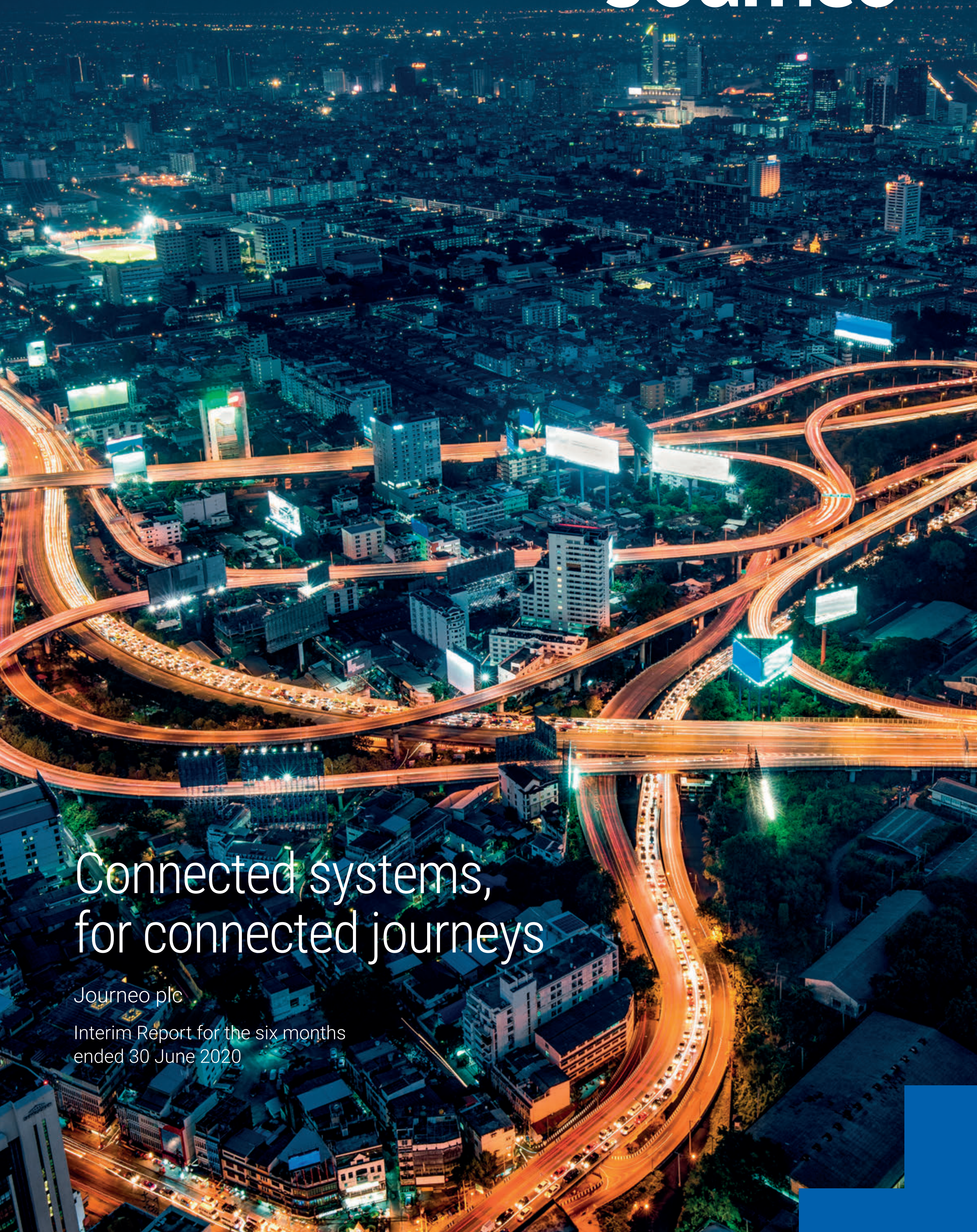
Journeo



Connected systems, for connected journeys

Journeo plc

Interim Report for the six months ended 30 June 2020

JOURNEO PROVIDES CRITICAL TECHNOLOGY SOLUTIONS TO THE TRANSPORT COMMUNITY WHICH CAPTURE, PROCESS AND DISPLAY ESSENTIAL INFORMATION TO IMPROVE JOURNEYS.

We serve towns and cities with passenger information, fleet operators with safety and efficiency systems and bring these together in fully-integrated solutions for transit hubs such as airports. Our systems contribute to wider smart city initiatives as transport becomes more intelligent and connected.

We are customer-led with over 20 years' experience solving complex operational requirements based on deep technical and market knowledge. We are recognised leaders in the systems engineering and services needed to partner our customers and to install and support their solutions in the factory, on the street and on the vehicle. Our technical resources focus on increasing customer value by developing products and software that meet the transport communities' unique requirements.

