# Journeo

## Connected systems, for connected journeys

Interim Report
for the six months ended 30 June 2021

Journeo

# Welcome to Journeo's 2021 interim report

**Journeo plc is an information systems and technical services business focussed on delivering innovative public transport and related infrastructure solutions, contributing to smart city initiatives as transport becomes more intelligent and connected.**

The Company works extensively at many levels with government organisations, local/combined authorities, and many of the largest multinational transport operators, to leverage the Internet of Things (IoT) and open data standards in order to support them as their new and legacy systems converge towards a more efficient and sustainable smarter-cities future.

In recent years, the Company has invested over £5m in research and development and has begun the release to market of powerful new and scalable solutions for public travel and freight applications which capture, process, analyse and display essential information to safely deliver connected journeys.

## Financial highlights

Revenue
**£7.2m**
(2020: £6.8m)

Gross profit
**£2.8m**
(2020: £2.5m)

Profit before tax
**£0.2m**
(2020: £0.1m)

Underlying profit before depreciation and amortisation
**£0.6m**
(2020: £0.5m)

Cash and cash equivalents at 30 June 2021
**£1.3m**
(2020: £0.9m)

Diluted earnings per share
**£1.74p**
(2020: £1.11p)

Invested over
**£0.5m**
in research and development during the period

## Operational highlights

- Business continues to adapt to the impacts of the Coronavirus pandemic, providing uninterrupted essential services and support to customers throughout.
- Improved H1 performance and secured important contract wins.
- Increased SaaS-based revenue as number of connected vehicles climbs 30% to over 4,000 since the beginning of the year.
- Continued investment in research and development and new website design as central digital asset to improve communications, drive future sales and provide platform for marketing initiatives.
- First end to end deployment of our new service management software, integrated into SAP to deliver service and maintenance activity reports to customers in real time.
- Initiated Environmental, Social and Governance survey and maintained ISO 9001, 14001, 27001 and 45001 accreditations.

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# Chairman and Chief Executive's review

Mark Elliot
Non-executive Chairman

Russ Singleton
Chief Executive

> "We are pleased to report the results for the six months ended 30 June 2021 which are in line with expectations."

## Overview

We are pleased to report the results for the six months ended 30 June 2021. Overall trading has been better than the same period last year, with strong order intake as the Group executes its strategy of developing technologies, IP and engineering capabilities centred around customers and applications in target market sectors.

Revenue increased by 7% to £7.2m (H1 2020: £6.8m) and operating profits increased to £0.3m (H1 2020: £0.2m).

The Group is performing well and supports a growing customer base.

## Strategic progress

During the period we continued to make good progress in delivering upon our strategic plans demonstrated by the adoption of the technologies developed in-house for both existing and new customers. Orders for displays and our Content Management Software ("CMS") totalling £2.4m, and the renewal of the framework with First UK Bus, extending the relationship to over 10 years,, were all reliant on our IoT approach to improve information systems in public transport market sectors.

In addition, the Group has increased its pre-sales technical support to help local authorities develop Bus Service Improvement Plans and Enhanced Partnerships in response to Government initiatives and the shift in their needs.

We have significantly increased investment in sales and marketing since the beginning of the year and launched a new website as the centrepiece for information, branding, messaging and communications.

This valuable digital asset will be a focal point for campaigns, demonstrating our increasing capabilities to the market. In addition, the Environmental, Social and Corporate Governance survey that we highlighted in our 2020 Annual Report is underway with preliminary findings available next year.

We have maintained all ISO 9001, 14001, 27001 and 45001 accreditations.

## COVID 19

The Group has continued to provide customers with uninterrupted essential services and support throughout the Coronavirus pandemic, delivering and maintaining vital information and safety systems that are critical to their operations.

We remain vigilant of the risks that persist with the pandemic and those noted within our 2020 Annual Report. The Group has adjusted well to the various restrictions and on 19 July initiated a safe return to office work for a limited number of team members.

Nevertheless, we continue to monitor the situation closely and follow the prevailing recommendations of Government, placing the health and safety of our people, suppliers, contractors, customers and the travelling public in a position of paramount importance.

