase in earnings per share or would otherwise be in the best interests of shareholders generally.

No dividends will be paid on, and no voting rights will be exercised in respect of, treasury shares.

As at the latest practicable date prior to publication of this Notice there were no outstanding options to subscribe for ordinary shares.

## Explanatory notes to the Notice of Meeting

## Entitlement to appoint proxies

1) Members are entitled to appoint a proxy to exercise all or any of their rights to attend, speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by the shareholder. A proxy need not be a member of the Company. If shareholders return a form of proxy they will still be able to attend the AGM, speak and vote in person if they wish. A shareholder may appoint a proxy or proxies:

   (a) In hard copy form (together with any power of attorney or other written authority under which it is signed or a copy of such authority notarially certified or certified in some other way by the Directors) by post, courier or by hand to the offices of the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY, or

   (b) In the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.

## Appointing Proxies

2) A shareholder wishing to appoint a proxy should complete the accompanying form of proxy and return it to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY. Alternatively, you may submit your proxy electronically by using the CREST proxy service. CREST members may appoint a proxy or proxies electronically via Computershare (ID number 3RA50) in accordance with note 4 below. To appoint more than one proxy, you may either photocopy the form of proxy accompanying this Notice or contact Computershare on 0870 889 4099 to request additional personalised forms of proxy. If more than one proxy appointment is returned in respect of the same shareholding, the proxy last received by Computershare before the latest time for the receipt of proxies will take precedence. To be valid, any proxy form or other instrument appointing a proxy must be deposited with Computershare or lodged via the CREST proxy service (in each case) no later than 12 noon on Monday 24 November 2014.

## Electronic proxy appointment through CREST

3) CREST members who wish to appoint a proxy or proxies using the CREST electronic proxy appointment service may do so by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

4) In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message regardless of whether it relates to the appointment of a proxy or to an amendment to the instructions given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 3RA50) by 12 noon on Monday 24 November 2014. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

5) CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

6) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

## Joint holders

7) In the case of joint holdings, only one holder needs to sign the form of proxy. The vote of the senior holder who tenders a vote shall be accepted to the exclusion of the votes of the other joint holders, seniority for this purpose being determined by the order in which the names stand in the register of members in respect of joint holdings.

## Entitlement to attend and vote

8) In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those whose names are on the register of members of the Company at the close of business two days (excluding non-working days) before the meeting or any adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

## Corporate Representatives

9) Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

## Voting Rights

10) As at 6 October 2014 (being the last business day prior to the publication of this Notice), the Company's issued share capital consisted of 79,022,599 ordinary shares, carrying one vote each. There were no shares held in treasury, therefore the total voting rights in the Company as at that date were 79,022,599.

## Communicating with the Company in relation to the AGM

11) Except as provided above, shareholders wishing to communicate with the Company in relation to the AGM should write to the Company Secretary, Regenersis Plc, 4th Floor, 32 Wigmore Street, London W1U 2RP.

12) You may not use any electronic address provided either in this Notice or any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

## Inspection of documents

13) Copies of the Executive Directors' service contracts and Non-executive Directors' letters of appointment will be available for inspection during normal business hours at the registered office of Regenersis Plc, 4th Floor, 32 Wigmore Street, London W1U 2RP. They will also be available for inspection at the AGM venue for at least 15 minutes before the meeting until its conclusion.

## Voting Results

14) The Company will publish the results of the AGM via a regulatory announcement and on its website www.regenersis.com.

# Glossary

**Adjusted Earnings Per Share:** Basic earnings per share excluding amortisation or impairment of acquired intangible assets, amortisation of bank fees, exceptional restructuring costs, acquisition costs, share-based payments, unwinding of the discounted contingent consideration and adjustments to estimates of contingent consideration. 'Adjusted earnings per share' is the key earnings per share measure used by the Board.

**Advanced Solutions (division):** This division includes:

- The Renew business — which is made up of the Digital Care, Recommerce and Refurbishment activities.
- The set top box activities in Glenrothes.
- The Remote Diagnostics business — which is made up of the In-field tester ("IFT") business and new mobile diagnostics capabilities secured through the Group's strategic investment in Xcaliber; and
- The Blancco data erasure business.

**B2B:** Business to business transactions.

**Basic Earnings Per Share:** Profit after tax attributable to the equity holders of the Company, stated per share.

**Capital Expenditure:** Expenditure on property, plant and equipment, intangible assets, and capitalised R&D.

**Closed Loop Refurbishment:** Refurbishment services offered to clients which operate solely with that client, i.e. devices are received from, and subsequently returned to, the same client.

**Corporate Costs:** Costs incurred by central departments for the benefit of the Group as a whole and which cannot be allocated to specific business segments.

**Depot Solutions (division):** Consists of the Emerging Markets segment and the Western Europe and North America segment, and provides services for repair of non-functioning devices and refurbishment of devices.

**Digital Care:** Part of the Advanced Solutions division which operates in insurance activities.

**Diluted Adjusted Earnings Per Share:** Adjusted earnings per share stated after adjustments to the number of shares for convertible share options.

**Diluted Earnings Per Share:** Basic earnings per share stated after adjustments to the number of shares for convertible share options.