CONTENTS

OPERATIONAL HEADLINES

- Swift and effective response to the changing environment allowed the Group to continue to support essential services through the Covid-19 Government-enforced lockdown.
- Improved H1 performance from all parts of the Group, especially in Passenger Systems which had a strong start to the year.
- Continued investment in research and development across all areas of the business.
- Progress made to the Group's sustainable development strategy through the incorporation of Environmental, Social and Governance (ESG) elements into Group planning and operations.
- Several large bids in progress, with a number already secured early in H2
  - Abellio £2m framework
  - West Midlands Combined Authority (WMCA) £0.8m transport infrastructure projects
  - Transforming Cities Fund (TCF) £0.3m infrastructure project

HEADLINES

Revenue
(2019: £5.7m)
£6.8m

Gross profit
(2019: £2.2m)
£2.5m

Underlying profit before depreciation and amortisation
(2019: loss of £0.02m)
£0.5m

FINANCIAL HEADLINES

- Revenue increased by £1.1m to £6.8m (2019: £5.7m)
  - Passenger revenue increased 41% to £3.6m (2019: £2.5m)
  - Fleet revenue unchanged at £3.2m (2019: £3.2m)
- Gross profit increased by £0.3m to £2.5m (2019: £2.2m)
  - Passenger £1.6m (2019: £1.3m)
  - Fleet £0.9m (2019: £0.9m)
- Cash as at 30 June 2020 of £1.2m, up from £0.4m for the same period last year
- Invested over £0.5m in research and development during the period

Chairman and Chief Executive's review

MARK ELLIOT
Non-executive Chairman

RUSS SINGLETON
Chief Executive

"WE ARE PLEASED WITH THE RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020, WHICH ARE IN LINE WITH OUR EXPECTATIONS."

SUMMARY

We are pleased with the results for the six months ended 30 June 2020, which are in line with our expectations. Revenues increased by 18% to £6.8m (H1 2019: £5.7m) and delivered operating profits of £0.2m during the period (2018: loss £0.3m), an increase of £0.5m compared with the same period in 2019.

Despite the challenges posed by Covid-19, the Group has performed well overall and has continued to support a growing customer base whilst investing in the development of next generation technologies and solutions.

Tight controls over cash management, the equity fundraises in December 2019 and April 2020 along with the Company participating in the VAT payments deferral scheme have contributed to the increased cash position of £1.2m at 30 June 2020 (30 June 2019: £0.4m).

The Group implemented swift and effective responses as the Coronavirus pandemic developed and introduced appropriate health and safety protocols to enable it to operate safely in its relationships between staff, customers, consultants and suppliers.

The Group also made progress towards a sustainable development ethos by incorporating Environmental, Social and Governance (ESG) elements into much of its planning and operations. Our strategy towards ESG reflects both our own values and is also in response to ever increasing expectations from our customer and wider stakeholders. Examples of this can be seen in our commitment to sustainability where we are seeking to prolong the operating life and, where possible, extend the functionality of customers' existing or legacy systems by recycling/upcycling, whilst at the same time integrating new technologies and protocols.

COVID-19

The Group provides and supports critical safety and security systems on-board buses, coaches and trains along with travel related public messaging infrastructure in and around towns and cities. These are categorised as essential services, as they enable health and other key workers to continue to travel safely to and from their places of work.

In the 2019 Annual Report Principle Risks review, published in April this year, a number of potential challenges were identified which it was considered might arise as a result of the restrictions following the Government-enforced lockdown.

The Group has adapted well to the changing environment, as systems to allow secure and effective remote working were already in place as part of a business continuity plan. As a result, the business was able to adjust to increased remote working with minimal disruption and continued to deliver projects and services to meet customer needs.

We continue to monitor the situation and work in accordance with prevailing Government recommendations at all times and regard the health and safety of all our people, suppliers, contractors and customers to be of paramount importance.

FINANCIAL RESULTS

Revenue for H1 2020 was up over £1m to £6.8m (H1 2019: £5.7m), an increase of 18% due to an increase in Passenger Systems revenue to £3.6m (H1 2019: £2.5m), while Fleet Systems revenue remained flat at £3.2m (H1 2019: £3.2m).

Passenger Systems gross profit of £1.6m (H1 2019: £1.3m) increased by £0.3m with a reduction in overall margin to 45% (H1 2019: 53%) due to a higher proportion of new installations.

Fleet Systems gross profit of £0.9m (H1 2019: £0.9m) remained static, with margin also remaining level at 28% (H1 2019: 28%).

Overall gross profit increased by £0.3m to £2.5m, while gross margin decreased by 2% to 37%, resulting, as explained above, from a higher proportion of new installations in the Passenger business. An operating profit of £0.2m was achieved, compared with an operating loss of £0.3m in H1 2019. Our expenditure on R&D resulted in a tax credit claim of £0.3m being received during the period.

The underlying profit before depreciation was £532k (H1 2019: loss of £18k), delivering a basic undiluted profit per share of 1.11p (H1 2019: loss of 0.44p).

Tight controls over cash management, the equity fundraises in December 2019 and April 2020 along with the Company participating in the VAT payments deferral scheme, have contributed to the increased cash position of £1.2m at 30 June 2020 (30 June 2019: £0.4m).

We continue to focus attention on supplier and customer management and maintain a vigilant watch on the cost base.

RESEARCH AND DEVELOPMENT (R&D)