## Financial Results

Revenue for H1 was up nearly £0.5m to £7.2m (H1 2020: £6.8m), an increase of 7% due to an increase in Fleet Systems revenue to £3.7m (H1 2020: £3.2m), while Passenger Systems revenue decreased slightly to £3.5m (H1 2020: £3.6m).

Passenger Systems gross profit of £1.6m (H1 2020: £1.6m) remained static, with margin increasing to 46% (H1 2020: 45%).

Fleet Systems gross profit of £1.2m (H1 2020: £0.9m) increased by £0.3m, with an increase in overall margin to 33% (H1 2020: 28%) as Software as a Service ("SaaS") income increased.

Overall gross profit increased by £0.3m to £2.8m (H1 2020: £2.5m), while gross margin increased by 2% to 39%, resulting from the SaaS income referred to above. An operating profit of £0.3m was achieved, compared with £0.2m in H1 2020. Our expenditure on R&D resulted in a tax credit claim of £0.2m being received during the period.

The underlying profit before depreciation and amortisation was £0.6m (H1 2020: £0.5m).

The basic undiluted profit per share was 1.81p (H1 2020: 1.11p).

Tight controls over cash management, and the profit achieved have contributed to an increased cash position at the period end of £1.3m (30 June 2020: £1.2m).

## Research and Development

Our team of developers, designers and engineers provide an agile and responsive innovation capability. This is a core part of our strategy that underpins our growth plans. An increasing proportion of the sales pipeline is based on our own technologies, designed to deliver better solutions for customers whilst, at the same time, improve the visibility and quality of our earnings, through SaaS, where the number of connections has risen 30% to 4,000 since the beginning of the year, and multi-year support contracts.

Notable wins announced just after the period end, with Abellio and Metroline are based upon the benefits brought by our Intellectual Property ("IP"), enabling these important London transport operators to uplift the functionality of their legacy systems at the same time as deploying the latest safety-oriented products into their fleets.

We work closely with industry thought-leaders and customers to inform our roadmaps and develop the technologies that will be needed in the years to come. One example during the first half of the year has led to the development and first sales of a new ultra-low power display that is fully integrated into our EPIX CMS. This outdoor display can be operated continuously off-grid for many years using small solar panels, wind turbines or via its own internal rechargeable batteries. Our sustainable design ethos appeals to many businesses and local authorities with commitments to reducing carbon footprint or achieving Net Zero status within their infrastructure.

## Passenger Infrastructure Systems

The year started positively for Passenger Infrastructure Systems. Our broad range of displays built around a core technology and powered by EPIX is being deployed as part of local authority and Transport Executives' delivery of Transforming Cities Funding and a number of other schemes throughout the UK.

In January this year, we announced further orders from a Northern Transport Partnership. At a value of £1.3m, this has increased their investment in our displays and associated CMS technology to over £3m in the past two years, demonstrating significant confidence in the systems that we provide as they expand what is already one of the largest passenger information display signage estates in the UK.

Further orders, totalling £1.1m in March for displays and CMS, were achieved through a customer that has previously not had a real time passenger information estate. With a goal to achieve a Net Zero impact within their infrastructure they selected our low-power displays technology. We have recently extended this offering with a new range of ultra-low power displays released to market just before the end of the period.

> "An increasing proportion of the sales pipeline is based on our own technologies, designed to deliver better solutions for customers."

Completing transport infrastructure work during a time of travel restrictions has presented a number of challenges, and progress on some contracts, which require bus, coach, rail or airport services to be running have been delayed. The situation has eased since we moved into the second half of the year, in particular with the ability to travel more freely in Wales and Scotland. Completion of the initial phase of the £4.8m City of Edinburgh Council contract is due shortly, enabling progress to commence on the substantially larger second phase.

# Chairman and Chief Executive's review
CONTINUED

> "The solutions we are developing align with the evolving needs of the public transport sector whose transformation is supported by substantial Government commitment."

