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CHIEF FINANCIAL OFFICER'S REVIEW

We have continued to produce simultaneous revenue growth and cost control. We have reduced the EBITDA loss by 82% over the past three years.

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Group overview
Tungsten Corporation plc has continued to produce simultaneous revenue growth and cost reduction reflecting the transformation of our infrastructure and operating models. In FY18 Tungsten Corporation plc added more customers, processed more transactions and provided more services. This was achieved while implementing significant infrastructure change and demonstrating cost control, reflected in a reduction of 12% in adjusted operating expenses.

Revenues
Group revenue was £33.7 million (FY17: £31.3 million), representing an increase of 8% at actual exchange rates. At constant exchange rates revenue grew by 9%. The growth in revenues reflected the benefits of new customer sales, additional product sales to current customers, and existing customer price increases.

Accounts payable automation revenue represented 44% of total Tungsten Network revenues in the 2018 financial year (FY17: 44%). Tungsten Network added eight new accounts payable automation customers in FY18 to customers that have purchased our range of on-Network and off-Network products, including six that purchased the core e-invoicing services. These new customers contributed £0.9 million to FY18 revenue.

The contracts of 58 of Tungsten Network's accounts payable automation customers were scheduled to renew in FY18. These customers contributed £3.4 million of revenue in aggregate in FY17. Pricing was renegotiated for 35 of these customers at an average increase of 38%, contributing additional revenue of £0.7 million. A further 11 customers had contracts that allowed for renewal at the same price and nine customers that contributed total revenue of £0.2 million have chosen not to renew their contracts. There are three contracts that remain outstanding and are expected to be renewed in FY19.

Accounts receivable automation revenue represented 56% of total Tungsten Network revenue in the 2018 financial year (FY17: 56%) and grew 8% to £18.8 million. This was split £15.9 million from our Integrated Solution product (FY17: £14.3 million) and £2.9 million from our Web Form product (FY17: £3.1 million). Revenue from renewing Integrated Solution customers grew by 9% to £8.5 million (FY17: £7.8 million) as higher levels of customers were retained on the Network.

Tungsten Network Finance generated fees of £342,000 in FY18 (FY17: £152,000), with a run rate of £1.6 million, based on actual performance in early FY19. However, as some recent revenue has been one-off in nature, additional customer sales will be required to sustain this level.

Tungsten Corporation plc's management uses gross profit and gross margin as a KPI to monitor business performance. Gross profit is calculated as revenue less direct cost of sales. Gross margin is calculated as gross profit as a percentage of revenue. In FY18 gross profit increased by £2.4 million to £31.4 million (FY17: £29.0 million). Gross margin in FY18 was 93.1%, a 30 bps improvement from FY17 at 92.8%.

Group EBITDA loss was £4.6 million (FY17: £11.8 million), a reduction of 61%. The improvement of £7.2 million reflects a £2.4 million increase in revenue and a reduction of £4.8 million in operating expenses.

EBITDA
The Group continued its operational transformation programme in FY18, with a focus on moving Tungsten Network's technology infrastructure into a cloud environment and rebuilding the core transaction processing system. The combination of these initiatives reduce technology costs by £1.8 million from FY18 onwards, with additional savings expected from lower expenditure on changing or enhancing systems. The result is a reduction in the cost to process each transaction by 25% and a significant improvement in processing times.

KEY PERFORMANCE INDICATORS

Total transaction volume (m)

17.7m

2018	17.7
2017	17.1

Revenue per invoice (£)

£1.90

2018	1.90
2017	1.82

Adjusted operating expenses (£m)

£36.0m

2018	36.0
2017	40.8

Average TNF outstandings (£m)

£43.3m

2018	43.3
2017	14.0

HIGHLIGHTS

Group revenue (£m)

2018	33.7
2017	31.3
2016[1]	25.9

Gross margin (%)

2018	93.1
2017	92.8
2016	92.7

Adjusted operating expenses[2] (£m)

2018	36.0
2017	40.8
2016[3]	40.1

EBITDA[4] loss (£m)

2018	4.6
2017	11.8
2016[5]	16.2

1 Excludes £0.2 million revenue from Tungsten Bank, now presented as discontinued operation.
2 Adjusted operating expenses defined as operating expenses from continuing operations excluding cost of sales and before depreciation, amortisation, exchange gain or loss, share-based payments charge and exceptional items.
3 Excludes £2.8 million adjusted operating expenses of Tungsten Bank, now re-presented as discontinued operation.
4 EBITDA defined as earnings from continuing operations before other income, interest, tax, depreciation, amortisation, foreign exchange gain or loss, share-based payments charge and exceptional items.
5 Excludes £2.6 million EBITDA loss from Tungsten Bank, now presented as discontinued operation.

STRATEGIC REPORT

CHIEF FINANCIAL OFFICER'S REVIEW CONT.