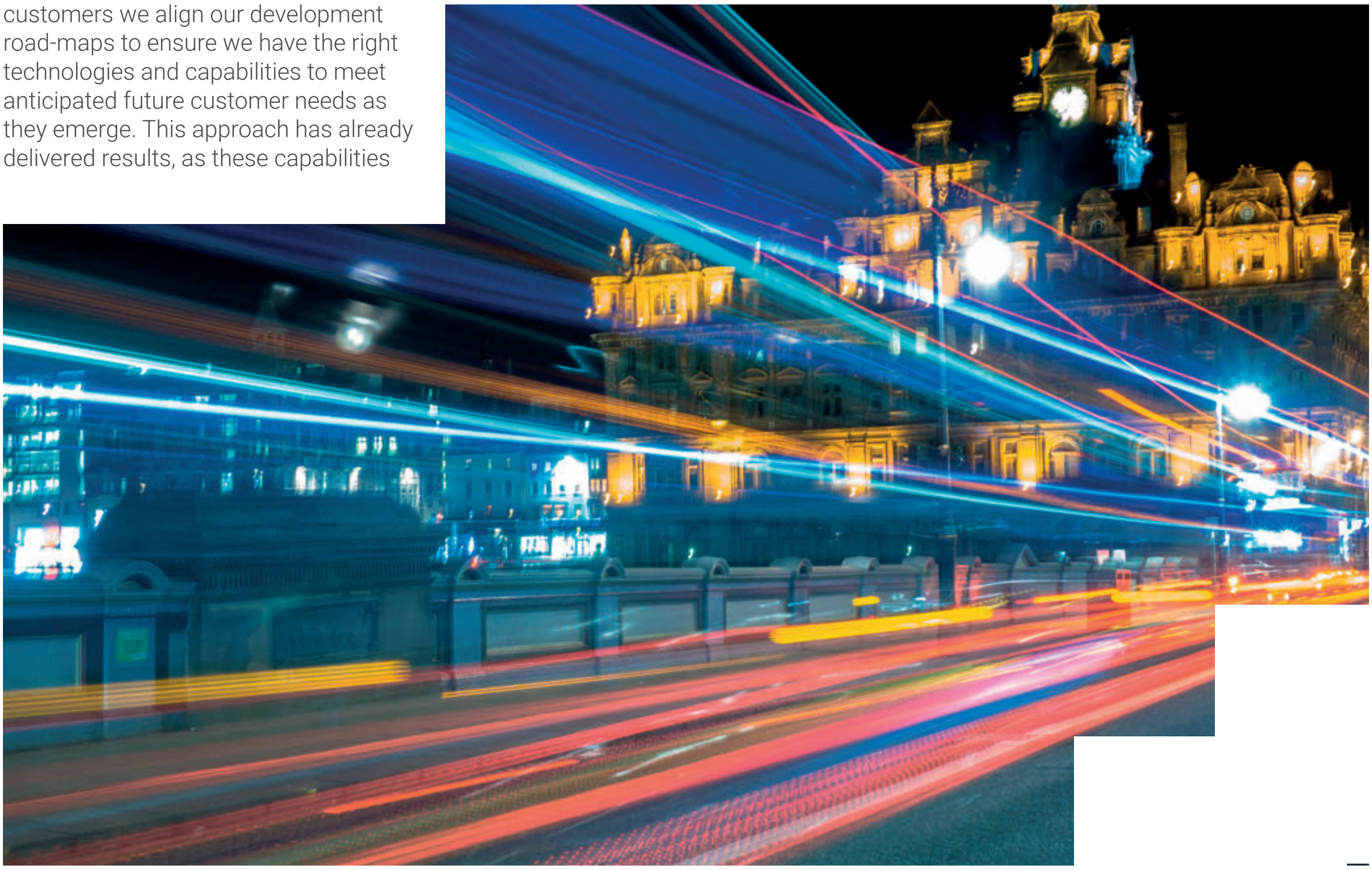
The continued investment in R&D is benefitting all areas of the Group and helping to drive future sales growth.

Through market research and talking with customers we align our development road-maps to ensure we have the right technologies and capabilities to meet anticipated future customer needs as they emerge. This approach has already delivered results, as these capabilities were central to securing the sales behind our improved H1 financial performance and are also generating a lot of interest with an increasing number of sales opportunities in the pipeline being based on our own technologies and software.

The Company has continued to invest in transport display Content Management System (CMS) software. This powerful cloud-based software enables local authorities to organise and display multi-modal transport schedules, real time information updates and important public service messaging quickly and easily. The customer base for CMS is growing and it was pivotal in securing the £1.9m order for Passenger Information Systems and software for a transport partnership comprised of four local authority customers, announced in February. Other transport network operators are increasingly relying on it during the Coronavirus pandemic to help keep key workers informed of the public transport services that are operating.

“THE CONTINUED INVESTMENT IN R&D IS BENEFITTING ALL AREAS OF THE GROUP AND HELPING TO DRIVE FUTURE SALES GROWTH.”

Similarly, we have continued investment in the development of our on-board vehicle technologies, in accordance with Information Technology for Public Transport (ITxPT) standards to allow fleet managers across Europe to seamlessly incorporate new technologies, such as passenger counting and occupancy monitoring, driver aids and vehicle tracking into existing systems. A number of these systems are currently being evaluated in the UK and Sweden and are receiving good reviews.



Chairman and Chief Executive's review

In addition, a number of new software based management features have been developed that enable airport fleet operators to control their bussing operations, including managing the dispatch of inter-terminal passenger and flight crew vehicles with real time arrival and scheduling predictions for service level adherence monitoring.