## Fleet Transport Operator Systems

With a foundation of integration and support services, Fleet Transport Operator Systems is increasingly being recognised as an innovative solutions provider with advanced technical capabilities. Over the last two years this has led to the development of a highly scalable SaaS solution with over 4,000 vehicle connections across bus and rail customers. The recent announcements of strategically important orders with Abellio and Metroline, will in due course, further increase our market share within London.

We were delighted to start the year with an extension to the framework agreement with First UK Bus. In addition to the revenues anticipated from the agreement, it included a further 800 connections into our cloud-based, SaaS solution. First Bus were early adopters of Remote Condition Monitoring technology and are now using our Agnostic Video Management Software module which enables users to instantly connect to vehicles and access evidential quality video and supporting data for further analysis. This significantly speeds up the video evidence gathering process and considerably reduces costs for fleet operators.

Our achievements are being recognised at many levels within the industry, opening-up new opportunities that would previously have been inaccessible. Work with prestigious organisations such as the Transport Research Laboratory, which was instrumental in the formation of Transport for London's Vision Zero standard, has enabled further integration of our solutions to capture more data on vehicle and driver behaviour.

We maintain a Rail capability focussed on leveraging our technologies within the highly regulated and safety-critical railway environment. The sales cycle for rail opportunities can be protracted, but we are confident that we will build upon the orders we have received from organisations such as the British Transport Police for licences to our cloud-based software.


## Passenger Transfer Solutions

None of our customers have been more adversely affected by the coronavirus pandemic than those based at airports. The restrictions impacted project delivery programmes and extended timescales for other airport bids. However, since the recent lifting of restrictions there has been a marked increase in activity with purchase orders being received from Bristol Airport and, earlier this month, we were delighted to announce our largest airport contract award to date (£2.5m) with Transdev Airport Services at a major UK international airport.

## Market update

The release of two publications in the first half of this year; Bus Back Better, the National Bus Strategy for England and the Williams-Shapps Plan for Rail demonstrate significant commitments by the Government towards more sustainable and better funded public transport services.

The National Bus Strategy announced on 15 March 2021 is the first major central Government intervention in the bus market since the deregulation of the 1980s. It provides local authorities, Transport Executives and operators alike a mandated framework under which to operate and be compliant with the Bus Services Act 2017. The strategy marks out Government goals and is, for the first time in a generation, backed by substantive funding of c.£3 billion, that will assist operator and the relevant authority stakeholders to level up the services provided to passengers.

Train operating companies were faced with what quickly became insurmountable operating conditions as passenger numbers dramatically fell as the pandemic took hold and travel restrictions were imposed. The Department for Transport stepped in, effectively ending the current rail franchising model, and the Williams-Schapps Plan for Rail announced on 20 May 2021 sets out a way forward for this essential public service ahead of the next control period of funding.

Over the medium to longer term, these two Government initiatives are powerful market drivers that will both underpin and reinforce the move away from fossil fuels towards cleaner, greener and more sustainable transport.

## Outlook

Ever increasing adoption of our proprietary technology and increased funding from central government have helped to significantly increase our order book compared to this time last year.

We have orders this year to enable delivery of results in line with market expectations although the achievement of this will depend on bus manufacturers scheduling remaining on plan and on orders being processed before the year end.

The current variables of COVID and the wider supply-chain issues, particularly affecting semi-conductor supplies may also contribute to scheduling changes and we estimate that up to £0.3m of our forecast profit before tax may be processed in 2022 should we be affected.

Our business has been very resilient over the last year and we see this building as we go forward.

Our significant cash resources at the half year will be applied in supporting the required working capital for the increasing order book and year end cash will reflect this.

Our pipeline and confirmed orders continue to grow for the solutions we have developed and this gives us confidence of meeting market expectations for 2022.

We continue to meet with potential acquisitions where we can identify synergies to accelerate our profitable growth and are optimistic that our organic growth and potential acquisitions will deliver value to shareholders and we look forward to continuing to update the market as these develop.