Constant currency

	Tungsten Network	Tungsten Network Finance	Corporate	Group
Revenue FY18	**£33.4m**	**£0.3m**	**–**	**£33.7m**
Revenue FY17	£31.1m	£0.2m	–	£31.3m
Change at constant exchange rate	9%	50%	n/a	9%
Change at actual exchange rate	8%	50%	n/a	8%
Cost of sales FY18	**(£2.3m)**	**–**	**–**	**(£2.3m)**
Cost of sales FY17	(£2.3m)	–	–	(£2.3m)
Change at constant exchange rate	4%	n/a	n/a	4%
Change at actual exchange rate	–	n/a	n/a	–
Adjusted operating expenses[1] FY18	**(£28.7m)**	**(£1.6m)**	**(£5.7m)**	**(£36.0m)**
Adjusted operating expenses[1] FY17	(£33.1m)	(£1.8m)	(£5.9m)	(£40.8m)
Change at constant exchange rate	(12%)	(11%)	(3%)	(6%)
Change at actual exchange rate	(13%)	(11%)	(3%)	(12%)
EBITDA[2] FY18	**£2.4m**	**(£1.3m)**	**(£5.7m)**	**(£4.6m)**
EBITDA[2] FY17	(£4.2m)	(£1.7m)	(£5.9m)	(£11.8m)
Change at constant exchange rate	157%	24%	3%	61%
Change at actual exchange rate	157%	24%	3%	61%

1 Adjusted operating expenses exclude cost of sales, other income, interest, tax, depreciation, amortisation, foreign exchange gains or losses, discontinued operations, share-based payments charges and exceptional items.
2 EBITDA exclude other income, interest, tax, depreciation, amortisation, foreign exchange gains or losses, discontinued operations, share-based payments charges and exceptional items.

Staff and contractor costs were reduced by £2.2 million to £24.6 million (FY17: £26.8 million). Staff costs have been managed across the business through the transfer of functions to lower cost locations and a reduction in permanent headcount in the technology team. Other costs were also reduced, including travel and expenses and the use of professional advisers.

As a result of some of the changes made to the business the Group incurred exceptional items of £2.4 million. They include onerous contracts in respect of replaced legacy technology of £1.1 million and a lease provision of £0.5 million, which represents the future amounts owed in respect of a former property in the United States, net of amounts due under a sub-lease signed in H2-FY18. The Group incurred restructuring costs due to contract termination and other redundancy costs of £0.6 million. Also included within exceptional items is the settlement of disputes between the Company, Disruptive Capital Advisory Limited and the Company's former Chief Executive Officer Edmund Truell, through the issuance of convertible loan notes worth £0.25 million.

Loss before tax

The Group loss before tax from continuing operations was £12.7 million (FY17: loss of £12.7 million). This reflects:

- Depreciation and amortisation of £2.8 million (FY17: £2.8 million)
- Net foreign exchange loss on operating items of £1.5 million (FY17: gain £2.3 million). The comparative has been reclassified from finance income and finance costs to operating expenses as this loss relates to exchange differences generated on operating transactions
- Share-based payment expense of £0.6 million (FY17: £0.4 million)
- Net finance costs of £0.6 million (FY17: £0.1 million)

The net finance costs represented £0.2 million of net losses on the revaluation of intercompany loans to overseas subsidiaries (FY17: net gain of £0.6 million) plus £0.4 million of interest expenses and bank charges (FY17: £0.6 million).

Loss for the year

The statutory Group loss for the year was £11.9 million (FY17: £12.5 million). A tax credit of £0.8 million (FY17: £0.4 million) includes a reduction of £0.5 million in the deferred tax liability relating to the acquisition of Tungsten Network.

Cash flow
Cash and cash equivalents at the end of FY18 were £6.4 million (FY17: £17.5 million).

FY18 Cash Flow	Group
Net cash outflow from operating activities	(£8.0m)
Net cash outflow from investing activities	(£7.6m)
Net cash inflow from financing activities	£4.3m
Net decrease in cash & cash equivalents	(£11.3m)
Exchange adjustments	£0.2m
Cash and cash equivalents at the start of the year	£17.5m
Cash and cash equivalents at the end of the year	**£6.4m**

The Group has an unrecognised deferred tax asset of approximately £14.8 million that is available for offset against future tax expenses in the companies in which losses arise.

The cash outflow from operating activities was £8.0 million (FY17: £10.9 million). This included:

- An outflow generated from operations of £5.8 million (FY17: £12.3 million)
- An outflow from trade and other receivables of £1.8 million (FY17: £0.2 million inflow)
- An inflow from trade and other payables of £0.03 million (FY17: £2.0 million outflow)
- Net interest paid of £0.4 million (FY17: £0.4 million)
- An inflow from discontinued operation £nil million (FY17: £3.6 million)

The outflow from trade and other receivables was primarily due to an increase in trade receivables of £1.5 million, reflecting the increase in revenue and in particular the timing of two new accounts payable automation sales at the end of the period.

The inflow from trade and other payables of £0.03 million reflects an increase in trade payables primarily resulting from capital projects undertaken over FY18.

The cash outflow from investing activities was £7.6 million (FY17: inflow of £25.4 million). The comparative includes an inflow from the sale of Tungsten Bank of £29.7 million, with the remaining variance primarily due to an increase in expenditure on capitalised software development costs to £7.2 million (FY17: £3.5 million). In FY18 Tungsten Corporation plc increased its investment in its core transaction network, with rollout of Salesforce as a core tenet of internal systems and in its customer interfaces. The significant majority of this expenditure was on contractors engaged specifically for these projects on contracts that have now ended.

Tungsten Corporation plc stopped using its own cash resources to finance Tungsten Network Early Payment invoices in FY18, resulting in an inflow of £4.3 million.

Loss per share
The basic and diluted loss per share was 9.45p (FY17: 9.91p).

Net assets
Net assets decreased by £9.9 million to £121.4 million during the year (FY17: £131.3 million) due to the Group's statutory loss of £11.9 million and currency translation differences of £1.4 million, offset by a movement in the share-based payment reserve of £0.6 million.

David Williams
Chief Financial Officer

23 July 2018