FLEET SYSTEMS

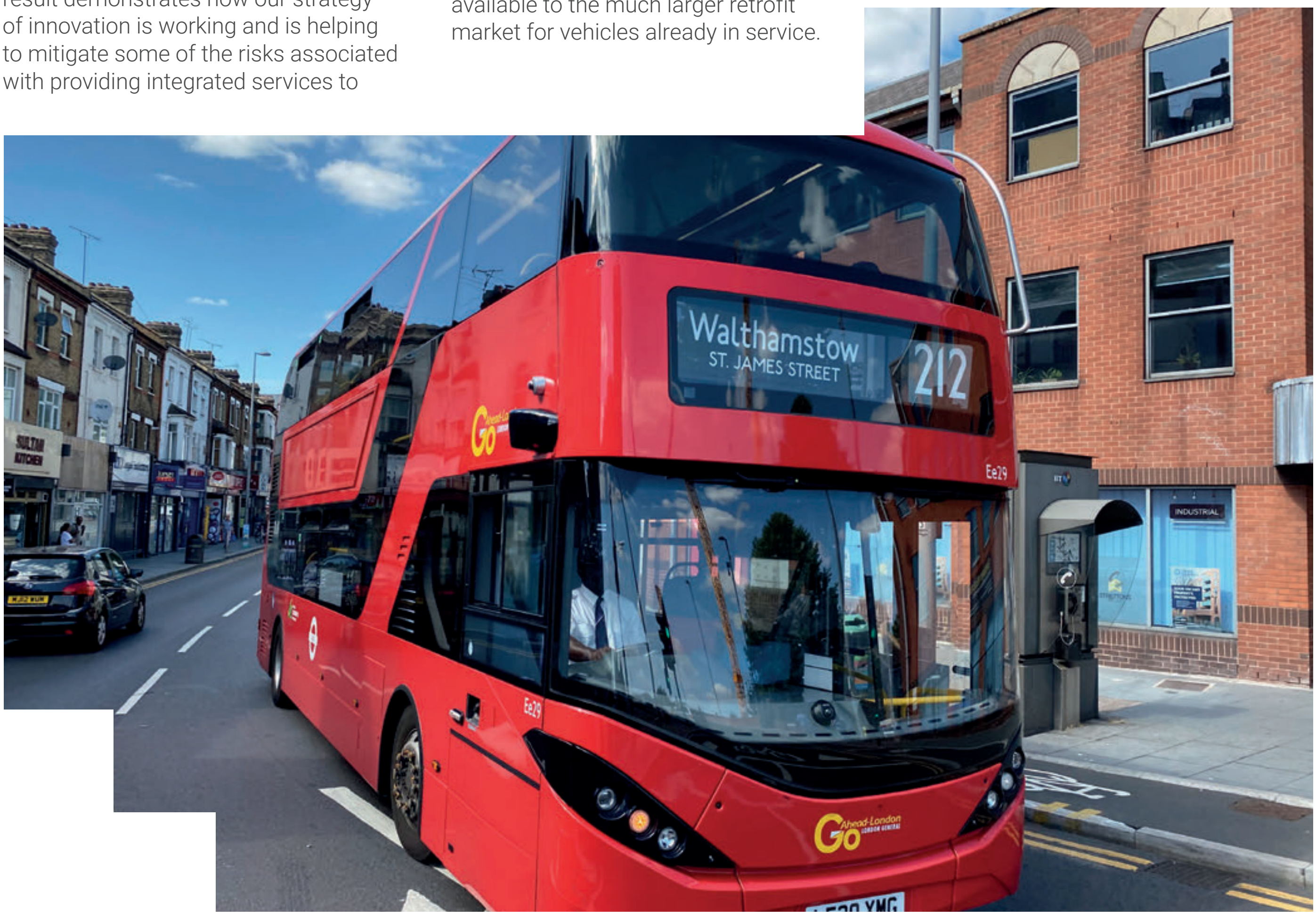
Sales at £3.2m for the six months to 30 June 2020 were at a similar level to the same period as last year (H1 2019: £3.2m). Bus manufacturers closed their factories in March, suspending assembly of all new vehicles and transport operators reduced services by up to 80%, curtailing activity to core operations only. Despite this, revenues were maintained.

Whilst the achievements of Fleet Systems in the period were below expectations, given the circumstances, we were pleased with the result. The result demonstrates how our strategy of innovation is working and is helping to mitigate some of the risks associated with providing integrated services to a small number of very large operator customers during a period of significant change and uncertainty.

Our exclusive agreement with Safety Tech (France) in the UK and Sweden to provide SmartVision, the "digital wing mirror" replacement system is proving successful and now all five of the largest public transport operators in the UK have placed orders for this novel and safety enhancing technology. Whilst this type of technology will shortly be mandated in Transport for London (TfL) as part of their Vision Zero initiative, the system is being adopted nationwide, with many operators now seeking to incorporate it to their vehicle specification. We are the market leaders in the UK bus market with around 450 systems installed on the latest vehicles. We are currently working on a number of new, ground-breaking developments within this application and expect it to secure approvals during 2021 that will enable the technology to become available to the much larger retrofit market for vehicles already in service.

Investment in our own technology connecting a growing range of on-board systems, bus, coach and rail to the Internet of Things (IoT) underpins our ability to attract and retain customers whilst extending our reach into new or adjacent markets. This enables fleet operators to achieve enhanced functionality from the existing vehicles and systems in which they have already invested. Complementary cloud-based applications, such as Remote Condition Monitoring (RCM) and Agnostic Video Management System (AVMS) ensure that operators can manage their multi-asset estates more efficiently and safely through remote access, while reducing operational overhead.

Sullivan's buses are the first of our London operator customers to fully embrace Journeo services for transferring video securely over 4G from their existing systems. This technology,



coupled with our remote monitoring and field service response was also instrumental in securing a three-year framework renewal with Abellio, valued at c.£2m announced in July.

We continue to maintain relationships with key industry influencers such as British Transport Police (BTP) and Network Rail who require secure and audited access to evidence packs. Our RCM and AVMS technologies are currently being rolled out to a number of rail customers, including GB Railfreight and Chiltern Railways to support their existing and new Forward-Facing CCTV installations. It is being well received and has already led to the introduction of new opportunities in rail applications.