**Mark Elliot**
Non-executive Chairman

27 September 2021

**Russ Singleton**
Chief Executive

27 September 2021

# Consolidated statement of comprehensive income

## for the six months ended 30 June 2021

| | **Unaudited six months ended 30 June 2021 £'000** | Unaudited six months ended 30 June 2020 £'000 | Year ended 31 December 2020 £'000 |
|---|---|---|---|
| **Revenue** (notes 4,5) | **7,213** | 6,754 | 13,605 |
| Cost of sales | **(4,409)** | (4,248) | (8,304) |
| Gross profit | **2,804** | 2,506 | 5,301 |
| Other income | **168** | 287 | 305 |
| Underlying administrative expenses before depreciation and amortisation | **(2,378)** | (2,261) | (4,504) |
| Underlying profit before depreciation and amortisation | **594** | 532 | 1,102 |
| Depreciation and amortisation | **(320)** | (333) | (638) |
| Share-based payments | **(24)** | (38) | (116) |
| Administrative expenses | **(2,554)** | (2,345) | (4,953) |
| Operating profit | **250** | 161 | 348 |
| Finance expense | **(84)** | (73) | (155) |
| Profit before taxation from continuing operations | **166** | 88 | 193 |
| Taxation credit | **(8)** | 6 | 2 |
| Profit for the period being total comprehensive profit attributable to owners of parent | **158** | 94 | 195 |
| Profit per share (note 6) | | | |
| Basic | **1.81p** | 1.11p | 2.27p |
| Diluted | **1.74p** | 1.11p | 2.26p |

All results derive from continuing operations.

# Consolidated statement of changes in equity shareholders' funds

## for the six months ended 30 June 2021

| | Share capital £'000 | Share premium £'000 | Retained earnings £'000 | Total equity shareholders' funds £'000 |
|---|---|---|---|---|
| Balance as at 1 January 2020 | 6,217 | 958 | (6,991) | 184 |
| Profit and total comprehensive income for the period | – | – | 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 |
| Balance at 1 January 2020 | 6,217 | 958 | (6,991) | 184 |
| Profit and total comprehensive income for the year | – | – | 195 | 195 |
| Proceeds from issue of new shares | 33 | 216 | – | 249 |
| Share-based payments | – | – | 116 | 116 |
| Balance at 31 December 2020 | 6,250 | 1,174 | (6,680) | 744 |
| Profit and total comprehensive income for the year | – | – | 158 | 158 |
| Share-based payments | – | – | 24 | 24 |
| **Balance at 30 June 2021** | 6,250 | 1,174 | (6,498) | 926 |

# Consolidated statement of financial position
## at 30 June 2021

| | **Unaudited 30 June 2021 £'000** | Unaudited 30 June 2020 £'000 | 31 December 2020 £'000 |
|---|---|---|---|
| **Assets** | | | |
| Non-current assets | | | |
| Goodwill (note 7) | **1,345** | 1,345 | 1,345 |
| Other intangible assets | **1,136** | 1,102 | 1,144 |
| Property, plant and equipment | **562** | 630 | 619 |
| Trade and other receivables | **43** | 43 | 43 |
| | **3,086** | 3,120 | 3,151 |
| **Current assets** | | | |
| Inventories | **2,232** | 1,956 | 1,675 |
| Trade and other receivables | **5,559** | 3,600 | 4,207 |
| Cash and cash equivalents | **1,294** | 1,242 | 1,254 |
| | **9,085** | 6,798 | 7,136 |
| **Total assets** | **12,171** | 9,918 | 10,287 |
| **Equity and liabilities** | | | |
| **Shareholders' equity** | | | |
| Share capital | **6,250** | 6,250 | 6,250 |
| Share premium account | **1,174** | 1,174 | 1,174 |
| Retained earnings | **(6,498)** | (6,859) | (6,680) |
| **Total equity** | **926** | 565 | 744 |
| **Non-current liabilities** | | | |
| Deferred revenue | **1,009** | 845 | 957 |
| Loans and borrowings | **–** | 267 | 564 |
| Lease liabilities | **294** | 401 | 358 |
| Deferred tax liability | **–** | – | 80 |
| Provisions | **240** | 291 | 278 |
| | **1,543** | 1,804 | 2,237 |
| **Current liabilities** | | | |
| Trade and other payables | **3,404** | 2,768 | 2,423 |
| Deferred revenue | **3,375** | 2,739 | 3,061 |
| Loans and borrowings | **1,564** | 809 | 595 |
| Lease liabilities | **133** | 99 | 135 |
| Tax liabilities | **1,001** | 953 | 909 |
| Provisions | **225** | 181 | 183 |
| | **9,702** | 7,549 | 7,306 |
| **Total equity and liabilities** | **12,171** | 9,918 | 10,287 |