**EMEA:** The combined regions of Europe, the Middle East and Africa.

**Emerging Markets (segment):** This includes the following countries: Argentina, India, Mexico, Romania, Poland, Turkey, Russia and South Africa.

**Gross Debt:** The total external borrowings of the Group, net of capitalised bank fees.

**Headline Cash Conversion:** Headline Operating Profit stated as a percentage of Headline Operating Profit.

**Headline Operating Cash Flow:** Operating cash flow excluding taxation, interest payments and receipts, acquisition costs, and exceptional restructuring costs. This is the key operating cash flow measure used by the Board to assess the underlying cash flow of the Group.

**Headline Operating Margin:** Headline Operating Profit stated as a percentage of revenue.

**Headline Operating Profit:** Operating profit stated before amortisation or impairment of acquired intangible assets, acquisition costs exceptional restructuring costs and share-based payments. This is the key profit measure used by the Board to assess the underlying financial performance of the operating divisions and the Group as a whole.

**IFT:** 'In-field tester' business which offers a diagnostic hardware which is used by field engineers to test set top box devices in the end customer's home.

**Insurance Fulfilment Services:** Fulfilment of out of warranty repairs in partnership with Insurance companies.

**Net Debt:** Gross debt stated after offsetting cash holding.

**OEM:** An 'Original Equipment Manufacturer'.

**Operating Cash Flow:** Cash flows originating from transactions in the core operational activities of the Group, for example cash flows resulting from revenues earned and expenditure paid. This excludes cash flows relating to investing or financing activities.

**Operating Margin:** Operating Profit stated as a percentage of revenue.

**Operating Matrix:** The combination of territories and service lines in which the Group operates.

**R&D:** Research and development into new technologies to improve client service, reduce costs or enhance revenue.

**Recommerce:** Part of the Advanced Solutions division and offers client led refurbishment, repair and onward disposition of devices.

**Refurbishment:** Part of the Advanced Solutions division and offers client led component level repair of screens, motherboards, and other items, to make them as good as new.

**Remote Diagnostics Business:** Included within the Advanced Solutions Division, this consists of the In-field tester ("IFT") business for set top box diagnostics in the customer home and the Mobile diagnostics business, provided through the Xcaliber investment and its SmartChk solution.

**Western Europe (segment):** This includes the following countries: UK (excluding Advanced Solutions), Germany, US, Portugal, Sweden, and Spain.

**Working Capital:** A measure of the Group's current liquidity by showing how much cash has been invested in day-to-day trading. Working capital is the sum of stock, current debtors, accrued income, current creditors and accrued payments.

**Value Add:** Revenue stated after material costs and freight, but before labour costs.

# Shareholder Notes

# Locations

## Registered Office

Regenersis Plc
4th Floor
32 Wigmore Street
London
W1U 2RP

## UK

James Watt Avenue
Westwood Park
Glenrothes, Fife
KY7 4UA

Kingfisher Way
Hinchingbrooke Business Park
Huntingdon
Cambridgeshire
PE29 6FN

Unit 5 The Arc
25 Colquhoun Avenue
Hillington Park
Glasgow
G52 4BN

## Argentina

California 2082
Central Park, C1289AAN
Capital Federal
Buenos Aires

## Belgium

Rue de Liège 70
Courzelles 6180

## Czech Republic

CTPark Teplice
Kateřinská 96
Krupka
41742 Nové Modlany

## Finland

Länsikatu 15
FIN-80110 Joensuu

## Germany

An der Gehespitz 90
D-63263 Neu-Isenburg

Bahndamm 39
D-33758 Schloß
Holte-Stukenbrock

Erfurter Höhe 10a
99610 Sömmerda

## India

80/1, 1st Floor, 1st Main Road, 3rd Cross
New Timber Yard Layout
Mysore Road
Bangalore
560 026

## Mexico

Tres Anegas 425
Bodega 7 Col. Nueva Industrial Vallejo
CP 07700 Delegación Gustavo A Madero
Mexico City, Mexico DF

## Netherlands

WTC Schiphol
Schiphol Boulevard 127
1118 BG Schiphol

## Poland

Janki
Ul. Falencka 1B
05-090 Raszyn

Janki
Al Krakowska 38
05-090 Raszyn

Ul. 19 Kwietnia 31
05-090 Raszyn

## Romania

92F Timisoara Bd
C2/C23
Sector 6 Bucharest
061334, Romania

## Russia

Lavochkina Street
House #19
Moscow
125502

## South Africa

Unit C, Alphen Square West
338 George Street
Ranjespark
Midrand
Gauteng
1682

Marpless Business Park
65 Landmarks Ave
Unit 4
Kosmosdal
Pretoria

## Spain

Av. Leonardo Da Vinci, 13
Parque Empresarial "La Carpetania"
28906

## Sweden

Smedjegatan 6 3tr
13154 Nacka

Vevgatan 18
SE-504 64 Borås

## Turkey

Tatlısu Mahallesi Şenol Güneş Bulvarı
Mira Tower Sitesi No:2 Zemin Kat D:2
34775 Ümraniye, Istanbul

## United States

1228 East 7th Avenue
Tampa
Florida
33605

3919 Hickory Hill Rd
Memphis
Tennessee
TN 38115

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