The delivery of the £1.5m transport infrastructure project at London Stansted Airport, through National Express, was initially impacted during the period due to lock-down restrictions, but delivery has accelerated as we entered H2. Stansted will have our latest airport car park guidance and inter-terminal bussing operations management solution.

Discussions are already taking place with a number of other airports to upgrade similar elements of their infrastructure.

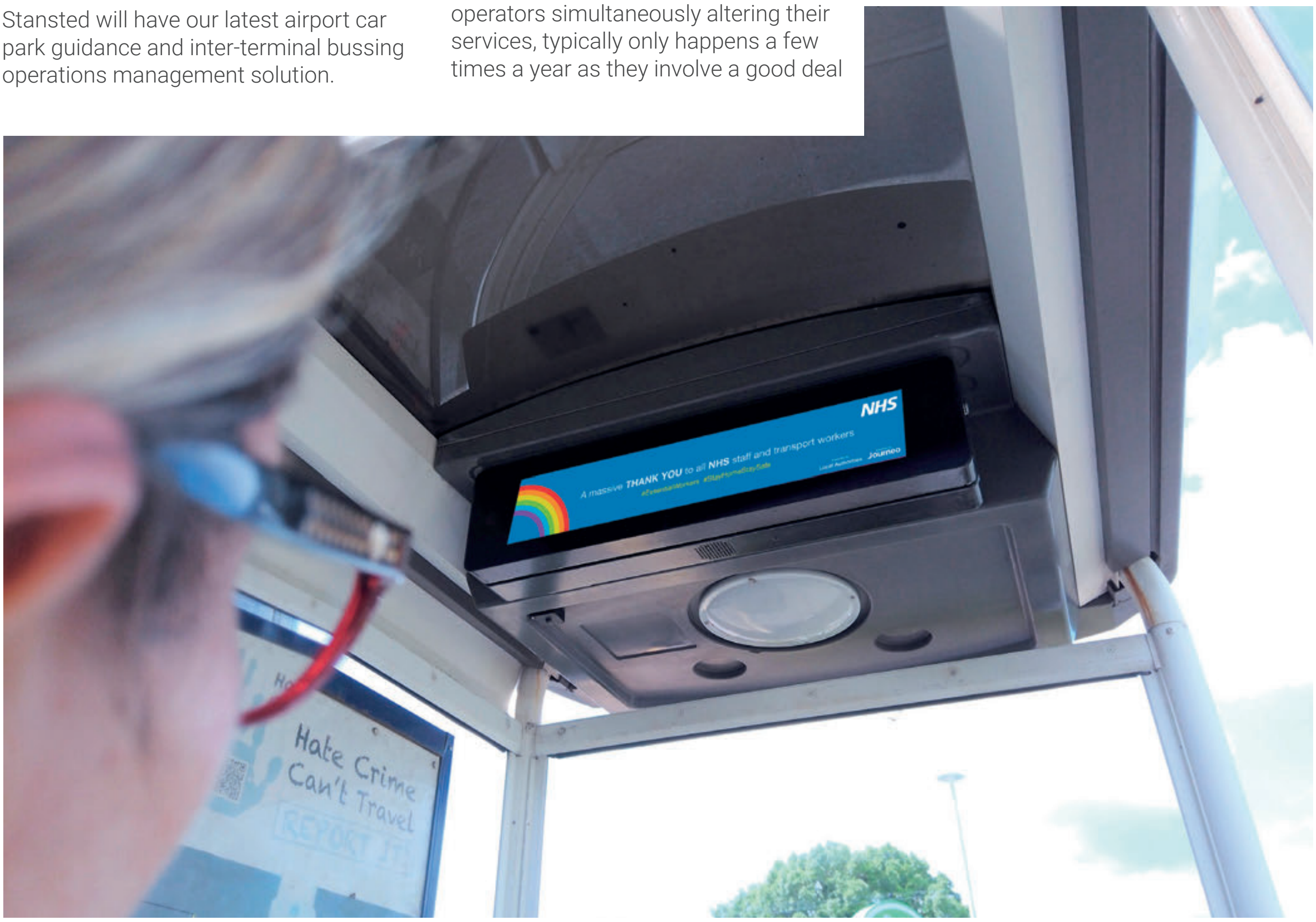
PASSENGER SYSTEMS

Orders received towards the end of 2019, through close collaboration with customers and the dedicated work of our delivery teams have enabled Passenger Systems to deliver its best results to date, with sales up 41% to £3.6m (H1 2019: £2.5m).

We continue to expand the range of solutions that we are able to offer based upon our own technologies and, in the first half of this year, we delivered the UK's first full-colour LED displays for a city-wide passenger travel information application. Over 120 of these new displays are connected to our CMS to provide passengers with the latest transport information and these have been well received by the public on-street.

Major timetable changes, with all operators simultaneously altering their services, typically only happens a few times a year as they involve a good deal of planning and preparation. However, as lockdown was initiated, these operational changes began to occur on an almost daily basis, putting inevitable strain on authority transport teams. Throughout this period, we have worked closely with our customers using CMS to ensure quick, accurate and easy dissemination of key transport information and have supported public messaging on how to keep safe whilst using public transport.

As lockdown eased and scheduled transport services returned towards pre-COVID levels, customers were once again able to direct their attention on their planned infrastructure projects and orders. One example for this is the purchase orders totalling £0.8m being received in July from West Midlands Combined Authority (WMCA), as part of the Enhanced Infrastructure Framework Agreement that we hold with them.