# Consolidated statement of cash flows
## for the six months ended 30 June 2021

| | **Unaudited six months ended 30 June 2021 £'000** | Unaudited six months ended 30 June 2020 £'000 | Year ended 31 December 2020 £'000 |
|---|---|---|---|
| **Net cash from operating activities (note 8)** | **(49)** | 1,277 | 1,574 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | **(51)** | (24) | (55) |
| Addition of right-of-use asset | **–** | (422) | – |
| Purchases of intangible fixed assets | **(204)** | (277) | (519) |
| **Net cash from investing activities** | **(255)** | (723) | (574) |
| **Financing activities** | | | |
| Cash flow from financing activities | **408** | (633) | (546) |
| Issue of shares | **–** | 249 | 249 |
| IFRS 16 right-of-use lease liability addition | **–** | 422 | – |
| Principal element of lease repayments | **(67)** | (73) | (168) |
| Repayment of loans | **(3)** | (3) | (6) |
| **Net cash from financing activities** | **338** | (38) | (471) |
| **Net increase in cash and cash equivalents** | **34** | 516 | 529 |
| **Cash and cash equivalents at beginning of period** | **1,254** | 725 | 725 |
| Effect of foreign exchange rate changes | **5** | 1 | – |
| **Cash and cash equivalents at end of period** | **1,293** | 1,242 | 1,254 |

# Notes to the interim financial statements
for the six months ended 30 June 2021

## 1. Basis of preparation and approval of interim statement

The financial information for the six months ended 30 June 2021 and for the six months ended 30 June 2020 is unaudited.

The interim financial statement for the six months to 30 June 2021 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 2020.

The financial information has been prepared on the basis of IFRSs that the Directors expect to be applicable as at 31 December 2021.

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 2020, 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 2020 were approved by the Board on 25 March 2021 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 27 September 2021.

## 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 2020 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 2022.

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 2021 £'000** | Unaudited six months ended 30 June 2020 £'000 | Year ended 31 December 2020 £'000 |
|---|---|---|---|
| **Revenue** | | | |
| Goods | **4,831** | 4,867 | 9,417 |
| Services | **2,382** | 1,887 | 4,188 |
| | **7,213** | 6,754 | 13,605 |
| Construction contracts included in goods | **2,672** | 2,831 | 5,332 |

## 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 2021 £'000** | Unaudited six months ended 30 June 2020 £'000 | Year ended 31 December 2020 £'000 |
|---|---|---|---|
| **Revenue** | | | |
| Fleet Systems | **3,747** | 3,197 | 6,827 |
| Passenger Systems | **3,466** | 3,557 | 6,778 |
| | **7,213** | 6,754 | 13,605 |
| **Gross profit** | | | |
| Fleet Systems | **1,227** | 905 | 2,147 |
| Passenger Systems | **1,577** | 1,601 | 3,154 |
| | **2,804** | 2,506 | 5,301 |
| **Underlying profit/(loss)** | | | |
| Fleet Systems | **199** | (28) | 81 |
| Passenger Systems | **209** | 364 | 634 |
| | **408** | 336 | 715 |
| Central | **(134)** | (137) | (251) |
| **Underlying profit** | **274** | 199 | 464 |

### Reconciling to profit before interest and tax

| | Underlying profit/(loss) £'000 | Share-based payments £'000 | Operating profit/(loss) £'000 |
|---|---|---|---|
| Fleet Systems | 199 | (12) | 187 |
| Passenger Systems | 209 | (12) | 197 |
| | 408 | (24) | 384 |
| Central | (134) | – | (134) |
| **Total** | 274 | (24) | 250 |