Chairman and Chief Executive's review

Our latest High Definition displays will be part of the new transport infrastructure being installed as the first tranche of the Passenger Transport Executive's (PTEs) commitment to enhancing the provision of public transport facilities, in readiness for the 2022 Commonwealth Games. As part of this order, situational awareness, including CCTV technology will be incorporated within the bus shelters which will integrate directly into the Regional Transport Control Centre.

OUTLOOK

Despite the Covid-19 challenges, the Group performed well in the first half and has made a good start to H2, securing a contract valued at £2m with Abellio London and the £0.8m purchase orders from West Midlands Combined Authority, announced on 3 August 2020 and 23 July 2020 respectively. In the last few days, we have also received a further £0.3m Transforming Cities Fund (TCF) order, adding to the £1.9m order announced on 27 February 2020.

The order book is strengthening and we have a growing sales pipeline of future opportunities, particularly in government-backed transport infrastructure projects, where we have the capabilities and financial resources to deliver throughout H2. We are mindful of the uncertainties created by Covid-19 and continuously monitor for any potential impact on us and our stakeholders so we can respond quickly should it prove necessary.

The Government statements regarding £5 billion investment in 4,000 Electric and Hydrogen powered carbon zero buses by 2024 point to an improvement in medium term outlook for our Fleet business. Meanwhile the continuing £2.4 billion Transforming Cities Fund (TCF) provides a degree of resilience in the current Covid-19 affected market conditions.

It is a combination of the above factors, that underpins our confidence for 2020 and beyond, assuming there are no further significant impacts on our customers, suppliers and staff as a result of the pandemic.

MARK ELLIOT
Non-executive Chairman
14 September 2020

RUSS SINGLETON
Chief Executive
14 September 2020

"THE ORDER BOOK IS STRENGTHENING AND WE HAVE A GROWING SALES PIPELINE OF FUTURE OPPORTUNITIES, PARTICULARLY IN GOVERNMENT-BACKED TRANSPORT INFRASTRUCTURE PROJECTS."

Consolidated statement of comprehensive income

for the six months ended 30 June 2020

	Unaudited six months ended 30 June 2020 £'000	Unaudited six months ended 30 June 2019 £'000	Year ended 31 December 2019 £'000
Revenue (notes 4,5)	**6,754**	5,733	11,402
Cost of sales	**(4,248)**	(3,499)	(6,863)
Gross profit	**2,506**	2,234	4,539
Other income	**287**	213	214
Underlying administrative expenses before depreciation and amortisation	**(2,261)**	(2,465)	(4,879)
Underlying profit/(loss) before depreciation and amortisation	**532**	(18)	(126)
Depreciation and amortisation	**(333)**	(315)	(651)
Share-based payments	**(38)**	–	–
Administrative expenses	**(2,345)**	(2,567)	(5,316)
Operating profit/(loss)	**161**	(333)	(777)
Finance expense	**(73)**	(79)	(171)
Profit/(loss) before taxation from continuing operations	**88**	(412)	(948)
Taxation credit	**6**	3	15
Profit/(loss) for the period being total comprehensive profit/(expense) attributable to owners of parent	**94**	(409)	(933)
Profit/(loss) per share (note 6)			
Basic and diluted	**1.11p**	(0.44p)	(1.08p)

All results derive from continuing operations.

Consolidated statement of changes in equity shareholders' funds

for the six months ended 30 June 2020

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity shareholders' funds £'000
Balance as at 1 January 2019	6,061	8	(6,058)	11
Loss and total comprehensive expense for the period	–	–	(409)	(409)
Balance at 30 June 2019	6,061	8	(6,467)	(398)
Balance at 1 January 2019	6,061	8	(6,058)	11
Loss and total comprehensive income for the year	–	–	(933)	(933)
Proceeds from issue of new shares	156	950	–	1,106
Balance as at 31 December 2019	6,217	958	(6,991)	184
Adjusted balance as at 1 January 2020	6,217	958	(6,991)	184
Profit and total comprehensive income for the year	–	–	94	94
Proceeds from issue of new shares	33	216	–	249
Share-based payments	–	–	38	38
Balance at 30 June 2020	**6,250**	**1,174**	**(6,859)**	**565**

Consolidated statement of financial position

at 30 June 2020

	Unaudited 30 June 2020 £'000	Unaudited 30 June 2019 £'000	31 December 2019 £'000
Assets			
Non-current assets			
Goodwill (note 7)	1,345	1,345	1,345
Other intangible assets	1,102	1,033	1,054
Property, plant and equipment	630	293	287
Trade and other receivables	43	43	43
	3,120	2,714	2,729
Current assets			
Inventories	1,956	1,638	1,271
Trade and other receivables	3,600	3,694	3,923
Cash and cash equivalents	1,242	365	725
	6,798	5,697	5,919
Total assets	9,918	8,411	8,648
Equity and liabilities			
Shareholders' equity			
Share capital	6,250	6,061	6,217
Share premium account	1,174	8	958
Retained earnings	(6,859)	(6,467)	(6,991)
Total equity	565	(398)	184
Non-current liabilities			
Deferred revenue	845	548	671
Loans and borrowings	267	573	570
Lease liabilities	401	41	64
Deferred tax liability	–	22	9
Provisions	291	285	315
	1,804	1,469	1,629
Current liabilities			
Trade and other payables	2,768	2,953	2,653
Deferred revenue	2,739	2,505	2,214
Loans and borrowings	809	968	1,141
Lease liabilities	99	117	88
Tax liabilities	953	601	559
Provisions	181	196	180
	7,549	7,340	6,835
Total equity and liabilities	9,918	8,411	8,648

Consolidated statement of cash flows

for the six months ended 30 June 2020

	Unaudited six months ended 30 June 2020 £'000	Unaudited six months ended 30 June 2019 £'000	Year ended 31 December 2019 £'000
Net cash from operating activities (note 8)	**1,277**	297	(249)
Cash flows from investing activities			
Purchases of property, plant and equipment	**(24)**	(18)	(45)
Addition of right-of-use asset	**(422)**	(21)	(98)
Purchases of intangible fixed assets	**(277)**	(284)	(538)
Net cash from investing activities	**(723)**	(323)	(681)
Financing activities			
Cash flow from financing activities	**(633)**	(28)	145
Issue of shares	**249**	–	1,106
IFRS 16 right-of-use lease liability addition	**422**	28	98
Principal element of lease repayments	**(73)**	(87)	(170)
Repayment of loans	**(3)**	(7)	(10)
Net cash from financing activities	**(38)**	(94)	1,169
Net increase/(decrease) in cash and cash equivalents	**516**	(120)	239
Cash and cash equivalents at beginning of period	**725**	485	485
Effect of foreign exchange rate changes	**1**	–	1
Cash and cash equivalents at end of period	**1,242**	365	725

Notes to the interim financial statements

for the six months ended 30 June 2020

1. BASIS OF PREPARATION AND APPROVAL OF INTERIM STATEMENT

The financial information for the six months ended 30 June 2020 and for the six months ended 30 June 2019 is unaudited.

The interim financial statement for the six months to 30 June 2020 does not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2019.

The financial information has been prepared on the basis of IFRSs that the Directors expect to be applicable as at 31 December 2020.

The accounting policies adopted in the preparation of the interim financial statements are consistent with those set out in the Group's Annual Report and Financial Statements 2019, which were prepared in accordance with IFRSs.

This interim financial statement does not comprise statutory accounts within the meaning of Section 435 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2018 were approved by the Board on 26 March 2019 and delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498(2) or Section 498(3) of the Companies Act 2006.

AIM-listed companies are not required to comply with IAS 34 'Interim Financial Reporting' and accordingly the Company has not applied this standard in preparing this report.

The interim financial statement was approved by the Board of Directors on 14 September 2020.

2. INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group follows the standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee of the IASB and endorsed by the EU that are relevant to its operations.

3. GOING CONCERN

The Group's business activities together with factors likely to affect its future development, performance and position were set out in the Strategic Report and Chairman's Statement of the 2019 Annual Report and the principal risks and uncertainties were set out in the Strategic Report. The Directors have reviewed the cash flow forecasts for the period up to and including 31 December 2021.

Based on the above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and for at least twelve months from the date of the report. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

4. REVENUE

The revenue split between goods and services is:

	Unaudited six months ended 30 June 2020 £'000	Unaudited six months ended 30 June 2019 £'000	Year ended 31 December 2019 £'000
Revenue			
Goods	**4,867**	3,626	6,996
Services	**1,887**	2,107	4,406
	6,754	5,733	11,402
Construction contracts included in goods	**2,831**	1,738	3,218

Notes to the interim financial statements continued

for the six months ended 30 June 2020

5. SEGMENTAL REPORTING

IFRS 8 requires operating segments to be determined on the basis of those segments whose operating results are regularly reviewed by the Board of Directors (the Chief Operating Decision Maker as defined by IFRS 8) to make strategic decisions.

As the Board of Directors reviews revenue, gross profit and operating loss on the same basis as set out in the consolidated statement of comprehensive income, no further reconciliation is considered to be necessary.

	Unaudited six months ended 30 June 2020 £'000	Unaudited six months ended 30 June 2019 £'000	Year ended 31 December 2019 £'000
Revenue			
Fleet Systems	**3,197**	3,205	6,646
Passenger Systems	**3,557**	2,528	4,756
	6,754	5,733	11,402
Gross profit			
Fleet Systems	**905**	890	1,900
Passenger Systems	**1,601**	1,344	2,639
	2,506	2,234	4,539
Underlying profit/(loss)			
Fleet Systems	**(28)**	(239)	(469)
Passenger Systems	**364**	13	(80)
	336	(226)	(549)
Central	**(137)**	(106)	(228)
Underlying profit/(loss)	**199**	(332)	(777)

Reconciling to profit before interest and tax

	Underlying profit/(loss) £'000	Share-based payments £'000	Operating profit/(loss) £'000
Fleet Systems	**(28)**	**(38)**	**(66)**
Passenger Systems	**364**	**–**	**364**
	336	**(38)**	**298**
Central	**(137)**	**–**	**(137)**
Total	**199**	**(38)**	**161**

Net assets

Net assets attributed to each business segment represent the net external operating assets of that segment, excluding goodwill, bank balances and borrowings, which are shown as unallocated amounts, together with central assets and liabilities.