### 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 2021 £'000** | Unaudited six months ended 30 June 2020 £'000 | Year ended 31 December 2020 £'000 |
|---|---|---|---|
| **Assets** | | | |
| Fleet Systems | **4,384** | 3,833 | 3,599 |
| Passenger Systems | **5,148** | 3,500 | 4,077 |
| | **9,532** | 7,333 | 7,676 |
| Goodwill | **1,345** | 1,345 | 1,345 |
| Cash and borrowings | **1,294** | 1,242 | 1,254 |
| Unallocated | **–** | (2) | 12 |
| | **12,171** | 9,918 | 10,287 |
| **Liabilities** | | | |
| Fleet Systems | **(3,023)** | (3,257) | (2,932) |
| Passenger Systems | **(6,658)** | (5,021) | (5,372) |
| | **(9,681)** | (8,278) | (8,304) |
| Cash and borrowings | **(1,564)** | (1,075) | (1,159) |
| Unallocated | **–** | – | (80) |
| | **(11,245)** | (9,353) | (9,543) |
| **Net assets** | | | |
| Fleet Systems | **1,361** | 576 | 667 |
| Passenger Systems | **(1,510)** | (1,521) | (1,295) |
| | **(149)** | (945) | (628) |
| Goodwill | **1,345** | 1,345 | 1,345 |
| Cash and borrowings | **(269)** | 167 | 95 |
| Unallocated | **(1)** | (2) | (68) |
| | **926** | 565 | 744 |

## 6. Profit 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 2021 £'000** | Unaudited six months ended 30 June 2020 £'000 | Year ended 31 December 2020 £'000 |
|---|---|---|---|
| Basic weighted average number of shares | **8,741** | 8,477 | 8,610 |
| Dilutive potential Ordinary Shares | **361** | – | 29 |
| | **9,102** | 8,477 | 8,639 |

## 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 2020 | 1,345 | 1,345 |
| At 30 June 2020 | 1,345 | 1,345 |
| At 1 January 2021 | 1,345 | 1,345 |
| **At 31 December 2020 and 30 June 2021** | 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 2021 £'000** | Unaudited six months ended 30 June 2020 £'000 | Year ended 31 December 2020 £'000 |
|---|---|---|---|
| Passenger Systems | **13** | 13 | 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 2021 forecast assumes growth of 19%. The remaining four years are based upon compound sales growth of 5%.

The value-in-use calculation supports the carrying value of the CGU with headroom of £8,114k. 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 in the growth rate in 2021 to 5% would result in headroom remaining in the current carrying value of goodwill in relation to Passenger Systems of £4,974k. If sales forecasts were down 20% across the whole period and overheads remained unchanged then there would be headroom of £2,776k.

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 84.1%, 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.

## 8. Cash generated from operations

| | **Unaudited six months ended 30 June 2021 £'000** | Unaudited six months ended 30 June 2020 £'000 | Year ended 31 December 2020 £'000 |
|---|---|---|---|
| Profit for the period | **158** | 94 | 195 |
| Adjustments for: | | | |
| – Finance expense | **84** | 73 | 155 |
| – Deferred tax credit | **–** | (9) | (9) |
| – Depreciation of property, plant and equipment | **108** | 103 | 209 |
| – Amortisation of intangible fixed assets | **212** | 230 | 429 |
| – Share-based payment expense | **24** | 38 | 116 |
| – Foreign exchange rate | **12** | (21) | 17 |
| – Increase/(decrease) in provisions | **3** | (23) | (34) |
| **Operating cash flows before movement in working capital** | **601** | 485 | 1,078 |
| (Increase) in inventories | **(557)** | (685) | (404) |
| Increase/(decrease) in receivables | **(1,290)** | 496 | (280) |
| Increase in payables | **1,289** | 1,058 | 1,317 |
| **Cash inflow from operations** | **43** | 1,354 | 1,711 |
| Income taxes paid | **(8)** | (4) | (7) |
| Interest paid | **(84)** | (73) | (130) |
| **Net cash (outflow)/inflow from operating activities** | **(49)** | 1,277 | 1,574 |

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