5. SEGMENTAL REPORTING (CONTINUED)

Net assets (continued)

	Unaudited six months ended 30 June 2020 £'000	Unaudited six months ended 30 June 2019 £'000	Year ended 31 December 2019 £'000
Assets			
Fleet Systems	**3,833**	3,264	3,501
Passenger Systems	**3,500**	3,437	3,059
	7,333	6,701	6,560
Goodwill	**1,345**	1,345	1,345
Cash and borrowings	**1,242**	365	725
Unallocated	**(2)**	–	18
	9,918	8,411	8,648
Liabilities			
Fleet Systems	**(3,257)**	(2,743)	(2,700)
Passenger Systems	**(5,021)**	(4,525)	(3,968)
	(8,278)	(7,268)	(6,668)
Cash and borrowings	**(1,075)**	(1,541)	(1,711)
Unallocated	**–**	–	(85)
	(9,353)	(8,809)	(8,464)
Net assets			
Fleet Systems	**576**	521	801
Passenger Systems	**(1,521)**	(1,088)	(909)
	(945)	(567)	(108)
Goodwill	**1,345**	1,345	1,345
Cash and borrowings	**167**	(1,176)	(986)
Unallocated	**(2)**	–	(67)
	565	(398)	184

Notes to the interim financial statements continued

for the six months ended 30 June 2020

6. PROFIT/(LOSS) PER ORDINARY SHARE

Details of the weighted average number of Ordinary Shares used as the denominator in calculating the basic and diluted earnings per Ordinary Share are given below:

	Unaudited six months ended 30 June 2020 £'000	Unaudited six months ended 30 June 2019 £'000	Year ended 31 December 2019 £'000
Basic weighted average number of shares	**8,477**	93,240	86,433
Dilutive potential Ordinary Shares	**–**	–	–
	8,477	93,240	86,433

7. GOODWILL

Goodwill acquired in a business combination is allocated at acquisition to the cash-generating unit (CGU) that is expected to benefit from that business combination. The Group has two CGUs which are its two operating segments, Fleet Systems and Passenger Systems. The carrying amount of goodwill has been allocated to the CGUs as follows:

	21st Century Passenger Systems Limited £'000	Total £'000
Deemed cost:		
At 1 January 2019	1,345	1,345
At 30 June 2019	1,345	1,345
At 1 January 2019	1,345	1,345
At 31 December 2019 and 30 June 2020	1,345	1,345

The Group tests goodwill annually for impairment as at 31 December, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined based on a value-in-use calculation which uses cash flow projections based on financial budgets and business plans approved by the Directors covering a five-year period. Cash flows beyond that period have been extrapolated in perpetuity assuming no growth, which the Directors consider to be a conservative approach.

The key assumptions for the value-in-use calculations are those regarding discount rates and sales forecasts.

The discount rates needed to equate the net present value from these cash flows to the carrying value of goodwill are compared to the required rate of return from the CGU based upon an assessment of the time value of money, prevailing interest rates and the risks specific to the CGU. If this discount rate is in excess of the required rate of return then it is assumed that no impairment has occurred to the carrying value of goodwill.

7. GOODWILL (CONTINUED)

The discount rates are as follows:

	Unaudited six months ended 30 June 2020 £'000	Unaudited six months ended 30 June 2019 £'000	Year ended 31 December 2019 £'000
Passenger Systems	13	14	13

The discount rates used are based on the Board's judgement considering macroeconomic factors and reflecting specific risks in each segment such as the nature of the market served, the concentration of customers, cost profiles and barriers to entry.

Passenger Systems also has intangible assets, which are considered in the same value-in-use calculations as goodwill.

The Passenger Systems cash flow projections used to determine value in use are based upon assumptions of sales, margins and cost bases. Of these assumptions, the value in use is most sensitive to the level of sales. Margins are fixed in the forecast based upon past experience; the cost base is similarly based upon past experience and will vary depending upon the level of sales. In accordance with the requirements of IAS 36 our value-in-use calculations do not include cash flows from restructurings to which the Group is not yet committed.

The level of sales is the key assumption used in the cash flow forecast. Sales have been determined by management using estimates based upon past experience and future performance with reference to market position and the sales pipeline. The macroeconomic environment has improved and there has been an increase in the number and size of contracts available. In 2017 a major restructuring took place, followed by a reinvestment in key staff during 2018 and 2019.

The value-in-use calculation supports the carrying value of the CGU with headroom of £6,958k. A sensitivity analysis has been performed on the impairment test. The Directors consider that an absolute change in the key sales assumption is possible and a reduction of 20% points in the growth rate in 2020 to 30% would result in headroom remaining in the current carrying value of goodwill in relation to Passenger Systems of £2,851k. If sales forecasts were down 20% across the whole period and overheads remained unchanged then there would be headroom of £797k.

Based on the review the discount rate applied to equate the net present value of the forecast cash flows to the carrying value of goodwill and the intangible assets was 72.2%, whereas the required rate of return of the CGU is 13%.

In view of this, the Directors consider that no impairment of goodwill or intangible assets is required.

Notes to the interim financial statements continued

for the six months ended 30 June 2020

8. CASH GENERATED FROM OPERATIONS

	Unaudited six months ended 30 June 2020 £'000	Unaudited six months ended 30 June 2019 £'000	Year ended 31 December 2019 £'000
Profit/(loss) for the period	94	(409)	(933)
Adjustments for:			
– Finance expense	73	79	171
– Deferred tax credit	(9)	(13)	(25)
– Depreciation of property, plant and equipment	103	96	198
– Amortisation of intangible fixed assets	230	219	453
– Share-based payment expense	38	–	–
– Foreign exchange rate	(21)	3	12
– (Decrease)/increase in provisions	(23)	(9)	5
Operating cash flows before movement in working capital	485	(34)	(119)
(Increase)/decrease in inventories	(685)	12	379
Decrease/(increase) in receivables	496	(412)	(523)
Increase in payables	1,058	814	183
Cash inflow/(outflow) from operations	1,354	380	(80)
Income taxes paid	(4)	(10)	(10)
Interest paid	(73)	(73)	(159)
Net cash inflow from operating activities	1,277	297	(249)

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